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House Joint Resolution 12: Hancock Revisited

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Overview

Legislators in Missouri recently introduced HJR 12, a proposal to drastically alter Missouri's revenue structure via an amendment to the State's Constitution. HJR 12 would create a "revenue growth lid" considerably more limiting than Missouri's current Constitutional Hancock Amendment.

If passed, HJR 12 would cost state services approximately \$265 million additional funds in the current fiscal year and another \$234 million additional funds in fiscal year 2006.¹ Analyzing the proposed lid over the last five years (FY 2002 through FY 2006) indicates that the state would have been required to refund taxpayers more than \$2.297 billion dollars during the fiscal crisis, an amount that more than doubles the impact of the state fiscal crisis. While the proposal is similar to a measure filed in the 2004 legislative session it does have some variances. The following briefly describes the components of the current measure and its impact on Missouri.

Hancock and HJR 12 What's the Difference

Missouri's Constitution, through its Hancock Amendment, already caps the amount of revenue (taxes) the state can collect. Hancock limits state revenue growth to a rate not higher than a percentage of growth of the state's personal income changes. It is this amendment that required the state to refund over \$985 million through the economic boom of the late 1990s. At the 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.²

HJR 12 would create a new revenue growth lid that would tie Missouri's revenue growth over time to a calculation based on the growth rate of general inflation and population changes. 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, 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. Similarly, spending areas like corrections, public safety, and education grow at dramatically different rates than the general inflation measures.

¹ Missouri Budget Project analysis of the impact of HJR 12 utilizing Consumer Price Index data, US Census Population statistics and Actual Missouri State Revenue changes from fiscal years 1990 through 2006.

² To read more on the causes of the State Fiscal Crisis see: *Missouri Fiscal Crisis Remains Severe: Revenue Options are Available as Compared to Continued Spending Cuts*, January 2004 available at www.mobudget.org

Additionally the state's general population growth may not reflect the population growth and demand changes for various 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 be 2.8%, while the elderly (those aged 60 and over) is expected to see a 6.2% growth.³ In this instance, using the 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 changes. Increases in corrections and prison services due to changing sentencing laws would not be reflected in general population and inflation changes. In these instances, either the need could not be met by appropriations or other discretionary funding would have to be eliminated in order to meet the changing sub-sector demands.

As cited 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 mandated. The discretionary part of the budget, including most health care and higher education spending, would therefore face a disproportionate burden when spending cuts are required.

HJR 12 Would make the State's Fiscal Crisis More Severe

HJR 12, when applied to the current revenue situation and the span of the state fiscal crisis, demonstrates how devastating this measure would be. Table 1 details the size of further cuts to state services that would have occurred in the last five years of the state fiscal crisis if HJR 12 had been enacted in 2001.

*Table 1
Impact of HJR 12 on the State Fiscal Crisis
FY 2001 – FY 2006*

<i>Fiscal Year</i>	<i>Current Level of Budget Cuts</i>	<i>Refunds Required by New HJR 12 lid</i>	<i>Total Budget Cuts with HJR 12 Applied</i>
2001	\$0	\$719.30 million	\$719.30 million
2002	\$207.8 million	\$498.90 million	\$706.7 million
2003	\$687.30 million	\$143.80 million	\$831.1 million
2004	\$343.20 million	\$435.10 million	\$778.3 million
2005	\$151.60 million	\$265.60 million	\$417.2 million
FY 2006 (proposed budget)	\$565 million (proposed cuts)	\$234.80 million	\$799.8 million
Cumulative Impact	\$1.954 billion⁴	\$2.297 billion	\$4.251 billion

As analyzed, HJR 12 would have more than doubled the impact of the state fiscal crisis. The severity of the additional cuts resulting from the proposal should not be underestimated. Between FY 2001 and FY 2005 the state already made nearly \$1.4 billion in cuts that resulted in the following:

³ *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.

⁴ Totals include FY 2006 budget cuts, as proposed by the Governor. The Legislature has not yet finalized its budget plans, so this number has potential to fluctuate.

- Cuts to Medicaid and other state health care programs impacted access to health care for more than 135,000 low income, elderly, disabled Missourians;
- Cuts to higher education have resulted in an average tuition increase at Missouri's four-year institutions of \$1,700 per year impacting 80,000 Missouri resident students;
- Cuts to mental health services of more than \$50 million have resulted in more than 8,000 Missourians losing access to mental health care;
- Cuts to aid to local school districts has resulted in property tax increases in districts representing 22% of the school population; and
- The State's School Foundation Funding Formula continues to be nearly \$1 billion beneath the funding level required by the state's Constitution.

Closing the additional gap created by HJR 12 would have required the state to refund taxpayers nearly \$2.3 billion dollars during this same time period, a reduction equal to 8% of total general revenue spending each year. Following are examples of the potential impact of an additional \$2.3 billion in cuts:

- Eliminate the Children's Health Program for 300,000 Missouri children to get \$100 million;
- Eliminate Medicaid health care coverage for 300,000 Missouri adults to get \$316 million;
- Eliminate all state general revenue funds for Higher Education to get \$857 million
- Eliminate all services provided by the department of health and senior services, including all immunizations, all smoking prevention programs and others for \$221 million;
- Close all of Missouri's prisons to get \$589 million; or
- Cut all state general revenue dollars from local school districts to get \$186 million.

Any option to fund the tax refunds required by HJR 12 would clearly hold devastating ramifications for Missouri's basic state services.

HJR 12 Destroys State's Ability to Recover from the Fiscal Crisis or Restore Services:

The proposed amendment would also limit the ability of state services 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 described above and in other vital state programs could never be restored. **HJR 12 would, in effect, create a permanent fiscal crisis.**

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, increased funds needed to provide for education changes, or increased program demands caused by shifts in the population such as in the growing elderly population. Conversely, in good economic growth times, this proposed amendment would curtail Missouri's ability to invest in its people and programs.

HJR 12 Would Harm Missouri's Economy:

Many of the cuts described above would in turn impact Missouri's receipt of federal matching funds. State cuts to programs such as health care, education and mental health care could result in the loss of federal funds due to the state's inability to meet program criteria and funding requirements. Cuts of the magnitude described above are sure to cost the state hundreds of millions of federal dollars at best, and would result in severe economic ramifications.

As an example, public funds make up 46% of spending in Missouri's health care industry, and total private and public health care expenditures in Missouri create 16% of Missouri's Gross State

Product.⁵ Medicaid is particularly pivotal in Missouri's economic production in the health care industry. For each dollar Missouri expends, it is able to generate nearly \$2 in federal and provider contributions. A Missouri-specific economic impact study cites that with every \$1 million expended in Medicaid, the state is able to generate an additional \$3-5 million in business activity, creating between 42-71 jobs.⁶ Cuts of the magnitude discussed above would result in the loss of thousands of jobs in the health care and ancillary industries.

In addition to the job loss directly related to program area reductions, further cuts to state services would likely compromise Missouri's ability to compete in a global market place. A recent report from the Economic Policy Institute summarizes findings from multiple surveys of corporations throughout the country. The report indicates that access to basic state services - including education, transportation and services which improve quality of life such as health care - were more important than tax incentives for corporations choosing to locate in a state.⁷

States that have implemented a similar government spending lid confirm that job loss was a result. Colorado has had a similar measure to limit state government growth referred to as *TABOR*. In the last 44 months Colorado reports that it lost 68,000 jobs. While Colorado was losing jobs, all of the surrounding *Mountain Region States* were gaining employment at a rate of more than 4%. While the growth lid cannot be directly tied to Colorado's job loss, it is clear that it did not create incentive for economic development in the state.⁸

Diminishes Voter Approved Tax Increases:

In 1996, voters approved an Amendment to Missouri's Hancock amendment that requires any substantial tax increase to gain voter approval at the ballot. In the current fiscal year, based on current Constitutional requirements, any increase above approximately \$75 million would need voter approval. **Ironically, HJR 12 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 for more than one year. 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.

Overall Implication: Severely Negative

Overall HJR 12 would have a severe negative impact on state fiscal policy, on state services and on economic development in the state. Missouri should not 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, creating a permanent fiscal crisis.

⁵ *Health Care Expenditures & Insurance in Missouri*, Kenneth E. Thorpe, PHD, Missouri Foundation for Health, October 2003.

⁶ Missouri Foundation for Health *Show Me Series Report 5: Economic and Health Benefits of Missouri Medicaid* available at www.mffh.org

⁷ *Rethinking Growth Strategies: How State and Local Taxes and Services Affect economic Development*, Economic Policy Institute, Robert Lynch, 2004

⁸ *is Colorado's TABOR Creating Jobs?*, Center on Budget & Policy Priorities, January 13, 2005 available at www.cbpp.org