



State Fiscal Rules

SUMMARY

The state would have a strict total spending limit that is allowed to grow over time at a reasonable rate. The budget would generally be required to be balanced or in surplus at a spending level at or below the spending cap. Some or all of the surplus would be deposited in a revenue stabilization fund. When economic downturn criteria are met, the reserve fund could be tapped to meet the balance requirement. Revenues would be constrained by a supermajority and/or voter-approval requirement for increases.

KEY POINTS

Tax and Expenditure Limits

- Convert existing budget limits to strict caps on total finances, preferably on total spending and established in the state constitution. Caps based on revenues should include fees and fines, not just taxes.
- Growth should be reasonable but limited or constrained. Colorado's TABOR uses population plus inflation. Caps could also be based on real state GDP growth or rolling average state GDP growth which smooths out the highs and lows of economic activity over time. Care should be taken to derive the best metric that will prevent runaway spending growth.
- Revenues collected above the cap should go to the rainy day fund (see more on this below.)
 - *The right kind of metric will slow spending during boom years, allowing states to fully fund a budget stabilization, or rainy day, fund.*
- Extraordinary emergency spending can occur above the cap but must have a strong supermajority of at least 2/3 vote in the legislature. Emergency spending should be paid back in future years.

Balanced Budget Requirements

- Total spending legislation must not exceed projected revenues and must adhere to the spending cap.
- During material downturns (distinct from revenues less than projected growth), lawmakers may tap the rainy day fund to maintain operations.

Securing the Rainy Day Fund

- Rainy day funds should be exclusively used to address revenue shortfalls during recessions.
- Criteria for both deposits to and uses of the fund should have strict, defined criteria, preferably established in the state constitution.
- Stress-test state budgets regularly to determine proper funding level.
- Excess balances in the fund should be used to pay down debt, including pensions, and/or returned to taxpayers.

Taxes and Revenues

- There should be a high bar for increasing government revenues, whether new or higher tax rates or fees and fines. At a minimum this bar should include a supermajority vote—at least 2/3—by the legislature.
- A vote of the people could be appropriate in some cases.