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House Joint Resolution 49: Hancock Revisited

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Overview

State Representatives Lager, Bearden, and others have introduced House Joint Resolution 49 that proposes via a vote of the people to significantly alter Missouri's Hancock Amendment and State Rainy Day Fund. The basic components of the proposal are as follows:

Hancock Provisions:

- Alters the State Constitution by adding an *Appropriations Growth Limit* to the already established revenue growth limit within the Hancock Amendment.
- The *Appropriations Growth Limit* would limit expenditure growth to inflation and population changes plus 1%
- One-Third of the funds exceeding the limit would be transferred to the state Budget Reserve Fund (Rainy Day Fund), Cash Operating Reserve Fund; and the remainder refunded to state income tax payers as provided for in the state Hancock Amendment

Rainy Day Fund Provisions:

- Eliminates the "payback" rule in using the State Rainy Day Fund
- Reduces the Rainy Day Fund balance cap from 7% of state general revenue to 3&3/4%

Impact on Missouri

Hancock related Provisions:

Missouri's Constitution, through its Hancock Amendment, already caps the amount of revenue (taxes) the state can collect. It is this amendment that required the state to refund over \$985 million through the economic boom of the late 1990s. At present time, due to tax cuts of the 1990s, and economic downturns, the state's revenue is more than \$1.7 billion below the Hancock Revenue Lid.

HJR 49 would add an *Appropriations Growth Limit* to the Constitution, limiting the amount the state's expenditures can grow even beyond what Hancock already limits. This could have a very devastating impact on Missouri's ability to provide for the needs of its citizens. The following very briefly details the potential harm:

The proposed amendment would limit expenditure growth to general inflation and population. Both measurements are flawed when applied to government services. Most

significantly, General Inflation does not reflect the funding experience of state services. Health care, corrections increases and education grow at very different rates than inflation. As an example, general inflation growth for fiscal year 2004 is 1.8%, while growth in health care costs was 9.3% for the same period.

Additionally the state's general population growth may not reflect the population growth and need changes within state services. Overall population could remain relatively steady while at the same time alterations in population sub-sectors could change dramatically, impacting need for growth in various state services. For example, Missouri's overall population growth between the years 2000 - 2005 is anticipated to see a 2.8% growth, while the elderly, those aged 60 and over, is expected to see a 6.2% growth.¹ In this instance, the more general population growth as a benchmark for overall appropriations would not allow for the increased need in programs serving the elderly. Similarly, education enrollment figures could fluctuate differently than overall population. Increases in corrections and prison services due to changing sentencing laws would not be reflected in general population and inflation changes. In these instances, need would either not be able to be met by appropriations or other discretionary funding would have to be eliminated in order to meet the changing sub-sector demands.

As alluded to above, the proposed amendment would limit the state's ability to prioritize programming effectively. Increases in mandates, particularly in unfunded federal mandates requiring spending in various budgetary areas, would limit the state's ability to prioritize its spending needs in other areas. Spending decisions would be made based on what is required, "crowding out" other needs that are not. The discretionary part of the budget, including most health care and higher education spending, would therefore face a disproportionate burden when cutting spending was required.

The proposed amendment would also limit state services' ability to recover following an economic crisis. Cuts that have been made during the current crisis could not be restored under such artificial measures as general inflation and population. The recent reductions in mental health services, health care for Missourians, and other vital programs could never be restored. In addition, the state would not be able to respond to increased need for services such as health care for the uninsured during an economic crisis due to the appropriations limitations. Conversely, in good economic growth times, this proposed amendment would curtail Missouri's ability to invest in its people and programs.

Ironically, the new Appropriations Lid would diminish the impact of voter approved tax increases allowed by Hancock. All tax increases, even those exempt under the current Hancock Amendment and passed by a vote of the people would not be exempt from the Appropriations growth lid. Therefore, even voter approved tax increases for specific purposes that raise overall Appropriations beyond what the new lid allows would be refunded to income tax payers. This would nullify the ability of voters to respond to funding needs and pick funding priorities.

¹ *Projections of the Population of Missouri Counties, by Age and Sex; 1990 to 2025, May 1999*, State of Missouri, Office of Administration, Division of Budget & Planning.

Rainy Day Fund Provisions:

HJR 49 would have a positive impact on the Rainy Day Fund statute by eliminating the current payback requirement. The Rainy Day Fund section of the Constitution requires that money used from the rainy day fund be repaid in the following three years. It is this payback measure that has restricted the Legislature's use of the fund. However, the proposal would also cut the amount of revenue that can be held in the state rainy day fund to just 3 & ¾ % of general revenue. This amount is unnecessarily low and could make it even less likely that the fund be utilized.

Overall Implication

The overall negative impact of HJR 49 on state fiscal policy would outweigh any positive gain from more flexibility in the Rainy Day Fund. Missouri does not need to further restrict state spending and growth beyond what the current Hancock revenue lid has done. More restrictions would create more tension in government spending priorities and leave Missouri with further dwindling state services for its citizens.

Hancock and HJR 49- What's the Difference:

The current Hancock Amendment:

- Limits State Revenue Growth to Personal Income Growth plus 1%
- Revenue exceeding growth lid is refunded to state income tax payers
- Requires Tax Increases beyond \$70 million (depending on the year) to go to a vote of the people. These tax increases are exempt from the current Hancock Revenue Lid.

HJR 49:

- Would Limit State Appropriations growth to Inflation plus Population plus 1%
- Revenue exceeding growth would be refunded to state income tax payers
- Diminishes the impact of voter approved tax increases – Tax increases, while exempt from the Revenue Growth Lid, would not be exempt from the Appropriations growth lid. Therefore, even voter approved tax increases that raise revenue beyond what the new lid allows would be refunded to income tax payers.