

## Government Goes On A Diet

### *Designing a sensible expenditure limit for Illinois*

Government has become a glutton. In Illinois, a voracious appetite for more spending has led the state budget to balloon from \$24.7 billion in 2004 to \$32.2 billion in 2009 – an increase of nearly 30 percent over just five years. It's time to put government on a diet. A sensible expenditure limit would ensure that state spending doesn't grow beyond taxpayers' ability to pay for it.

How would a diet program for Illinois state government work? Essentially, it would limit state spending to last year's budget multiplied by the previous year's combined percentage rate of inflation and population growth.

$$\text{Budget Growth} = \text{General Revenue Fund Base Budget} \times (\text{Annual Percentage Rate of Inflation} + \text{Annual Percentage Rate of Population Growth})$$

It makes sense that a budget should be adjusted on the changing cost of goods and services

(inflation) and the number of people it serves (population growth). To see the efficacy of this plan, consider a situation where an expenditure limit had been established for Illinois in fiscal year 2004.

The first step would be to determine the budget growth factor for each year, as determined by inflation + population growth.

**TABLE 1: Budget Adjustment Factor: Inflation + Population Growth**

Fiscal Year	Inflation Rate % (CPI Midwest Region)	Illinois Annual Population Growth Rate %	Inflation Rate + Population Growth %
2004	2.4	0.4	2.8
2005	3.2	0.3	3.5
2006	2.4	0.4	2.8
2007	2.7	0.5	3.2
2008	3.7	0.6	4.3
2009	-0.4*	0.6**	0.2

\* Inflation rate for 2009 through March.  
\*\*Population figures not yet available for 2009; the 2008 rate is extended into 2009.

Source: Bureau of Labor Statistics Inflation Estimates, CPI Midwest Region and U.S. Census Bureau Population Estimates<sup>2</sup>

**TABLE 2: Budget Savings from Establishing a Spending Limit in 2004 (\$ in millions)**

Fiscal Year	% Budget Adjustment Factor	General Funds Budget, Actual	General Funds Budget, with Limit	Savings Between Actual Budget and Limited Budget
2004	2.8	\$24,723	\$24,723	0
2005	3.5	\$26,221	\$25,415	\$806
2006	2.8	\$27,162	\$26,305	\$857
2007	3.2	\$28,472	\$27,041	\$1,431
2008	4.3	\$30,355	\$27,907	\$2,448
2009	0.2	\$32,246	\$29,107	\$3,139
2010	N/A	\$34,261	\$29,165	\$5,096
Total Savings				<b>\$13,778</b>

Source: Illinois State Budget Book<sup>3</sup>

Next, the budget adjustment factor would be applied to the base budget, which was \$24.7 billion in fiscal year 2004. Future growth would be calculated by multiplying this base number by each year's budget adjustment factor percentage.

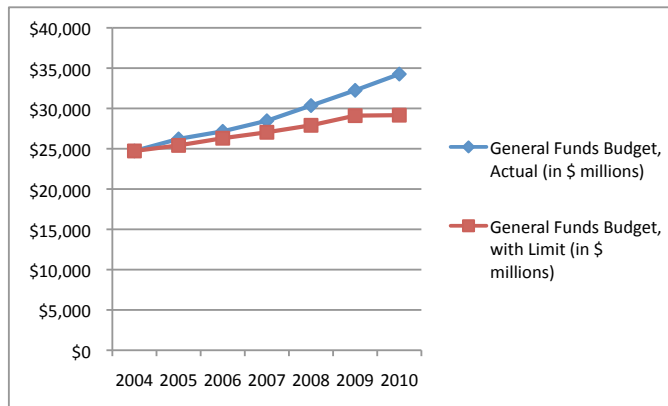
If Illinois had enacted an expenditure limit in 2004 that limited spending growth to population plus inflation, the state could have cumulatively saved \$13.7 billion over the past six years. That's money that could have been put in a rainy day fund, applied toward the unfunded public employee pension liabilities, or even refunded to taxpayers.

### Budget Savings from Establishing a Spending Limit in 2004

An expenditure limit could have helped to prevent the \$11.606 billion budget deficit the

*An expenditure limit is no starvation diet. Instead, it allows government to grow at a more reasonable and predictable rate.*

state faces today. If Illinois had adopted an expenditure limit in 2004, the budget for fiscal year 2010 would be \$29.1 billion. Given that the state is expected to bring in \$26.9 billion in revenue in 2010, the “diet” budget of \$29.1 billion is much more in tune with reality than the actual 2010 base budget of \$34.2 billion. Illinois has a good opportunity to prevent future runaway spending growth by immediately passing an expenditure limit based on inflation and population growth.



An expenditure limit is no starvation diet. Instead, it allows government to grow at a more reasonable and predictable rate. Dieticians and budgeters agree: “moderation is key.”

#### Notes

1 Bureau of Labor Statistics, “BLS Statistics on Inflation and Prices,” <http://www.bls.gov/bls/inflation.htm>.

2 U.S. Census Bureau, “Population Estimates,” <http://www.census.gov/popest/estimates.html>.

3 Illinois Office of Management and Budget, “State Budget Book, Fiscal Years 2004 to 2010,” <http://www.state.il.us/budget/>.