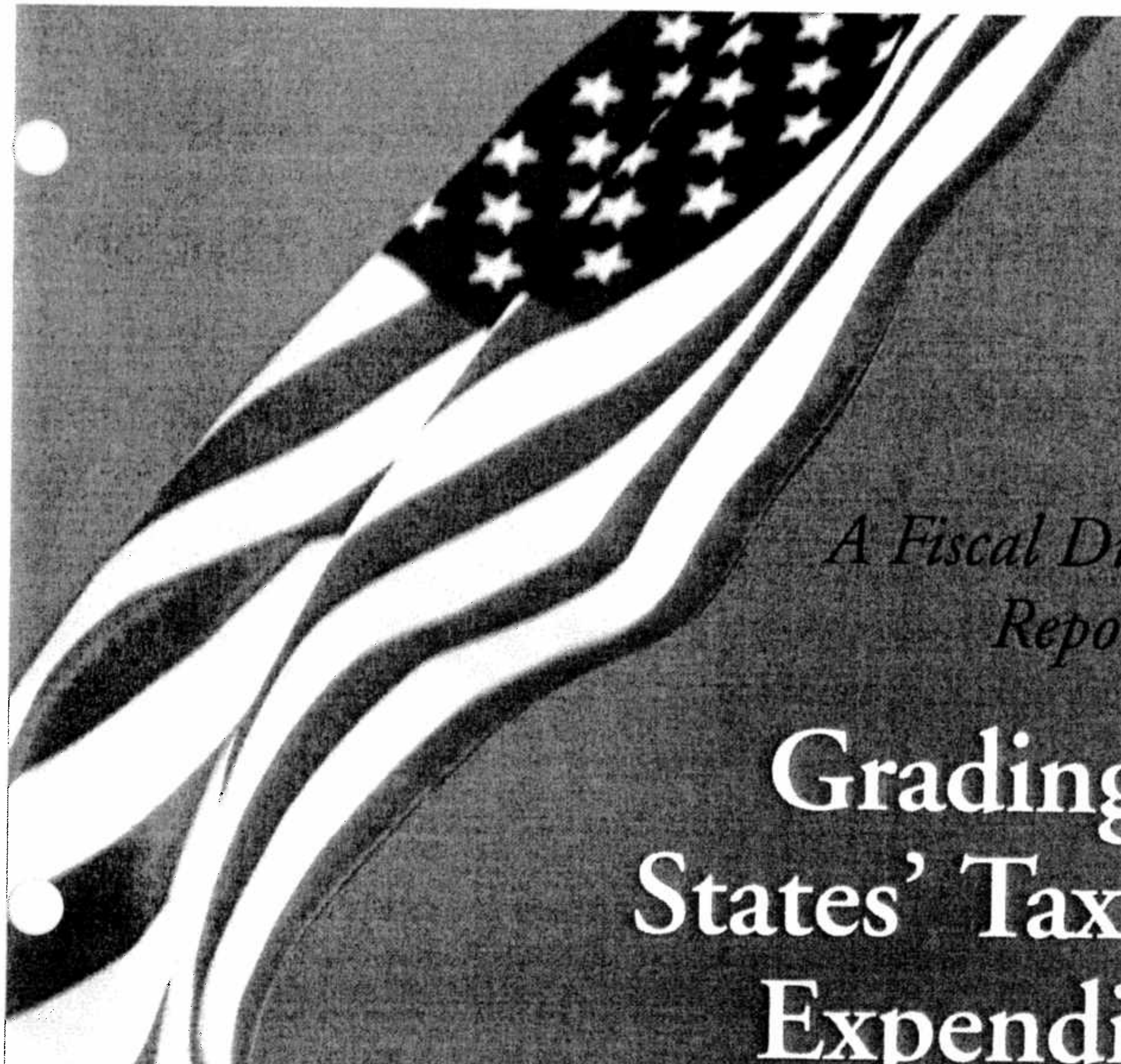


A Fiscal Discipline Report Card

Grading the States' Tax and Expenditure Limits

Dr. Barry Poulson

Americans for Prosperity Foundation Distinguished Scholar

June 2005

AMERICANS FOR PROSPERITY FOUNDATION

A Fiscal Discipline Report Card

Grading the States' Tax and Expenditure Limits

Dr. Barry Poulson
Americans for Prosperity Foundation
Distinguished Scholar
June 2005

INTRODUCTION

In the historical context of fiscal discipline mechanisms, state Tax and Expenditure Limitations (TELs) are a relatively recent phenomenon. TELs emerged after the tax revolt of the late 1970s. Governor Ronald Reagan endorsed the first state tax and spending limit, Proposition 1 for California in 1973. While Proposition 1 failed at the polls, it set a precedent for tax and spending limits across the nation. Since then, 28 states have enacted some form of tax and spending limit. (In addition, two states have enacted legislation requiring a supermajority vote of the legislature to increase taxes, but not other tax and spending limits.)

The time has come to compare the various tax and expenditure limits employed by the states and evaluate their ability to provide fiscal discipline. This study grades the effectiveness of the nation's TELs using five different criteria. For each of these criteria, each state is assigned a numerical value from 0 to 5, with 5 being the most effective provision. These five criteria are then summed to measure the effectiveness of the TEL as a whole, scored on a numerical value from 0 to 25. This numerical value forms the basis of the grade on the TEL report card.

Colorado's Taxpayer's Bill of Rights (TABOR) amendment scored the highest of the nation's TELs – scoring 24 out of 25 – earning an A-. The median grade was a D-. Not surprisingly, the great majority of the states faired poorly, with 36 states earning D's and F's.

This study will be followed by a companion study that reviews and evaluates the proposed tax and expenditure limits that are currently under consideration across the nation, either through the citizen's initiative or legislative process. In all, more than 20 such measures will be proposed in 2005 and 2006.

MEASURING THE EFFECTIVENESS OF STATE TAX AND SPENDING LIMITS

This report evaluates the effectiveness of the states' tax and spending limits. It evaluates the nation's TELs on 5 measures, described in detail below.

1. Type of Limit and Method of Approval

Perhaps the most important provision is the type of TEL and method of approval. The most effective TELs, such as Colorado's TABOR amendment, originate through citizen initiative and are embodied in the constitution. Seven states have enacted constitutional TELs through citizen initiative. TELs initiated through legislative referendum and embodied in the constitution tend to be less effective than constitutional TELs. Twelve states have enacted constitutional TELs through legislative referendum.

TELs enacted as statutory rather than constitutional provision are easily modified or circumvented by the legislature, and therefore tend to be less effective. Ten states have enacted statutory TELs through legislative referendum. One state, Washington, has enacted a statutory TEL through citizen initiative. And one state, Nevada, has enacted a statutory TEL through a non-binding legislative vote.

2. What the TEL Limits

Another criterion for effectiveness is the comprehensiveness of state appropriations or revenues to which the TEL applies. The most effective TELs are applied to all state appropriations or revenues, with few exceptions. Thirteen states have such comprehensive coverage of their TELs. One state, Connecticut, applies the TEL to a comprehensive measure of state appropriations, but with exceptions for specific types of spending.

A less effective TEL is one applied to state general fund revenues or appropriations. When TELs are applied to general fund revenues or appropriations they do not apply to other major state fund groups, such as capital, enterprise, and trust funds. Some idea of the coverage of TELs is provided by estimates of the Congressional Research Service. They estimated that in 1990 general fund spending was 54 percent of total state spending. General fund spending ranged from 21 percent of total state spending in Wyoming to 74 percent in Hawaii. Seven states apply the TEL to general fund revenues or appropriations. Two states, Idaho and New Jersey, apply the TEL to general fund appropriations with exceptions for certain expenditures.

The least effective TELs apply the limit only to tax revenues. In this group of states, the TEL would not cover non-tax revenues such as charges, user fees, rebates, gaming receipts, enterprise fees, and the like. Four states apply the TEL to tax revenues.

3. What is the TEL Limit?

States have defined their TEL limits in a variety of ways, with different impacts in constraining the growth of state government. Early TELs were introduced in the inflationary years of the 1970s. The TEL limits were often defined as some arbitrary growth rate of state revenue or spending. Most of these states have since modified their TEL limit to impose greater stringency.

The most stringent design of the TEL limit is to define it with reference to the growth of population and inflation, and six states have such TEL limits. One of these states, Colorado, has a constitutional TEL limit defined as the sum of inflation and population growth, and a statutory TEL defined as 6 percent growth of state appropriations. In recent years, the constitutional TEL has been the binding constraint on the growth of revenue and spending in Colorado, and is considered the most effective TEL in the country.

In most states, the TEL limit is defined with reference to some measure of aggregate economic activity. These TELs are less stringent than those defined with reference to inflation and population growth. In seven states, the TEL limit is defined with reference to the growth of state income. The logic is that the growth of government should maintain a stable relationship to the growth of the state economy with state income the broadest measure of economic growth. However, this tends to lock in revenue and spending as a share of income over time. Given the wide fluctuations in the growth of state income over the business cycle, this definition of the TEL limit in effect sanctions wide fluctuations in state revenue and spending. These TELs are less effective in stabilizing the budget over the business cycle, as well as in constraining the growth of government in the long run.

Defining the TEL limit as a maximum share of state income also locks in that level of spending as a share of income. How effective a constraint this imposes depends on the magnitude of that share. Only two states set a maximum share at 7 percent or less of state income, while four states set a maximum share in excess of 7 percent.

The least effective TELs define the limit with reference to either revenue or expenditures. Eight states have such TEL limits. Because these limits have no link to economic activity, they impose little, if any, constraint on spending.

4. Treatment of Surpluses

The treatment of surplus revenue is one of the most important and controversial provisions of TEL legislation. The most effective TELs allocate some surplus revenue to tax cuts/rebates, and some to emergency and/or budget stabilization funds. The reason is that these TELs both constrain the growth of government and stabilize the budget over the business cycle. Only three states allocate surplus revenue in this way.

States that allocate all of the surplus revenue to tax cuts/rebates are effective in constraining the growth of government in the short run, but not in the long run. In periods of revenue shortfall there is pressure to increase taxes, and in some cases to repeal or modify the TEL to allow the government to increase revenue and spending. The outcome is volatility in revenue and spending over the business cycle and unconstrained growth in government in the long run. Five states allocate surplus revenue only to tax cuts/rebates. Three states allocate surplus revenue to tax cuts/rebates, but also target certain expenditures.

On the other hand, states that allocate all surplus revenue to emergency and/or budget stabilization funds will stabilize the budget over the business cycle, but will fail to constrain the growth of government. These funds become slush funds used to finance higher levels of spending in the long run. Five states allocate surplus revenue only to emergency funds and/or budget stabilization funds.

The least effective TELs are ones that simply allocate surplus revenue to the general fund or to certain targeted expenditures. With these accounting rules, the TEL has little if any impact either in stabilizing the budget over the business cycle, or in constraining the growth of government in the long run. Three states allocate their surplus revenue in this way. Some states make no provision for the disposition of surplus revenue in which case the funds end up back in the general fund.

5. The Provisions for Voter Approval for Tax and Expenditure Increases and for Waivers of the TEL limits

Another important provision of TEL legislation is that requiring voter approval for increases in taxes and spending. The most effective provisions require voter approval for any increase in taxes. TELs in four states have this provision: California, Colorado, Missouri, and Washington. However, this remains a binding constraint only in Colorado, where the TEL is constitutional. Colorado also requires voter approval to spend surplus revenue above the TEL limit. In the other three states, the statutory TELs have been suspended or successfully evaded.

A number of states have at various points enacted legislation requiring a supermajority vote of the legislature to increase taxes. In some cases, this provision is incorporated in TEL legislation, and in others it is a separate statutory or constitutional provision. Six states require a supermajority vote to raise all taxes. Three states require a supermajority vote to raise some taxes.

Some TELs provide for emergency and/or reserve funds. In some states, the reserve funds are identified as budget stabilization or rainy day funds, while in other states they are simply referred to as reserve funds. The more effective of these TELs require declaration of an emergency, and in some cases a supermajority vote of the legislature to expend the funds. Nine states imposed these provisions.

In other states, the funds may be expended without declaration of an emergency, and with a simple majority vote of the legislature. Seven states have this less stringent provision.

In some states, the TEL can be waived without any formal action on the part of the legislature. Indeed, some states spell out specific circumstances in which the TEL is expected to be waived, e.g. in Alaska in the case of revenue shortfalls, and in North Carolina for specific spending needs. In California, the governor simply has to declare an emergency, although there is a provision for reduced expenditures in subsequent years to offset the increased expenditures in emergency years.

The absence of a waiver provision is most likely to result in avoidance or evasion of the TEL, especially when there is no precedent for legal enforcement of the TEL. Five states have no waiver provision.

NUMERICAL EVALUATION OF STATE TAX AND EXPENDITURE LIMIT PROVISIONS

Type of Limit and Method of Approval

5 points	TELs originating through citizen initiative and embodied in the constitution
4 points	TELs originating through legislative referendum and embodied in the constitution
3 points	Statutory TELs enacted through citizen initiative
2 points	Statutory TELs enacted by legislative vote
1 point	Statutory TELs enacted through non-binding legislative vote

What the TEL Limits

5 points	TEL applies to all revenues or appropriations with few exceptions
4 points	TEL applies to all revenues or appropriations with certain limited exceptions
3 points	TEL applies to general fund revenues or appropriations
2 points	TEL applies to general fund revenues or appropriations with limited exceptions
1 point	TEL applies to tax revenues

The Size of the TEL Limit

5 points	TEL limit equal to inflation and population growth
4 points	TEL limit equal to the rate of growth of personal income
3 points	TEL limit less than 7 percent of state income
2 points	TEL limit greater than 7 percent of state income
1 point	TEL limit equal to a share of total revenue or expenditures

Treatment of Surpluses

5 points	Surplus revenue is allocated into emergency funds and budget stabilization funds, and then to tax cuts/rebates or debt reduction
4 points	Surplus revenue is allocated to tax cuts/rebates or debt reduction
3 points	Surplus is allocated to tax cuts/rebates or debt reduction and targeted expenditures
2 points	Surplus is allocated to emergency and budget stabilization funds
1 point	Surplus is returned to general fund or other expenditure accounts

The Provisions for Voter Approval of Tax and Expenditure Increases, and for Waiver of the TEL

5 points	Voter approval required for increases in taxes, and for expenditure of surplus revenues
4 points	Supermajority vote required in the legislature to raise all taxes
3 points	Supermajority vote required in the legislature to raise some taxes
2 points	Declaration of emergency and/or supermajority legislative vote required to expend monies in the emergency and reserve funds
1 point	Majority vote required for the legislature to expend monies in the emergency and reserve funds

STATE TAX AND EXPENDITURE LIMITS: NUMERICAL EVALUATION 2005

State	Type of Limit and Method of Approval	What the TEL Limits	The Limit Size	Treatment	Provisions for Voter Approval and Waiver of Limit	Total
Alabama	0	0	0	0	0	0
Alaska	4	5	5	0	1	15
Arizona	4	1	2	0	2	9
Arkansas	4	0	0	0	3	7
California	5	1	4	3	5	18
Colorado	5	5	5	4	5	24
Connecticut	2	4	4	3	2	15
Delaware	4	3	1	1	2	11
Florida	4	5	4	5	3	21
Georgia	0	0	0	0	0	0
Hawaii	5	3	4	4	2	18
Idaho	2	2	3	0	2	9
Illinois	0	0	0	0	0	0
Indiana	0	0	0	0	0	0
Iowa	2	3	1	1	1	8
Kansas	0	0	0	0	0	0
Kentucky	4	0	0	0	4	8
Louisiana	4	3	5	4	4	20
Maine	0	0	0	0	0	0
Maryland	0	0	0	0	0	0
Massachusetts	2	5	1	5	1	14
Michigan	5	5	2	5	3	20
Minnesota	0	0	0	0	0	0
Mississippi	2	3	1	2	1	9
Missouri	5	5	2	4	5	21

STATE TAX AND EXPENDITURE LIMITS: NUMERICAL EVALUATION 2005 *(Continued)*

State	Type of Limit and Method of Approval	What the TEL Limits	The Limit Size	Treatment	Provisions for Voter Approval and Waiver of Limit	Total
Montana	2	5	4	0	2	13
Nebraska	0	0	0	0	0	0
Nevada	1	3	5	0	4	13
New Hampshire	0	0	0	0	0	0
New Jersey	2	2	5	2	2	13
New Mexico	0	0	0	0	0	0
New York	0	0	0	0	0	0
North Carolina	2	5	3	1	1	12
North Dakota	0	0	0	0	0	0
Ohio	0	0	0	0	0	0
Oklahoma	4	5	1	2	4	16
Oregon	2	5	2	4	4	17
Pennsylvania	0	0	0	0	0	0
Rhode Island	4	3	1	2	0	10
South Carolina	4	5	1	3	2	15
South Dakota	4	0	0	0	4	8
Tennessee	5	1	4	0	1	11
Texas	4	1	4	0	1	10
Utah	2	5	1	0	2	10
Vermont	0	0	0	0	0	0
Virginia	0	0	0	0	0	0
Washington	3	5	5	2	5	20
West Virginia	0	0	0	0	0	0
Wisconsin	0	0	0	0	0	0
Wyoming	0	0	0	0	0	0

STATE TAX AND EXPENDITURE LIMITS: RANKING AND REPORT CARD 2005

State	Rank	Grade
Colorado	24	A-
Florida	21	B
Missouri	21	B
Louisiana	20	B-
Michigan	20	B-
Washington	20	B-
California	18	C+
Hawaii	18	C+
Oregon	17	C
Oklahoma	16	C
Alaska	15	C-
Connecticut	15	C-
South Carolina	15	C-
Massachusetts	14	C-
Montana	13	D+
Nevada	13	D+
New Jersey	13	D+
North Carolina	12	D+
Delaware	11	D
Tennessee	11	D
Rhode Island	10	D
Texas	10	D
Utah	10	D
Arizona	9	D-
Idaho	9	D-

State	Rank	Grade
Mississippi	9	D-
Iowa	8	D-
Kentucky	8	D-
South Dakota	8	D-
Arkansas	7	D-
Alabama	0	F
Georgia	0	F
Illinois	0	F
Indiana	0	F
Kansas	0	F
Maine	0	F
Maryland	0	F
Minnesota	0	F
Nebraska	0	F
New Hampshire	0	F
New Mexico	0	F
New York	0	F
North Dakota	0	F
Ohio	0	F
Pennsylvania	0	F
Vermont	0	F
Virginia	0	F
West Virginia	0	F
Wisconsin	0	F
Wyoming	0	F

APPENDIX
BACKGROUND ON STATE TAX AND EXPENDITURE LIMITS: 2005

State	Year Adopted	Type of Limit & Method of Approval	Limit Applies to	Type of Limit	Treatment of Surpluses	Provisions for Voter Approval and Waiving the Limit
Alaska	1982	Constitutional, Legislative Referendum	State Appropriations	Yearly growth shall not exceed percentage in population and inflation	None	In the event of decreased revenue, an appropriation may be made from the Budget Reserve Fund
Arizona	1978	Constitutional	Appropriations of state tax revenues	Shall not exceed 7.41 percent of personal income	None	Requires two-thirds legislative approval for specific additional appropriations
	1992	Initiative				Requires two-thirds legislative approval for all tax increases.
Arkansas	1934	Legislative Referendum				Requires three-fourths legislative approval for all tax increases except sales and alcohol.
California	1979	Constitutional; Citizen Initiative	Appropriations of state tax revenues	Yearly growth shall not exceed percentage increase in population and per capita personal income	One-half of all surplus revenues shall be returned to taxpayers by revision of tax rates or fee schedules within next two fiscal years; one-half shall be allocated to K-14 school districts.	Requires declaration of an emergency by a two thirds vote of the legislature; the appropriations limit may be exceeded provided increased expenditures are compensated for by reduced expenditures over three following years. Alternatively, the limit may be changed by voters but the change is operative for only four years. Requires two thirds legislative approval for all tax increases
Colorado	1991	Statutory; Legislative Vote	State general fund appropriations	General fund appropriations limited to the lesser of a) 5% of total state personal income or b) 6% over the prior year's appropriation	None	Statute may be amended by legislative majority.
	1992	Constitutional; Citizen Initiative	All state spending and tax increases	Yearly growth shall not exceed population growth and inflation	Excess revenues must be refunded to the citizens	Requires voter approval for all tax increases. Requires two thirds legislative approval for all tax increases; tax increases automatically sunset unless approved by voters in the next election. General Assembly can declare emergency by two-thirds vote and raise emergency taxes subject to voter approval.

State	Year Adopted	Type of Limit & Method of Approval	Limit Applies to	Type of Limit	Treatment of Surpluses	Provisions for Voter Approval and Waiving the Limit
Connecticut	1991	Statutory; Legislative Vote	State appropriations (but excludes debt service, state grants to distressed municipalities, first year expenditures for federal mandates or court orders, and expenditures from the Budget Reserve Fund)	Yearly growth shall not exceed the increase in personal income in the state (average of the annual increase for each of the preceding five years) or the prior years increase in inflation, whichever is greater	1) Budget Reserve Fund (Rainy Day Fund) 2) Reduction of bonded indebtedness 3) Any purpose authorized by at least three-fifths of both House and Senate	Governor can declare an emergency or the existence of extraordinary circumstances, plus approval by three-fifths of both House and Senate
	1992	Constitutional; Voters approved a limit similar to the 1991 limit, but it has not received the three fifths legislative vote required for approval				
Delaware	1978	Constitutional; Legislative Referendum	State general fund appropriations	Shall not exceed 98 percent of estimated general fund revenue and prior year's unencumbered funds	Goes into an accumulative cash balance and is available for appropriations in ensuing fiscal year	Requires declaration of an emergency and three-fifths vote of each chamber
	1980	Legislative Referendum				Requires three fifths vote of the legislature for all tax increases
Florida	1971	Constitutional; Legislative Referendum				Constitution limits corporate income tax to 5%. A three fifths vote in the legislature is required to surpass 5%. If voters are asked to approve a tax increase it must be approved by 60% of those voting to pass.
	1994	Constitutional; Legislative Referendum				Constitution limits corporate income tax to 5%. A three fifths vote in the legislature is required to surpass 5%. If voters are asked to approve a tax increase it must be approved by 60% of those voting to pass.
Hawaii	1978	Constitutional; Constitutional Convention	State general fund appropriations	Yearly growth shall not exceed the average rate of growth of state personal income for three previous years	If the state general fund balance in each of two succeeding years exceeds 5 percent of general fund revenues the Legislature will provide for a tax refund	Specific appropriations over the limit require two-thirds approval in both chambers

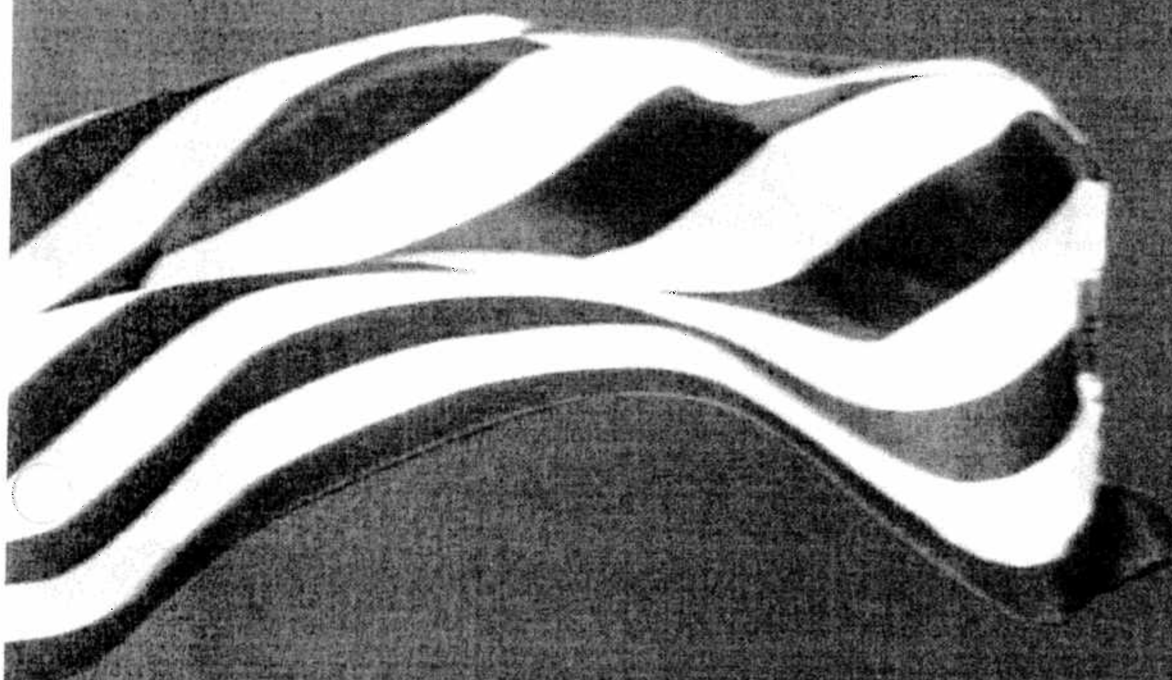
State	Year Adopted	Type of Limit & Method of Approval	Limit Applies to	Type of Limit	Treatment of Surpluses	Provisions for Voter Approval and Waiving the Limit
Idaho	1980	Statutory; Legislative Vote	State general fund appropriations (modified in 1994 to exclude one-time expenditures)	Shall not exceed five and one-third percent of state personal income	No provision	Requires two third legislative approval for specific additional appropriations
Iowa	1992	Statutory; Legislative Vote	State general fund appropriations	Shall not exceed 99 percent of adjusted general fund receipts	Excess goes to Cash Reserve Fund, then to the Rebuild Infrastructure Account, then to Economic Recovery Fund	Statute may be amended by majority vote of the Legislature
Kentucky	2000	Legislative; Referendum				Requires three fifths legislative approval for all tax increases, tax and fee increases are voted on by the legislature in odd-numbered years
Louisiana	1966					Requires two thirds legislative approval for all tax increases
	1979	Statutory; Legislative Vote	State tax revenue	Shall not exceed the ratio of FY 1978-79 tax revenue to 1977 state personal income multiplied by state personal income in the prior calendar year.	State tax revenue in excess of limit shall be deposited in the Tax Surplus Fund; appropriations from that fund may be made for paying tax refunds	Statute may be amended by majority vote of the Legislature
	1993	Constitutional; Legislative Referendum	State general fund appropriations	Shall not exceed 1992 appropriations plus per capita personal income growth	Surplus may only be used to retire debt in advance of maturity	Requires two-thirds legislative approval to exceed limit
Massachusetts	1986	Statutory; Legislative Vote	State revenue	Yearly growth shall not exceed the average annual growth of wages and salaries over the previous three years. General fund balance may not exceed one-half of 1 percent of the year's tax revenue	Excess revenues transferred to a budget stabilization fund which is only allowed to grow to 5 percent of the state tax revenue; if the fund grows by more, the excess goes back to the taxpayers as an income tax credit. Proportional personal income tax credit	Statute may be amended by majority vote of the legislature
	2002	Legislative vote	State revenue	Yearly growth shall not exceed inflation in government purchasing power plus two percent		

State	Year Adopted	Type of Limit & Method of Approval	Limit Applies to	Type of Limit	Treatment of Surpluses	Provisions for Voter Approval and Waiving the Limit
Michigan	1978	Constitutional; Citizen Initiative	All state revenues less federal aid	Shall not exceed FY 1978-79 state revenue as a share of 1977 state personal income, multiplied by the greater of state personal income in the prior calendar year or average state personal income over the previous three calendar years. State revenue shall not exceed 9.49 percent of total personal income for the year prior.	Revenues exceeding limit by 1 percent or more shall be used for tax refunds set in proportion to income tax liability. Excess less than 1 percent may be transferred to the State Budget Stabilization Fund	Governor must first specify an emergency; then the Legislature must concur by two-thirds vote in each chamber
	1994	Legislative Referendum				Requires three fourths legislative approval for increase in state property tax
Mississippi	1970	Legislative; Referendum				Requires three fifths legislative approval for all tax increases
	1992	Statutory; Legislative Vote	Budget recommendations and appropriations	Shall not exceed 98 percent of projected revenues, the statute was amended to allow for one hundred percent appropriation of estimate for fiscal year 2004	One half of year-end surplus remains in the general fund and one half goes into a working cash/ stabilization reserve fund up to the 7.5 percent ceiling, then remainder goes into a special education fund	Statute may be amended by majority vote of the legislature
Missouri	1980	Constitutional; Citizen Initiative	Total state revenue	Shall not exceed the ratio of FY 1980-81 state revenue to 1979 state personal income, multiplied by the greater of state personal income in any calendar year or the average state personal income over the previous three calendar years	Revenues exceeding limit by 1 percent or more shall be used for tax refunds set in proportion to income tax liability. Excess less than 1 percent may be transferred to the general revenue fund	1) Limit may be adjusted if program responsibility is transferred from one level of government to another. 2) State is prohibited from reducing current proportion of local services financed through state aid. 3) No new program shall be required of local governments unless funded by state.

State	Year Adopted	Type of Limit & Method of Approval	Limit Applies to	Type of Limit	Treatment of Surpluses	Provisions for Voter Approval and Waiving the Limit
Missouri *(Continued)*	1996	Constitutional; Citizen Initiative				If Governor declares an emergency legislature can raise taxes by two thirds legislative vote; Voter approval required for any tax or fee increase that will produce revenues greater than: 1) $50 million adjusted annually by the percentage change in state personal income for the second previous fiscal year, or 2) one percent of the state revenues for the second fiscal year prior to the legislature's action, whichever is less
Montana	1981	Statutory; Legislative Vote	State appropriations	Shall not exceed state appropriations for the preceding biennium plus the product of preceding biennial appropriations and the growth percentage. The growth percentage is the difference between average state personal income for three calendar years immediately preceding the next biennium and the average state personal income for the three calendar years immediately preceding the current biennium	No provision	Requires declaration of emergency by the governor and two thirds legislative approval for specific additional expenditures
Nevada	1979	Statutory; Non-Binding Legislative Vote	Governor's proposed general fund expenditures	Yearly growth shall not exceed population growth and inflation	No provision	Statute may be amended by majority vote of the Legislature
	1996	Citizen initiative				Requires two thirds legislative approval for all tax increases
New Jersey	1990	Statutory; Legislative Vote	General fund state appropriations less exemptions for debt service, state aid, grants-in-aid and capital construction	Yearly growth shall not exceed the increase in state per capita personal income (average of the annual increase for the prior three years)	No provision, but the state has a rainy day fund	Requires two thirds legislative approval to exceed limit Adjustment to limit shall be made if program responsibility is transferred between state and local governments
North Carolina	1991	Statutory; Legislative Vote	State Appropriations	Shall not exceed 7 percent of the total state personal income for that fiscal year	Revert to general fund credit balance	Statute may be amended by majority vote of the Legislature

State	Year Adopted	Type of Limit & Method of Approval	Limit Applies to	Type of Limit	Treatment of Surpluses	Provisions for Voter Approval and Waiving the Limit
Oklahoma	1985	Constitutional; Legislative Referendum	Appropriated revenues	Yearly growth shall not exceed 12 percent (adjusted for inflation) Appropriations shall not exceed 95 percent of certified revenue	Revenue to general fund in excess of estimate (up to 10 percent) shall be deposited in a rainy day fund	Requires declaration of an emergency by the governor and two thirds vote of the house and senate; or by declaration of an emergency by the speaker of the house and president pro tempore of the senate and concurrence of three fourths of the members of each house
	1992	Citizen Initiative				Requires three fourths legislative approval for all tax increases
Oregon	1979	Statutory; Legislative Vote	State appropriations	Yearly growth in each biennium shall not exceed rate of growth of state personal income in the two prior calendar years	Revenue exceeding close of session revenue forecast by 2 percent or more shall be used for tax refunds proportional to income tax liability	Statute may be amended by majority vote of the legislature. Adjustment to limit shall be made if program funding is transferred from general fund to non-general fund sources or vice-versa
	1996	Legislative Referendum				Requires three fifths legislative approval for all tax increases
	2000	Constitutional	State revenue		Any general fund revenue in excess of two percent of the revenue estimate must be refunded to taxpayers	
	2001	Statutory	State appropriations	Yearly growth limited to eight percent of projected personal income for the biennium		
Rhode Island	1992	Constitutional; Legislative Referendum	State general fund appropriations	Shall not exceed 98 percent of estimated general fund revenue and prior year's unencumbered funds	2 percent must be put into rainy day fund	None
South Carolina	1980, 1984	Constitutional; Legislative Referendum	State appropriations approved by General Assembly	Yearly growth shall not exceed average growth of personal income over three preceding years, or 9.5 percent of total state personal income, whichever is greater	Excess revenues may be spent to match federal programs, for debt purposes, tax relief, or transferred to reserve fund	Requires declaration of an emergency and two thirds vote of the legislature Every five years the legislature may review the composition of the limit

State	Year Adopted	Type of Limit & Method of Approval	Limit Applies to	Type of Limit	Treatment of Surpluses	Provisions for Voter Approval and Waiving the Limit
Tennessee	1978	Constitutional; Constitutional Convention	Appropriations of state tax revenue	Yearly growth shall not exceed growth in state personal income	No provision	Requires a majority vote of the legislature for specific additional expenditures State must share in cost if it increases expenditure requirements of local government
Texas	1978	Constitutional; Legislative Referendum	Biennial Appropriations of state tax revenues not dedicated by the state constitution	Biennial growth shall not exceed rate of growth of state personal income	No provision	Requires a declaration of emergency and majority vote of the legislature on a specific additional amount
Utah	1989	Statutory; Legislative Vote	State appropriations	Yearly growth limited by a formula including population growth, inflation, and personal income	No provision	Requires a declaration of emergency and two thirds legislative approval 1) Adjustment to limit shall be made if program responsibility is transferred between state and local governments 2) Adjustment to limit shall be made if program funding is transferred from general fund to non-general fund sources or vice-versa
Washington	1993	Statutory; Citizen Initiative	State expenditures	Yearly growth shall not exceed three year rolling average of inflation and population growth	Excess revenue goes into Emergency Reserve Fund; if fund exceeds five percent of general fund revenue, the additional surplus is placed in the Education Construction Fund	An emergency must be declared and approved by two thirds vote of the legislature Revenue increases require two thirds legislative approval if within expenditure limit, voter approval required to exceed limit Prohibits state from imposing new mandates on local governments unless fully reimbursed



AMERICANS FOR PROSPERITY
FOUNDATION

1726 M Street NW, 10th Floor
Washington, D.C. 20036
Phone 202-349-5880
Toll free 866-730-0150
www.americansforprosperity.org
info@AFPhq.org