Legislative Fiscal Office

Ken Rocco
Legislative Fiscal Officer

Larry Niswender
Deputy Legislative Fiscal Officer

900 Court Street NE
State Capitol, Rm H-178
Salem, Oregon 97301
503-986-1828

Budget Information Report

Limitations on State Government Expenditures and Appropriations

What limits are imposed in Oregon?

Oregon adopted ORS 291.355 in 1979 limiting the growth of state appropriations for general government purposes to no greater than the rate of growth of personal income in Oregon in the preceding two calendar years. The rate of growth was to be computed based on US Department of Commerce reports. Debt service and tax relief were excluded from the definition of general government appropriations.

In 2001, ORS 291.357 changed the limit on appropriations to no greater than eight percent of projected personal income in Oregon for the same biennium. Under the statute, the limit can only be exceeded by a declaration of emergency by the Governor and a three-fifths vote of the Legislature. Federal funds are excluded from the limit as well as any revenue from new taxes or tax increases approved by voters. Construction and acquisition of assets that are financed by bonds or certificates of participation, federal funds, higher education fee remissions, and donations are excluded from the limitation. New revenue or expenditures arising from adoption of a measure by a vote of the people are also excluded.

Summary of Other State Expenditure Limits

According to the National Conference of State Legislatures (NCSL), eighteen other states have a constitutional or statutory limit on state spending or appropriations. Nine states have a constitutional limit, seven a statutory limit, and two have both a constitutional and statutory limit. Eight states have a limit on revenues which are not discussed in this paper.

As a practical matter, many states' expenditures are limited by available revenue and not the statutory limits. A brief summary of the state limits follows. The statutory citations and actual language of the statute or constitutional limit is available on request.

Alaska

In 1982, Alaska adopted a constitutional limit tying state appropriations to population growth and inflation. The yearly growth of appropriations may not exceed $2.5 billion by more than the cumulative percentage increase in population and inflation since 1981. Since its adoption, the limit has grown annually from the original base of $2.5 billion. Actual Alaska state spending in 2002 was far below the cap.

Arizona

In 1978, the Arizona Constitution was amended to limit government spending to state personal income. Arizona law now specifies that appropriations of state tax revenues may not exceed

7.23 percent of state personal income. To waive the provision, two-thirds approval of each house of the Legislature is required on specific additional appropriations. The Legislature may adjust the limit if a court order or legislative enactment transfers responsibility between state and local governments, between federal and state governments, or if there is a new federal mandate.

California

In 1979, a citizen initiative imposed a state spending limit that tied appropriations to increases in population and inflation. The formula was modified in 1988 to include per capita income. In the event of an emergency, the appropriations limit may be exceeded provided that increased expenditures are compensated for by reduced expenditures over the three following years. Alternatively, voters may change the limit but the change is operative for only four years.

The limit also provides for the transfer of responsibility for government programs: 1) the appropriations limit shall be altered if program responsibility is transferred from one government entity to another, from government to private entity, or from funding through general revenues to funding through special revenues; 2) the state shall provide the funding when it requires local government to provide a program; and 3) appropriations required for the purpose of complying with federal requirements are not under the limit.

Colorado

State government in Colorado operates under two different tax and expenditure limits and are the most restrictive in any state. The first was imposed by the Legislature and established a limit on the increase in state general fund appropriations. Appropriations are limited to money necessary for reappraisal of any class or classes of taxable property for property tax purposes plus the lesser of 1) five percent of Colorado state income; or 2) six percent over the total state general fund appropriation for the previous fiscal year.

The second limit in Colorado is both a tax and expenditure limit adopted by voters in a citizen initiative. It generally limits spending of state and local government revenues and restricts governments' ability to raise taxes without voter approval in advance. Spending can only increase based on population growth and increases in the consumer price index; government cannot change taxes or tax policy without voter approval and current spending limits cannot be weakened without voter approval. These restrictions may be waived by any voter-approved increases. In addition, the General Assembly can declare an emergency by two-thirds vote and raise emergency taxes subject to voter approval.

If the state exceeds either limit, excess revenues must be refunded to the citizens.

Connecticut

A statute was adopted in 1991 to limit state spending. The limit applies to 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). Appropriations may not increase by more than the increase in personal income in the state (average of the annual increase for each of the preceding five years) or the increase in inflation (the consumer price index for urban consumers during the preceding 12-month period), whichever is greater. To waive the limit, the Governor can declare an emergency or the existence of extraordinary circumstances, plus approval by three-fifths of both houses.

Surplus revenues are to be used as follows: 1) add to the Budget Reserve Fund (rainy day fund); 2) reduce bonded indebtedness; or 3) for any purpose authorized by at least three-fifths of both House and Senate.

Hawaii

Hawaii's state spending limit was adopted at a constitutional convention in 1978 and limits the growth of state general fund appropriations to the average rate of growth of state personal income for the three previous years. Specific appropriations over the limit require two-thirds approval in both legislative chambers. The state must also share the cost of any new program or service increase required of local government by the Legislature.

Further, if the state general fund balance in each of two successive years exceeds five percent of general fund revenues, the Legislature must provide for a tax refund or tax credit in the following fiscal year (no specific amount is stated).

Idaho

The Idaho Legislature adopted a state spending limit in 1980. The law limits state general fund appropriations to 5.33 percent of state personal income. The statute may be amended with a majority vote of the Legislature. The limit was modified in 1994 to exclude one-time expenditures. Adjustments to the limit will be made if a court order or legislative enactment transfers responsibility between state and local governments or between federal and state governments. Idaho is considering revisions to its limit.

Louisiana

An expenditure limit was adopted as a constitutional amendment in 1993. The constitutional amendment limits state spending to 1992 appropriations plus per capita personal income growth. The limit may be waived by a two-thirds vote of the Legislature and surplus revenues may only be used to retire debt in advance of maturity.

Montana

In 1981, the Montana Legislature adopted a state spending limit prohibiting state biennial appropriations from exceeding state appropriations for the preceding biennium plus the product of the 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. To waive the limit, the Governor must declare an emergency and the Legislature must then approve specific additional expenditures by two-thirds vote of each chamber.

Nevada

In 1979, the state Legislature adopted a statutory expenditure limitation that ties state expenditures to population growth and inflation using the 1975-76 biennium as the base. Spending must be decreased if there is a net decrease due to deflation or negative population growth. There are no provisions to exceed the limit since it only applies to the recommended budget and is non-binding. The chief state budget officer may exceed the limit if there is threat to life or property.

New Jersey

The New Jersey Legislature adopted a statutory expenditure limit in 1990 that applies to general fund state appropriations less exemptions for debt service, state aid, grants-in-aid and capital construction. State appropriations are not to exceed the average state per capita annual income of the prior three years. The limit may be waived with a two-thirds vote of the Legislature. In addition, an adjustment to the limit shall be made if program responsibility is transferred between state and local governments.

North Carolina

In 1991, the North Carolina Legislature adopted a statutory expenditure limitation that limits the fiscal year operating budget to seven percent or less of the projected total state personal income for that fiscal year. The limit may be exceeded to the extent that Medicaid, prison operations, or state health insurance increases exceed increases in state personal income. One-time expenditures for natural disasters and federal mandates are exempt from the limit. Revenue surpluses are reverted to the general fund credit balance.

Oklahoma

In 1985, the Oklahoma Constitution was amended to limit state expenditures to a twelve percent yearly increase (adjusted for inflation) and limits appropriations to 95 percent of certified revenue. Up to ten percent of revenues to the general fund in excess of the official estimate are to be deposited in a rainy day fund until that fund hits its statutory cap.

South Carolina

The South Carolina Constitution has limited state government spending since 1984. State appropriations in any fiscal year are limited to the greater of: 1) the state appropriation authorized by the spending limit for the previous fiscal year increased by the average growth of personal income over the three preceding years; or 2) 9.5 percent of total state personal income for the previous year. Expenditures included under the spending limit are those from the general fund, Highway Trust Fund, and the Education Improvement Act. The limit may be exceeded for one year by a two-thirds vote of the Legislature if it first declares a financial emergency. Also, every five years the Legislature can review the composition of the limit. Excess revenues may be spent to match federal programs, for debt purposes, tax relief, or transferred to the reserve fund.

Tennessee

Tennessee's 1978 constitutional amendment limits the growth in state appropriations to the growth in state personal income. Specific additional amounts may be approved by a majority vote of the Legislature. If the state increases expenditure requirements of local government, it must share in the cost.

Texas

The Texas Constitution was changed in 1978 to limit spending of state tax revenues not dedicated by the state constitution. The growth of biennial appropriations may not exceed the rate of growth of state personal income. If the Legislature adopts a resolution that an emergency exists, additional spending may be authorized by a majority vote of the Legislature.

Utah

In 1989, the Utah Legislature adopted a spending limit on state general fund appropriations. The limit ties yearly growth in appropriations to population growth and inflation. To waive the limit, an emergency must be declared by the Governor and confirmed by two-thirds of both houses of the Legislature. The law allows for the following adjustments: 1) an adjustment to the limit shall be made if program responsibility is transferred between state and local governments; and 2) an adjustment to the limit shall be made if program funding is transferred from general fund to non-general fund sources or vice-versa.

Washington

A 1993 citizen initiative limited state expenditures to a three year rolling average of inflation and population growth. To waive the limit, an emergency must be declared and approved with a two-thirds vote of the Legislature. If revenue produced by a tax increase remains within the expenditure limit, only two-thirds legislative approval is required for the increase. If revenues will exceed the limit, voter approval is needed. The law prohibits the state from imposing new mandates on local governments unless fully reimbursed.

Excess revenue goes into an Emergency Reserve Fund; if the fund exceeds five percent of general fund revenue, the additional surplus is placed in the Education Construction Fund.

Source: NCSL survey of state fiscal officers, April 1996, Updated 2003.