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Reconsideration of Alaska's Constitutional Spending Limit

September 1986

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**RECONSIDERATION OF
ALASKA'S CONSTITUTIONAL SPENDING LIMIT**

By Jack Fagnoli

September 1986

Division of Strategic Planning
Office of Management and Budget
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State of Alaska

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FOREWORD

Voters in the November 1986 general election will be asked to reconsider Alaska's constitutional spending limit, which was adopted in 1982. The limit places a ceiling on annual appropriations of the State, and was adopted with the proviso that it be reconsidered after four years.

This report explains the provisions, implications and effects of the constitutional limit, and generally aims to assist voters in deciding whether the limit should be retained or repealed. The Division of Elections' 1986 ballot description of the spending limit measure, which will not include pro and con statements (because none were submitted by interested parties), appears as **Appendix A**. The Division's 1982 description of the spending limit measure, which did include pro and con statements, appears as **Appendix B**.

Regardless of whether the constitutional limit is retained or repealed, the statutory spending limit enacted during the 1986 legislative session as part of the Budget Reserve Fund legislation (SCS CSHB 513-Fin; Chapter 58, SLA 86; AS 37.05.156) will remain in effect. A comparison of the two limits, including an analysis of how they will operate together if the constitutional limit is retained in November, appears as **Appendix C**.

Gordon S. Harrison
Associate Director
September 1986

EXECUTIVE SUMMARY

This report is intended to assist Alaskans in deciding whether the State's constitutional spending limit (limit on appropriations) should be retained or repealed in the November 1986 general election. While some sections are unavoidably technical in nature, the report is primarily oriented to an informed lay readership.

Part One dissects the "anatomy" of the spending limit, explaining its meaning, intent, terminology and provisions. **Part Two** provides a description of the legislative history surrounding the limit's passage and adoption during 1981-1982, highlighting the national and statewide fiscal climate which fostered the debate about a spending limit for Alaska, and placing events within the context of optimistic revenue expectations that existed at that time. **Part Three** identifies and comments on the spending limit's major technical problems, most of which are due to a lack of clarifying statutory language. **Part Four** assesses in broad terms the spending limit's impacts to date on State appropriations, finding them to be minimal chiefly because of the offsetting effect of post-1982 revenue declines. The **Summary** presents the pro's and con's of the spending limit, identifying the major considerations involved in deciding whether to retain or repeal the limit, but leaving to readers the task of drawing their own conclusions.

Several appendices provide additional information and background. In particular, **Appendix B**, from the 1982 Division of Elections voter's pamphlet, provides a more comprehensive description of the spending limit, including pro and con statements, than will appear in the 1986 voter's pamphlet. **Appendix C** explains the differences between the constitutional spending limit and the statutory spending limit enacted in 1986 as part of the Budget Reserve Fund legislation (Chapter 58, SLA 86), and discusses how they will interact if the constitutional spending limit is retained in November. Finally, **Appendix E** provides a detailed chronology of the 1981 legislative passage of Senate Joint Resolution No. 4, which currently stands as the spending limit defined in Article IX, Section 16, of the Alaska Constitution.

Source materials for the report were drawn from a wide variety of sources, only some of which are referenced in the report's footnotes and bibliography. An extensive though by no means exhaustive collection of those materials is maintained in the Division of Strategic Planning and is available for viewing there.

RECONSIDERATION OF
ALASKA'S CONSTITUTIONAL SPENDING LIMIT

INTRODUCTION

Alaska's constitutional spending limit, /1 which places a limit on annual appropriations of the State, will appear on the general election ballot again this November. (See Appendix A.) It will be on the ballot because of a reconsideration provision contained in the spending limit ballot measure that voters approved in 1982. (See Appendix B.) The purpose of the provision was to allow a trial period for the spending limit: if after four years voters liked the way the limit worked, they could vote to retain it; if not, they could repeal it.

Regardless of whether the constitutional spending limit is retained or repealed in November, it is important to note that the statutory spending limit enacted during the 1986 legislative

1

Technically speaking, the spending limit is not a limit on spending; i.e., it does not place a limit on annual expenditures. Rather, it places a limit on the amount of State appropriations that can be enacted for a given fiscal year. Because it is commonly referred to as "the spending limit", however, that terminology has been retained in this report.

session as part of the Budget Reserve Fund legislation (SCS CSHB 513-Fin; Chapter 58, SLA 86; AS 37.05.156) will remain in effect. Thus, if the constitutional limit is retained, two spending limits will be in force, as at present; if the constitutional limit is repealed, only the statutory limit will remain in force. **(See Appendix C for a description of the two limits and their relationship.)**

This report is intended to assist Alaskans in deciding whether the constitutional spending limit should be retained or repealed. The report attempts to do so, generally, in two ways. One is by providing a clear explanation of the spending limit--its provisions, the events surrounding its adoption, and the problems associated with its interpretation and implementation. The second is by providing an assessment of the limit's effectiveness in controlling spending, taking special cognizance of the decline in State revenue that has occurred since the limit was adopted.

Part One of the report dissects the "anatomy" of the spending limit to show how it is intended (and not intended) to work. **Part Two** recaps the limit's 1981 legislative history. **Part Three** discusses the limit's major technical problems and ambiguities. **Part Four** evaluates the limit's impacts on spending, focusing as much on how the limit has worked as on whether it has worked. Finally, the **Summary** outlines the respective pro's and con's of the spending limit and poses the question that voters will have to ask themselves in November.

PART ONE: "ANATOMY" OF THE SPENDING LIMIT

Alaska's constitutional spending limit is complex, because it has to be. Like all legislation, it was designed to strike a balance between accomplishing something in a particular way, yet simultaneously preserving the flexibility to respond to unforeseen events and changing circumstances. In the limit's case, however, striking that balance was made even more difficult than usual because of two uncommon and overriding concerns.

One was the fact that the limit, if adopted, would become a part of the Alaska Constitution. It therefore would not be easily modifiable in the future if a need for changes occurred. The second was simply the fact that the limit would place a cap on appropriations. It therefore would potentially affect all fiscal operations of the State (and to a large extent the Alaska economy as well), and impose a fundamental constraint on the fiscal authority of legislators and governors in Alaska.

Both of these factors played a large role in the debates that preceded and followed the spending limit's 1981 legislative passage, and are largely responsible for the careful and often complex language that defines the spending limit today.

Background

Alaska's constitutional spending limit was adopted in the November 2, 1982, general election. The question appeared on the ballot as Ballot Measure No. 4 (**see Appendix B**) and was approved 110,669 to 70,831, or by sixty-one percent of those voting on the measure (**see Appendix D**).

Adoption of the spending limit resulted in four amendments to the Alaska Constitution. The main amendment, the definition of the spending limit, comprises the language now contained in Section 16 of Article IX (Finance And Taxation). A second amendment, requiring voter reconsideration of the limit in the 1986 general election, now stands as Section 27 of Article XV (Schedule Of Transitional Measures). A third amendment, stipulating that the limit applies to State fiscal years 1984 and afterward, also is contained in Article XV as Section 28. A fourth amendment, dealing with a capital relocation ballot measure that was rejected by voters in 1982, is now inoperative. /2

2

One of the provisions of the 1982 spending limit ballot measure stipulated that, if voters approved a \$2.8 billion cost estimate for relocating Alaska's capital (Ballot Measure No. 8 on the same 1982 general election ballot as the spending limit measure), no additional voter approval of capital relocation appropriations within that amount would be required under the provisions of the spending limit, if the spending limit were adopted. Voters rejected the cost estimate (102,083 voting against Ballot Measure No. 8, versus 91,049 voting in favor of it), thereby making inoperative the transitional provisions currently contained in Section 26, Article XV, of the Alaska Constitution.

Spending Limit Definition

The amendment defining the spending limit appears as Section 16 of Article IX in the Alaska Constitution. The language contained in that section is shown below in its entirety (with line numbers added for later reference):

1 Except for appropriations for Alaska perman-
2 ent fund dividends, appropriations of revenue
3 bond proceeds, appropriations required to pay
4 the principal and interest on general obliga-
5 tion bonds, and appropriations of money re-
6 ceived from a non-State source in trust for a
7 specific purpose, including revenues of a
8 public enterprise or public corporation of
9 the State that issues revenue bonds, approp-
10 riations from the treasury made for a fiscal
11 year shall not exceed \$2,500,000,000 by more
12 than the cumulative change, derived from
13 federal indices as prescribed by law, in
14 population and inflation since July 1, 1981.
15 Within this limit, at least one-third shall
16 be reserved for capital projects and loan
17 appropriations. The legislature may exceed
18 this limit in bills for appropriations to the
19 Alaska permanent fund and in bills for ap-
20 propriations for capital projects, whether of
21 bond proceeds or otherwise, if each bill is
22 approved by the governor, or passed by affir-
23 mative vote of three-fourths of the member-
24 ship of the legislature over a veto or item
25 veto, or becomes law without signature, and
26 is also approved by the voters as prescribed
27 by law. Each bill for appropriations for
28 capital projects in excess of the limit shall
29 be confined to capital projects of the same
30 type, and the voters shall, as provided by
31 law, be informed of the cost of operations
32 and maintenance of the capital projects. No
33 other appropriation in excess of this limit
34 may be made except to meet a state of disas-
35 ter declared by the governor as prescribed by
36 law. The governor shall cause any unexpended
37 and unappropriated balance to be invested so
38 as to yield competitive market rates to the
39 treasury.

A Limit On Appropriations

The most fundamental aspect of the spending limit is that it is defined as a limit on State appropriations (Lines 9-11). Strictly speaking, therefore, it is an appropriations limit rather than an expenditure limit. It restricts the amount of appropriations that may be enacted for a given fiscal year, rather than the amount of appropriated funds that may subsequently be expended.

Because appropriations for the most part occur all at once (during legislative sessions), while expenditures often are spread out over years (particularly for capital projects), it is simpler to limit appropriations than expenditures. Also, because appropriations set a ceiling for expenditures, and not vice versa, overall State spending can be more effectively controlled by limiting appropriations.

Exemptions From The Limit

The spending limit does not apply to all appropriations. In fact, a number of important classes of appropriations are categorically excluded from the limit (Lines 1-9).

Excluded are: (1) appropriations for Permanent Fund Dividends; (2) appropriations of revenue bond proceeds, which must be appropriated before they can be used; (3) appropriations for the principal and interest payments on outstanding State general obligation bonds; (4) appropriations to meet a state of disaster

declared by the Governor as prescribed by law; and, (5) appropriations of an entire class of funds defined as "money from non-State sources which are received in trust for a specific purpose..." (Lines 5-9).

Class (5), above, includes all federal funds received by the State. It also includes all of the non-State trust receipts of all of the State's public enterprises and corporations that issue revenue bonds (Line 9); e.g., the Alaska Housing Finance Corporation, the Alaska Industrial Development Authority, the Alaska Power Authority, etc. (From a straightforward reading of Lines 5-9 of the definition, it is not clear whether public enterprises or public corporations that have the authority to issue revenue bonds, but have not issued any to date, would qualify for the exemption; or whether, if they were to issue revenue bonds in the future, they would thereafter qualify.)

It is difficult to gauge the impact that these exemptions have on the spending limit's effectiveness in controlling State spending. Nevertheless, they do represent areas where State spending is not limited by law.

Exceeding The Limit

The Legislature may exceed the limit in two cases, if two specific conditions are met (Lines 17-27). One case involves bills for appropriations of money to the Permanent Fund; the second, bills

for appropriations for capital projects, whether of bond proceeds or otherwise. /3

The two conditions are: (1) appropriations bills for these items must be approved by the governor, approved by the Legislature over a veto or item veto, or become law without the Governor's signature; and, (2) the appropriations involved must be approved by voters as prescribed by law.

In addition to these requirements, the spending limit definition also requires (Lines 27-32) that capital project bills exceeding the limit must contain appropriations for projects of the same type (to facilitate assimilation of the information by voters), and must clearly identify the recurring operations and maintenance costs of the projects (because those costs would in most cases become operating budget items in the future).

Elements Of The Limit

The formula for determining the spending limit (Lines 9-14) contains three elements, or variables: a base, a population adjustment, and an inflation adjustment.

3

The words "whether of bond proceeds or otherwise" (Lines 20-21) have been interpreted as granting Alaska governors a line-item veto authority over bond appropriation bills.

The base serves essentially as a reference point for keeping per capita spending constant at a 1981 level. To determine the spending limit for a particular fiscal year, the base is adjusted to update it for changes in the need for public services since July 1, 1981 (as measured by changes in population estimates), and for changes since then in the cost of providing public services (as measured by changes in the inflation rate).

The base used in the spending limit is a fixed amount, set at \$2.5 billion (Line 11). This amount corresponds closely to the amount of unrestricted general fund revenue that the State received in fiscal year 1980. The use of a fixed-amount base has been criticized because of the variability in the State's annual revenue receipts, particularly during recent years when revenue has declined but the base has increased because of population and inflation adjustments. (Alternatives that were considered include a base equal to the amount of revenue received during the preceding year, and a base equal to the amount of appropriations enacted for the preceding year.)

Calculating The Limit

Conceptually, calculation of the spending limit is not difficult. As defined, the limit for any given fiscal year is equal to \$2.5 billion plus an adjustment for the cumulative changes in population and inflation since July 1, 1981. If those cumulative changes together totalled 10 percent, for example, the limit

would be \$2.5 billion plus \$250 million (10 percent of \$2.5 billion), or \$2.75 billion. **(See discussion in Part Three.)**

In practice, however, calculation of the limit for any given fiscal year is extremely difficult. More precisely, getting agreement on how it should be calculated is extremely difficult. Two reasons exist for the difficulty.

One reason is that the population and inflation indices for adjusting the \$2.5 billion base have not been specified. The limit's definition stipulates that the cumulative change in population and inflation since July 1, 1981, shall be derived from federal indices "as prescribed by law" (Line 13). To date, however, no statute has been enacted that identifies the specific federal indices to use. As a result, different individuals and groups have used different federal indices in different ways to arrive at different estimates of the spending limit for particular fiscal years.

The second reason is that, even if agreement existed on which indices to use, the spending limit's definition is not clear on how to apply those indices to the fiscal year for which the limit is being calculated. Specifically, the definition does not stipulate the end-point of the period over which population and inflation changes are to be measured. The starting point of the period is specified as July 1, 1981; but the definition does not say whether the end-point of the period should be the beginning,

the end, or some mid-point of the fiscal year whose limit is being calculated. The use of different end-points, consequently, has also resulted in the calculation of different spending limits for the same fiscal year.

Fiscal Year Basis

The spending limit definition employs a fiscal-year basis for establishing appropriation ceilings; i.e., appropriation ceilings are set for one fiscal year at a time. (The State's fiscal year begins on June 30 and ends on July 1.) Understanding how appropriations are attributed to particular fiscal years, however, is critical to understanding how the spending limit works. Here, the specific language used in the spending limit definition is of particular importance.

For those items it covers, the spending limit establishes a ceiling for the total amount of appropriations that may be enacted for a particular fiscal year (Lines 10-11); i.e., for use in that fiscal year. The limit does not, therefore, establish a ceiling for appropriations made during that fiscal year (or during any other particular time period, such as a particular calendar year or a particular legislative session). In short, the spending limit for a particular fiscal year governs all covered appropriations that are attributed to that fiscal year, regardless of when those appropriations are made.

An example, using Fiscal Year (FY) 1988, will show how this attribution system works.

The budget for FY 1988 will be set during the legislative session that begins in January 1987, and enacted shortly afterward following any gubernatorial budget vetoes. The appropriations made during that session will be subject to the spending limit established for FY 1988. FY 1988 will then begin on July 1, 1987, and run through June 30, 1988.

During the legislative session that begins in January 1988, however, when the FY 1989 budget is being set, supplemental appropriations for (ongoing) FY 1988 will be made. These FY 1988 supplemental appropriations will also be subject to the FY 1988 limit. In short, the total amount of appropriations for FY 1988 that are covered by the limit (including those made during the 1987 session as well as the supplementals made during the 1988 session) will have to be less than the limit amount established for FY 1988.

As can be seen, therefore, the spending limit for any given fiscal year is operative during at least two legislative sessions. One is the session that precedes the start of that fiscal year, and the other is the session that occurs within that fiscal year. The total amount of appropriations enacted for that fiscal year during both legislative sessions, consequently, are measured against the single limit established for that fiscal year.

This particular method of attributing appropriations to particular fiscal years complicates easy understanding of the spending limit and its effects on State spending. In particular, one can not readily perceive or determine, at any given point in time, whether the spending limit has been exceeded or not. Nor can one easily answer such fundamental questions as whether the State is spending less money "this year" (calendar year) than it did "last year" (calendar year), or less money than it otherwise would have spent in the absence of a spending limit.

Under some circumstances, this attribution method can also make it possible to avoid exceeding the spending limit for one fiscal year by attributing a portion of total appropriations to the preceding fiscal year (if the preceding year's limit has not already been reached).

Allocation For Capital Projects And Loan Appropriations

The definition of the spending limit stipulates that, "Within this limit, at least one-third shall be reserved for capital projects and loan appropriations" (Lines 15-17).

Considerable controversy surrounds the question of how this allocation provision should be interpreted, particularly in cases when the amount of revenue available for a fiscal year is less than the appropriation ceiling established for that year by the spending limit.

A 1983 Attorney General's opinion argued that the wording of the allocation provision, above, "is ambiguous when applied for a year in which revenue available for appropriations falls short of the adjusted limit for that year". /4 The opinion went on to recommend that "the best way to resolve the ambiguity is to disregard the one-third allocation reserved for capital projects and loan appropriations" in such cases. /5

This recommendation has been followed to date, in view of the fact that revenue annually available for appropriation has consistently been less than the adjusted limit amount. The issue remains unsettled, nevertheless. **(This issue is discussed in more detail in Part Three.)**

Treatment Of Surpluses

The spending limit definition requires that the Governor shall be responsible for insuring that "any unexpended and unappropriated balance" is invested so as to yield a competitive market rate of return to the State (Lines 36-39).

4

See February 7, 1983, memorandum of opinion from Attorney General Norman C. Gorsuch and Assistant Attorney General James L. Baldwin to budget director Gene Dusek, Office of Management and Budget, p. 16.

5

Ibid., pp. 17-18.

For the most part, this requirement is simply a matter of common sense, to avoid wasting the earning power of the State's cash assets during the interval before they are used.

The argument has been made, however, that this requirement also serves to protect the State's unspent general funds insofar as it precludes their investment in subsidized loans, which would not yield a competitive market rate of return. /6

6

This provision has been interpreted as also requiring that all appropriated but unspent general fund balances must be invested at market rates; i.e., that, in effect, all unspent general fund balances, whether appropriated or not, must be so invested. The purpose of this interpretation, which represents current State policy, is to protect the liquidity position of the State treasury.

PART TWO: LEGISLATIVE HISTORY AND BACKGROUND

This part of the report summarizes the legislative history of Alaska's constitutional spending limit. It focuses principally on events surrounding the 1981 passage and amendment of Senate Joint Resolution No. 4, the provisions of which ultimately became the spending limit. It also notes other legislative proposals for a spending limit and related legislation that were introduced during 1981 and 1982.

(See Appendix E for a chronology of the principal 1981 events involving the passage of Senate Joint Resolution No 4.)

Background--National Fiscal Climate In 1981

There is no question that events in other states during the four or five years preceding 1981 played an important role in setting the stage for debate about a spending limit in Alaska.

In particular, national concerns about state government spending had resulted in the passage of tax and expenditure limitations (TEL's) in eighteen states between 1976 and 1981. New Jersey had adopted the first state expenditure limit in 1976, followed by

Colorado and Rhode Island in 1977, and Arizona, Hawaii, Michigan, Texas and Tennessee by May of 1978.

In June of 1978, interest in state TEL's had peaked with the passage of California's Proposition 13, leading to the so-called "Tax Revolt" which swept the nation during 1978-1980. In the year and a half following Proposition 13, for example, nine additional states (Louisiana, Nevada, Utah, Washington, Idaho, Missouri, Oregon, South Carolina and Montana) had adopted TEL's.

Fourteen of these eighteen TEL's had placed limits on expenditures rather than on revenues, and seven had been constitutionally rather than statutorily implemented. Twelve had been initiated by legislatures, with the rest initiated by voters or by constitutional conventions. /7

Background--Alaska Fiscal Climate In 1981

While tax and expenditure limit activity in other states did much to set the stage for the 1981 spending debate in Alaska, it is important to note that Alaskans' interest in a spending limit stemmed from very different concerns than those that applied elsewhere.

7

This summary of TEL activity in other states is based on information contained in Chapter One of a September 1984 draft report by the Advisory Commission On Intergovernmental Relations, Fiscal Discipline Tools Developed By State Governments: Tax And Expenditure Limits And Other Mechanisms.

For the most part, other states were concerned with limiting their revenue intake and expenditure outlays in order to alleviate the tax burden borne by their residents (in contrast to the burden borne by corporations or the exported tax burden borne by the residents of other states). Alaska, however, was facing a situation of runaway wealth. Controlling the use of that wealth, therefore, rather than tax relief or learning to live with insufficient revenue, was the major impetus for discussions about how and why state government spending should be limited in Alaska.

The State of Alaska's income, for example, had surged dramatically by 1981 because of rising oil prices and increased Prudhoe Bay production. Where unrestricted revenue receipts had been \$333.4 million in fiscal year (FY) 1975, by FY 1981 they had increased more than ten times to \$3.7 billion. State appropriations of unrestricted revenue had also followed suit, increasing more than five times during the same period, from \$512.2 million to \$3.1 billion. (See Table 1.)

Beyond the evidence that greater income was causing greater spending, however, interest in a spending limit developed at least to an equal degree because revenue projections at the time indicated that the State would be receiving even more revenue, in unprecedented amounts, in the near future. (See Table 2.) If the need to control State spending already existed in 1981, therefore, it seemed virtually certain at the time that the need would soon become critical.

TABLE 1

**UNRESTRICTED REVENUE AND APPROPRIATIONS
FY 1975 - FY 1981**

(\$Millions)

<u>FY</u>	<u>Revenue</u>	<u>Annual Growth</u>	<u>Approp- riations</u>	<u>Annual Growth</u>
75	333.4	-	512.2	-
76	709.8	112.9%	628.0	22.6%
77	874.3	23.2%	716.2	14.0%
78	764.9	(12.5%)	842.2	17.6%
79	1,133.0	48.1%	1,102.5	30.9%
80	2,501.2	120.8%	1,135.4	3.0%
81	3,718.2	48.7%	3,102.2	173.2%
Overall Growth:		1,015.2%		505.7%
Compound Annual Growth Rate:		49.5%		35.0%

Source: Office of Management and Budget (based on Legislative Finance Division and Department of Revenue data).

TABLE 2

UNRESTRICTED REVENUE OUTLOOK IN 1981
FOR PERIOD FY 1981 - FY 2000

(\$Millions)

<u>FY</u>	<u>1981 Forecast</u>	<u>Actual/ Current Outlook</u>	<u>FY</u>	<u>1981 Forecast</u>	<u>Actual/ Current Outlook</u>
81	3,376	3,718	91	16,688	1,399
82	4,916	4,108	92	17,932	1,384
83	6,000	3,631	93	19,395	1,372
84	6,798	3,390	94	20,326	1,334
85	8,082	3,260	95	20,666	1,297
86	9,278	2,679	96	20,818	1,266
87	10,849	1,220	97	20,787	1,343
88	12,179	1,132	98	20,520	1,297
89	13,981	1,268	99	20,050	1,238
90	15,074	1,460	2000	19,509	1,186

*
Current outlook as of 6/86 revenue forecast.

Source: Office of Management and Budget. (1981 forecast prepared by ISER for Battelle Northwest Laboratories, based on June 1981 forecast by Department of Revenue. Other data from Department of Revenue, June 1986 30th percentile unrestricted general fund revenue forecast.)

Early Proposals For A Spending Limit

The earliest legislative proposal for a state government spending limit in Alaska was Senate Joint Resolution No. 52 (SJR 52), introduced in the legislature on February 18, 1980, by Senator Mike Colletta et al.. /8 SJR 52 proposed to amend the Alaska Constitution to require that the annual rate of growth in State appropriations (not including appropriations to the Permanent Fund) could not exceed the estimated annual rate of growth in Alaska's economy, as reflected in projected changes in personal income. /9 SJR 52 also provided that any revenue surplus remaining above the level set by the spending limit would be returned to taxpayers, and that no general law requiring increased expenditures by a political subdivision could become effective unless the State paid the political subdivision an amount of money equalling those costs. (SJR 52 and a companion bill, SB 558, did not pass the Legislature.)

8

Co-sponsors were Senators Don Bennett, Betty Fahrenkamp, Jay Kerttula and Glen Hackney.

For an example of early interest in a spending limit within the executive branch, see the December 12, 1977, memorandum on expenditure limitation proposals from policy analyst Dona Lehr to Fran Ulmer, director of policy development and planning for Governor Jay Hammond (on file in the Division of Strategic Planning, Office of Management and Budget, Office of the Governor).

9

Changes in Alaska personal income were specified in a companion bill, Senate Bill 558, introduced by the Senate Rules Committee on April 11, 1980.

During the latter part of 1980, much of the effort in developing a spending limit proposal was undertaken by the administration of Governor Jay Hammond. Hammond's Division of Policy Development and Planning completed a major assessment of the spending limit issue in August of 1980, focusing on the pro's and con's of expenditure limitations and on related issues such as what (if anything) to exempt from limits. Noting that the impetus for a spending limit in Alaska stemmed not from onerous tax burdens, as in other states, but from an overabundance of oil-generated revenue, the report noted that:

"These revenues result in 'painless' spending increases, the demand for which the Legislature and the executive find difficult to resist. The absence of the traditional revenue constraint on spending has allowed us to become accustomed to levels of per capita spending which will be difficult, if not impossible, to support in the future." /10

As a result of this effort, Hammond delivered a keynote address on spending limitations to the prelegislative conference of the Alaska Chamber of Commerce in Anchorage on December 4, 1980. In the address, he said that constraining excessive state government spending was a necessity for Alaska. He emphasized, in particular, that a constitutionally established spending limit requiring

10

See Policy Analysis Paper No. 80-10: Expenditure Limitations, Division of Policy Development and Planning, Office of the Governor, State of Alaska, August 1, 1980.

voter approval to exceed it was critical, if Alaska was to have a sound economy and a secure financial future. /11

In addition to Hammond's proposal, the Alaska State Chamber of Commerce and the private-sector public affairs organization Commonwealth North also developed proposals during the fall of 1980 for a limit on state government spending in Alaska. Their proposals were similar in intent to Hammond's, differing primarily on the scope of State spending that should be limited and on the formulas that should be used for making annual adjustments to the limit. /12

Senate Joint Resolution No. 4--Description And Issues

Senate Joint Resolution No. 4 (SJR 4), which in amended form ultimately became the spending limit, was drafted by the Hammond administration in December of 1980, and introduced in the Legislature at Hammond's request by the Senate Rules Committee on

11

See speech delivered by Governor Jay Hammond, titled "Spending Limitations", before the Prelegislative Conference of the Alaska State Chamber of Commerce in Anchorage on December 4, 1980.

12

See draft for remarks of Fran Ulmer, director of policy development and planning for Governor Jay Hammond, before a conference on state government spending issues presented by Common Sense For Alaska and other organizations, in Anchorage, December 13, 1980.

January 13, 1981. It was referred to the Senate Transportation, Judiciary and Finance committees. (The parallel House vehicle, House Joint Resolution No. 5, was introduced in the House of Representatives on February 4, 1981.)

As introduced, SJR 4 proposed that the Alaska Constitution be amended by the addition of two new sections. (If the resolution were to pass the Legislature, therefore, the amendments would go before voters in the 1982 general election.)

The first of SJR 4's amendments established a spending limit for the State. Specifically, it provided that State appropriations during any fiscal year (rather than for any fiscal year) could not exceed the amount appropriated during the preceding fiscal year by more than: (1) the increase in the federal consumer price index for Alaska for the calendar year preceding the governor's January submission of the budget; plus, (2) a percentage equal to the average yearly growth in Alaska's population as shown by the most recent two federal censuses or renumerations.

The second amendment itemized those appropriations which would not be subject to the limit. Exempted were appropriations for: Permanent Fund deposits and dividends; capitalization of loan funds; voter-approved capital projects; general obligation bond debt service; and reserve funds for disasters or emergencies.

Also exempted from the spending limit were appropriations of money that: equalled increases in program user fees; were necessary to meet requirements of court orders, or program or responsibility transfers from the federal government; equalled one-quarter of the income generated by deposits to the Permanent Fund that exceeded the deposit requirements established by the Alaska Constitution; or were appropriated by the Legislature and approved by the governor for disasters.

As indicated by the specificity of these provisions, it was clear from the outset that three questions would dominate, and complicate, both the legislative path of SJR 4 as well as the search in general for an acceptable spending limit for the State of Alaska:

(1) how to define the base, or starting point

(e.g., the amount of appropriations made during the preceding fiscal year, the amount made for the preceding fiscal year, or during or for the preceding calendar year, or a fixed amount, etc.);

(2) how to adjust the limit each year

(e.g., adjust it for population and inflation, or for the growth in per capita personal income, or for the growth in non-government per capita personal income, or for changes in the state's gross annual product, etc.); and,

(3) what to exclude from, or allocate within, the limit

(viz., appropriations for capital projects and for the capitalization of loan funds).

These questions in fact dominated the debate about SJR 4 and a variety of competing proposals /13 during SJR 4's passage through the Senate Transportation Committee and the House and Senate Judiciary and Finance Committees during the 1981 legislative session.

Senate Joint Resolution No. 4--Legislative Passage

SJR 4 moved through its Senate committee referrals between March 12 and June 11, 1981, receiving a number of amendments along the

13

Other legislative proposals for a spending limit that circulated during the 1981 legislative session included the following:

SJR 3, introduced by Senator Mike Colletta, was a re-introduction of SJR 52, which failed to pass the year before.

HJR 4, introduced by Representative Terry Gardiner, limited appropriations growth to the growth in statewide per capita personal income.

CS HJR 4 (Fin), introduced by the House Finance Committee, employed unspecified inflation and population indices to annually adjust the appropriation limit.

CS SJR 4 (Fin), introduced by the Senate Finance Committee, effectively set \$2.7 billion as the base for limiting future annual appropriations.

HJR 57, introduced by Representative Hugh Malone, employed the federal consumer price index and federal census data to adjust appropriations annually, using as a base the amount of appropriations enacted during FY 1981.

HB 607, introduced by Representatives Russ Meekins and Thelma Buchholdt, employed the same annual adjustment indices as HJR 57, but specified that the appropriation limit applied only to the budget presented annually by the governor.

Other bills or resolutions (or substitute versions) may have been introduced, in spite of efforts to cite them here.

way. Its referral to the Senate transportation Committee was waived on March 26 by Senator Bill Ray, chairman. The Senate Judiciary Committee passed out an amended version, CS SJR 4 (Jud) on May 5. On June 11, the Senate Finance Committee adopted yet a different amended version, CS SJR 4 (Fin), and sent it to the Senate Rules Committee to be calendared for a floor vote.

On June 12, the Senate adopted CS SJR 4 (Fin) by a vote of 16-3, with one abstention, and sent it to the House for consideration.

Also on June 12, the House leadership headed by Speaker Jim Duncan and Majority Leader Russ Meekins was supplanted in a take-over by dissident minority (i.e., non-coalition) members. The result of the "coup" was a new House leadership, headed by Speaker Joe Hayes and Majority Leader Rick Halford.

On June 20, after further amendment in the House Finance Committee, as well as further amendment and reconsideration on the floor of the House, SJR 4 finally passed the House as HCS CS SJR 4 (Fin)amH by a 37-1 vote, with two abstentions. Representative Don Clocksin cast the single opposing vote.

On June 21, the Senate unanimously (but for one abstention) refused to concur in the House amendments to SJR 4. Senate President Jay Kerttula immediately appointed Senators Sturgulewski (chair), Colletta and Kelly to represent the Senate in free conference on the SJR 4 bills, if necessary.

Later in the day on June 21, the House voted unanimously (40-0) in refusing to recede from its amendments, setting the stage for a free conference committee confrontation. Following the House vote, Speaker Joe Hayes appointed Representatives Montgomery (chair), Freeman and O'Connell to represent the House on the free conference committee.

On June 24, after hearing in the morning that the SJR 4 conferees had reached agreement, but then hearing in the afternoon that Speaker Hayes would not accept the conferees' proposal, Governor Hammond sent a letter to House Speaker Joe Hayes and Senate President Jay Kerttula warning that action on the spending limit must occur before adjournment of the Legislature:

"I can think of nothing more illogical or damaging to the image of this Legislature and Administration than to not only break the all-time record for session length, but as well promote the largest increase in state spending ever proposed and yet deny the public the opportunity to vote on a meaningful spending limitation. The very future of this state demands better stewardship than that. Accordingly, were this Legislature to adjourn without having dealt with the most important issue facing it, I would have no choice but to call a special session to address this vital issue." /14

Later in the day on June 24, Speaker Hayes discharged the House conferees on SJR 4, and appointed a new team consisting of Representatives Halford (chair), Bettisworth and Malone. Learning of Hayes' action, Senate President Kerttula that same day likewise discharged the Senate conferees and appointed a new team comprising Senators Ray (chair), Ferguson and Gilman.

At 7:06 that evening (June 24), the Senate adjourned. The House followed suit at 12:35 in the morning.

The next day, June 25, Governor Hammond issued a statement blaming the House leadership for the breakdown in work on the spending limit, saying:

"As you know, despite ample warning and the actions by the Senate, the House leadership failed to even bring the [spending limit] issue to a vote before adjourning." /15

Simultaneously, Hammond issued a proclamation calling the Legislature back into special session in Juneau on July 13, to consider SJR 4. /16

15

See statement on spending limitation by Governor Jay Hammond, dated June 25, 1981.

16

June 25 proclamation appears in House Journal for the First Special Session, July 13, 1981, p.1. (Also appears in Senate Journal, same date and page.)

The July 13 special session lasted only two days. It was characterized by an intensive series of meetings among Senate and House conferees on SJR 4, and equally intensive meetings between legislators and the Governor's Office.

By 9:32 P.M. on July 13, the conferees of the second free conference committee recommended adoption of FCCS SJR 4 (the language of which now appears as Section 16, Article IX of the Alaska Constitution), along with a letter of intent. /17

Conferees signing "do pass" on FCCS SJR 4 included Senators Ferguson and Gilman, and Representatives Halford and Bettisworth. Senate chairman Bill Ray signed "no recommendation", while Representative Hugh Malone signed "do not pass - see minority report". /18 Representative Malone submitted his minority report on FCCS SJR 4 (**See Appendix F**), and originally it appeared in the House Journal; subsequently, however, it was removed from the House Journal at the direction of House Speaker Hayes. /19

17

The Senate Journal said that the letter of intent would be published on July 14, but it never appeared. See Senate Journal, First Special Session, July 13, 1981, p. 5.

18

See House Journal, First Special Session, July 13, 1981, p. 6; and Senate Journal, First Special Session, July 13, 1981, p. 5.

19

See July 23, 1981, letter to House Chief Clerk Irene Cashen from Speaker Joe Hayes in "Corrected Final Supplement", House Journal, First Special Session, July 27, 1981, p. 17

On July 14, the Senate passed FCCS SJR 4 (without a letter of intent) on a 15-4 vote with one abstention, and adjourned at 6:11 P.M. At 1:32 A.M. on July 15, the House likewise adjourned, after passing FCCS SJR 4 (also without a letter of intent), on a 27-13 vote.

Later in the day of July 15, Governor Hammond signed FCCS SJR 4 into law as First Special Session - Legislative Resolve No. 1.

1982 Legislation

The debate over the spending limit continued during the 1982 legislative session, amidst major concerns about the State's spending and investment policies. Throughout the session, expectations of steadily increasing revenue windfalls remained high.

Though none of it passed, the major fiscal legislation introduced in the 1982 session primarily addressed two subjects. One was the need for clarifying statutes to implement the general provisions of the proposed spending limit, as SJR 4 would go before voters in the November 1982 general election and, if adopted, would require such clarification. The other was the question of how best to use the surplus amounts of revenue that everyone expected the State to be receiving.

The major piece of implementing legislation, for example, was SB 814, introduced by Governor Hammond. This bill defined the SJR 4

inflation adjustment as the annual percentage change, during the calendar year preceding each fiscal year, in the Anchorage all-urban consumer price index (as published by the Bureau of Labor Statistics of the United States Department of Labor). It also defined the SJR 4 population adjustment as the percentage annual change as of each July 1 in the estimated population of Alaska, based on the trend established by the United States Census Bureau for the period between the previous two censuses or reenumerations. The bill's failure to pass, however, ensured that SJR 4, upon adoption, would become law without the benefit of clarifying statutory language.

Looking for ways to save some of the State's expected future wealth, Governor Hammond also introduced SJR 65 in 1982. This resolution would have allowed no more than 50 percent of money exceeding the SJR 4 limit to be used for voter-approved capital projects, with the remainder to be invested at market rates or deposited into the Permanent Fund.

The major piece of legislation introduced from the legislative side during the 1982 session was SJR 61 (which evolved through several sponsor amendments), introduced by Senator Ed Dankworth. If adopted, SJR 61 would have replaced the SJR 4 limit with a spending limit based on the amount of taxes collected annually in Alaska, with all other revenue being dedicated to the Permanent Fund or to a capital investment fund (established by the resolution). As amended, SJR 61 would have allowed three-quarters of

the State's annual revenue receipts to be used for operating budget appropriations, and one-quarter for capital projects. Up to 10 percent of the capital investment fund to be created under SJR 61 could be appropriated annually, or 100 percent if voters approved.

PART THREE: TECHNICAL ISSUES

This part of the report describes the major technical problems that complicate the interpretation and implementation of Alaska's constitutional spending limit. All of these problems derive from a lack of specificity in the provisions of the spending limit definition.

The original intention behind SJR 4 was to define the spending limit in general terms in the Alaska Constitution, and then specify its technical aspects in statutory provisions. Such an approach conforms with the accepted practice of limiting constitutional language to statements of general principles, while placing in statutes (which can be changed by legislative action, if necessary) the specification of details that may have to be modified in the future. This minimizes the frequency of constitutional amendments, while preserving the flexibility for dealing with changing circumstances.

To date, however, no statutory explication of the spending limit's provisions has occurred. As a result, little consensus exists as to how the spending limit should be interpreted and applied, or whose responsibility that should be.

Responsibility For Determining The Limit

An important practical problem with the spending limit is the fact that no particular agency or entity (e.g., the Governor, the Legislature, etc.) is specifically assigned the responsibility for calculating it. As a result, when the Governor prepares the budget, and when the Legislature subsequently modifies it, each can use their own calculations as to what the spending limit is.

This has not been a major problem to date, because the spending limit (by everyone's calculation) has generally grown increasingly higher than the amount of unrestricted revenue actually available for appropriation. The potential for a problem does exist, however, especially in view of the ambiguity about how to properly adjust the limit for annual population and inflation changes.

Particularly if the State's revenue receipts were to exceed the spending limit at some point in the future, the question of who determines the spending limit could assume a strategic importance. A governor, for example, might wish to calculate a "low" spending limit in order to restrain appropriations, perhaps in response to public demands to decrease budget growth. Similarly, legislators might wish to calculate a "low" spending limit in order to force some of a governor's capital project priorities onto the ballot. The point is simply that, by not having responsibility assigned for determining the limit, an opportunity is created for the pursuit of such strategems.

Adjusting The Limit For Population And Inflation

There is probably no greater technical problem associated with the spending limit than that of adjusting the limit annually for changes in population and inflation. The problem stems not from the fact that the adjustments are difficult to make mathematically, /20 but rather from the fact that an explicit method for making them has not to date been statutorily enacted. /21

The only assistance that the spending limit definition itself provides, in fact, is that the estimates of annual change be "derived from federal indices". (Federal indices were specified in the spending limit definition to minimize the potential for

20

The formula for making population and inflation adjustments to the base is:

$$SL = \text{Base} \times (1 + P) \times (1 + I)$$

where: "SL" is the spending limit or maximum appropriation amount allowed, "Base" is equal to \$2.5 Billion, "P" is the cumulative population increase since July 1, 1981 (expressed as a percentage), and "I" is the cumulative inflation increase since July 1, 1981 (expressed as a percentage).

21

A number of bills have been introduced since 1982 to implement the population and inflation adjustment (and other technical) provisions of the spending limit, but none have been enacted. A partial list, showing the date of introduction and the sponsor(s) within parentheses, includes: **SB 814** (2/18/82, Governor Jay Hammond); **SB 60** (1/19/83, Senator Arliss Sturgulewski); **SB 326** (1/84, pre-filed, Senator Frank Ferguson); **HB 524** (1/18/84, Representative Al Adams); **Committee Substitute for Sponsor Substitute for SB 326** (1/26/84, Senate Judiciary Committee); and **SJR 2** (1/14/85, Senators Frank Ferguson and Edna DeVries).

pressure or manipulation that might arise if a particular State agency were responsible for making the population and inflation estimates that establish the annual limit.)

The problem caused by this situation is important, because population and inflation adjustments to the spending limit can be made in a great variety of ways--each yielding a very different spending limit for any particular fiscal year.

The answers to several important questions, therefore, need to be specified in law. These questions are:

- o **What population index should be used to measure population changes since July 1, 1981?**
- o **What inflation index should be used to measure inflation changes since July 1, 1981?**
- o **Over what period should population and inflation changes be measured?** Specifically, if July 1, 1981, is the starting-point of the period, what should be its end-point?

These questions are discussed briefly below. It should be kept in mind, however, that many very technical considerations surround the particular question of which population and inflation indices to use. These include considerations of (e.g.): just what a particular index measures, and whether factors like sampling error are significant; how missing data (for certain periods of time) are handled in the index's data series; whether there have been changes since July 1, 1981, in the method by which the

index is formulated; and other factors such as the frequency of revisions or updates to past values of the index, the timing of the index's publication (relative to when Alaska legislators and public officials would need to use the index), etc.

Two points need to be kept in mind, consequently. One is that a precise methodology for making population and inflation adjustments to the spending limit needs to be established and defined in law. The second is that a great deal of thought should precede the adoption of any particular methodology.

A. Population Indices

Several choices exist in selecting a federal or federally derived index for measuring population change in Alaska.

One available index is the trend (continuously compounded rate of change) between the population estimates for Alaska made during the two previous federal decennial censuses; i.e., those of 1970 and 1980. This index provides a fairly solid basis for making population estimates, as it is easy to understand and is based on actual enumerations (head-counts) rather than on estimates. By the same token, however, the decennial trend is a poor indicator of short-term and very recent population fluctuations. It is much more useful for charting long-term changes. /22

22

The 1980 census, in particular, also has been widely criticized in Alaska and elsewhere as having under-enumerated local populations.

A second population index that could be used is the annual estimate of Alaska's population made by the U.S. Bureau of the Census. This index is more responsive to short-term population fluctuations in Alaska, but suffers from frequent updates and revisions. Also, because it is produced specifically for the purpose of allocating funds under the federal general revenue sharing program, the chance exists that it might be dropped altogether if the federal revenue sharing program were to be eliminated.

Yet a third index that could be used is the annual estimate of Alaska's population made by the Alaska Department of Labor. It is not clear whether this index would meet the criterion of being "derived from federal indices", however, even though it is annually certified by the federal government. Also, since the estimate has to date been made in July (too late to be of use for the Legislature), a change in the timing of its preparation might result in inconsistencies with past estimates in the series.

B. Inflation Indices

As with population indices, there are many inflation indices from which to choose.

The most commonly used index of inflation is the Consumer Price Index (CPI), which is released bimonthly by the U.S. Department of Labor's Bureau of Labor Statistics. A national CPI is

developed, as well as a CPI for major metropolitan areas such as Anchorage. /23

The advantages of using the Anchorage CPI is its high degree of public familiarity, and its relatively direct measurement of (and responsiveness to) cost and price movements in the Alaska economy. Even though the Anchorage CPI does not reflect economic conditions in Alaska's rural areas, it at least implicitly recognizes that social and economic conditions in Alaska are significantly different from conditions in other states.

The main disadvantage of the CPI is that it doesn't particularly focus on the costs incurred in providing government services. It measures the price of goods that a typical consumer buys in the market--which is not at all the same as the mix of goods and services that are provided by government.

A federal index that does measure price changes in the cost of providing government services is contained in the data series "Implicit Price Deflators for Government Purchases of Goods and Services by Type - State and Local". This index is issued quarterly in the Survey of Current Business published by the U.S.

23

Two CPI indices are in fact issued for standard metropolitan areas such as Anchorage. One is the CPI for All Urban Consumers (CPI-U), which measures changes in the price of market purchases by all urban dwellers; the other is the CPI for Urban Wage Earners and Clerical Workers (CPI-W), which measures changes in the price of market purchases by all urban labor force members. The CPI-U is the more inclusive measure, generally covering about twice as many people as the CPI-W, and usually produces a higher inflation rate than the CPI-W.

Department of Commerce's Bureau of Economic Analysis., and measures price changes in the commodities and services purchased by state and local governments across the nation.

The main advantage of this index is its focus on the purchases of goods and services made by governments. Its main disadvantage is that it is a national index, and is weighted only very slightly for Alaska (as opposed to large states like California). It does not reflect very well the kinds of government costs incurred in Alaska, and therefore would not be very responsive to trends and events within the Alaska economy.

C. Adjustment Period

In addition to not specifying which population and inflation indices to use, the spending limit definition also is not clear about the duration of the period over which population and inflation changes should be measured. Specifically, the spending definition is clear that the starting-point of the period to be measured is July 1, 1981. The definition is silent, however, as to what the end-point of the period should be.

Several options exist. One is that, in calculating the spending limit for a given fiscal year, the end-point should be the start of that fiscal year (July 1). Another is that the end-point should be the end of that fiscal year (June 30). Yet another is that the end-point should be somewhere during that fiscal year.

The logical choice would seem to be to set the end-point of the period as the end of the fiscal year being budgeted, as it is the combined population and inflation change throughout that year which needs to be encompassed (in order to keep spending constant in real per capita terms, relative to the preceding fiscal year).

Using this approach will lead to an additional complication, however; namely, the need to forecast future population and inflation rates over the course of the coming fiscal year. This will obviously bring its own set of problems, and require explicit statutory specification of the procedure and methodology for making those forecasts.

Two points may be drawn from all this. One is that, until a specific methodology for annually adjusting the spending limit is enacted in statute, the question of who sets the limit will remain critical, because the limit (which is very sensitive to population and inflation adjustments) will remain subject to the policy objectives of executive or legislative branch leadership.

The second point is simply to note how difficult it can be to implement seemingly straightforward ideas.

Definition Of The Base

The spending limit establishes a fixed-amount base of \$2.5 billion, which is then adjusted for population and inflation changes

in determining the limit applicable to a particular fiscal year. This approach is particularly risky for a state such as Alaska, whose dependence on oil can cause great volatility in the amount of revenue received each year.

Also, because the fixed-amount base is adjusted annually for population and inflation changes, which are generally positive rather than negative, the limit tends to increase each year without regard to the amount of revenue actually available for appropriation. This factor has made the limit increasingly irrelevant in controlling State spending, ever since revenue receipts began declining in 1982. In fact, unless the State's revenue income were to increase very dramatically in the future (and keep increasing thereafter), it is unlikely that the spending limit will ever be binding.

Allocation For Capital Project And Loan Appropriations

One of the most controversial aspects of the spending limit is the language allocating appropriations for capital projects and loans; i.e., "Within this limit, at least one-third shall be reserved for capital projects and loan appropriations."

The provision is controversial because little agreement exists on how to interpret it when the amount of revenue available falls below the level set by the spending limit. This creates a problem, because different interpretations of the language lead to

significantly different results, with widely varying effects on the State's operating and capital budgets.

For example, one interpretation can be that **one-third of the amount actually appropriated for budget items subject to the spending limit** must be reserved for capital projects and loan appropriations. If the situation were such that the spending limit were established at \$4.5 billion (which is close to the FY 1987 limit of approximately \$4.6 billion), the State had a total of \$2.4 billion in unrestricted revenue available for appropriation, and the amount of appropriations subject to the limit equalled \$1.8 billion, then this criterion would require an appropriation of **\$600 million for capital projects and loans** (one-third of \$1.8 billion), **leaving \$1.8 billion available for operating appropriations** (\$2.4 billion minus \$600 million).

A second interpretation, however, can be that **one-third of the amount established as the spending limit** must be reserved for capital projects and loan appropriations. If this is the case, then the reserve amount required would be **\$1.5 billion for capital projects and loans** (one-third of \$4.5 billion), **leaving \$900 million available for operating appropriations** (\$2.4 billion minus \$1.5 billion). /24

24

Whenever the amount of revenue available for appropriation is less than the ceiling set by the spending limit (which has occurred in the last three of the four years that the limit has been in effect), this interpretation leaves the least amount of revenue available for operating budget appropriations.

Yet a third interpretation can be that **one-third of the amount of unrestricted revenue available for appropriation** must be reserved for capital projects and loan appropriations. If this is the case, then the reserve amount required would be **\$800 million for capital projects and loans** (one-third of \$2.4 billion), leaving **\$1.6 billion available for operating appropriations** (\$2.4 billion minus \$800 million).

Still another interpretation has been offered by the Department of Law, which is that **the one-third reserve requirement may not apply at all** if the amount of available revenue is less than the appropriation ceiling set by the limit. /25 This interpretation, offered in a February 7, 1983, Attorney General's opinion, was disputed by a number of legislators but never challenged in court. /26

25

See discussion on pp. 15-18 of Attorney General's opinion cited in Note 4.

26

Senator Rick Halford, who had been the House majority leader in 1981 when the spending limit resolution was passed, informed Attorney General Norman Gorsuch in a February 11, 1983 memorandum that this interpretation was "not consistent with my intent or my perception of the intent of the majority of the supporters of the amendment in the House at the time of passage." Halford informed Gorsuch in the same memorandum that the "correct" interpretation of the allocation provision was that up to two-thirds of the amount set as the limit could be allocated to operating budget appropriations, with any remainder to be allocated to capital projects and loan appropriations.

House Speaker Joe Hayes, House Majority Leader Ramona Barnes and House Finance Committee Chairman Al Adams also expressed their general discontent with the February 7 opinion in a February 18, 1983, letter to Attorney General Norman Gorsuch.

A different kind of problem altogether concerns the relationship between the one-third reserve requirement (regardless of its interpretation) and the governor's constitutional veto authority. Specifically, if the Legislature adopted a budget meeting a one-third/two-thirds allocation requirement, any veto of any item by a governor would upset that ratio. The spending limit definition is therefore unclear as to whether the one-third reserve requirement or a governor's veto authority would supercede the other (although nothing in the record of the limit's adoption indicates that the spending limit was intended to limit or condition in any way the constitutional veto power of Alaska governors.)

Overall, therefore, it is clear that the manner in which this particular provision of the spending limit definition is interpreted can produce extremely divergent effects on the State's operating and capital budgets, as well as a certain degree of ambiguity about the spending limit's relationship to the gubernatorial veto power. As such, the provision should certainly be clarified through statutory language.

Definition Of "Capital Projects"

The lack of a definition of "capital projects" impedes application of the spending limit's requirement (however interpreted) that one-third of the appropriations within the limit shall be reserved for capital projects and loan appropriations.

The definitional problem stems from the fact that the Alaska Constitution uses the term "capital improvements" (e.g., in defining the authority for incurring state and local debt in Sections 8-9 of Article IX), rather than the term "capital projects".

When SJR 4 was first introduced, it employed the term "capital improvements" in order to be consistent with usage of that term in the Constitution. When the second free conference committee on SJR 4 took up the resolution, however, the term "capital improvements" was changed to "capital projects". /27 The distinction between the two terms has not been clarified to date, the only consensus being that the term "capital projects" probably was intended by the SJR 4 conferees to be more inclusive than the constitutional term "capital improvements". /28

A rule of thumb used by the executive branch in budget preparations is that a capital project is an asset that costs \$25,000 or

27

See discussion on p. 21 of Attorney General's opinion cited in Note 4. Also see general discussion on pp. 20-23.

28

Ibid., pp. 22-23. The meaning and intent of "capital projects" in this context is complicated by Senator Bill Ray's comment at the time that capital projects are "what the definitive judgement of a majority of the legislature determines they are." (Cited on p. 21 of the Attorney General's opinion. See the discussion beginning at page 21, line 17, in the transcript of the July 13, 1981, proceedings of the Free Conference Committee on SJR 4. Senator Ray's remark appears on page 22.)

more, has an anticipated life of more than one year, and produces recurring or long-lasting benefits to the public. /29 It is not clear, however, whether this working definition satisfies the intent of the term "capital projects" as it appears in the spending limit definition.

The lack of a definition of "capital projects" also complicates interpretation of the spending limit's requirement that each bill for appropriations for capital projects in excess of the limit shall be confined to capital projects "of the same type", because neither term has been defined to date.

The term "loan appropriations", while not defined in statute, does not appear to present a major problem, as it is customarily understood to include appropriations of money for a loan fund or appropriations of a subsidy amount for a loan program. "Loan appropriations" does not usually include, however, nor did the framers of SJR 4 apparently intend it to include, the appropriation of bond proceeds for loan programs. /30

29

See March 29, 1983, letter from Budget Director Gene Dusek, Office of the Governor, to House Finance Committee Chairman Al Adams. The letter contains additional, detailed criteria for identifying capital projects.

30

See October 6, 1981, memorandum from Legislative Counsel James H. Lear, Legislative Affairs Agency, to Legislative Budget And Audit Committee Chairman Arliss Sturgulewski, p.6.

Unexpended And Unappropriated Balances

The spending limit definition requires that any "unexpended and unappropriated balances" must be invested so as to yield competitive market rates to the State's treasury. Presumably, this means that individual investments must yield a market rate of return, not that the overall rate of return must yield a market rate.

PART FOUR: FISCAL IMPACT OF THE SPENDING LIMIT

This part of the report describes the fiscal impact of Alaska's constitutional spending limit. Essentially, it tries to answer the question of whether the spending limit has "worked" in any meaningful way.

Effect On Appropriations

Two factors, in particular, make it difficult to assess whether the spending limit has acted to control or limit State spending. One is the fact that certain categories of spending (e.g., appropriations for federal funds, debt service on general obligation bonds, etc. /31) are exempt from the limit. Thus, spending growth in those areas is not controlled by the limit, or intended to be. The second is the fact that the State's unrestricted revenue receipts have declined steadily since the spending limit was put into place. This makes it difficult to determine whether any declines in appropriations that may have occurred are due to the effects of the spending limit, or are simply due to the fact that less money has been available to appropriate.

31

These exemptions are itemized in the spending limit definition (Section 16, Article IX, of the Alaska Constitution).

Certain bench marks allow at least a gross evaluation of the limit's effectiveness, however, and indicate that the limit has had little or no effect on overall State appropriations.

Table 3, for example, shows that even the total amount of unrestricted revenue appropriations (a category which includes more items than those covered by the spending limit) has exceeded the spending limit in only one of the four years during which the limit has operated. The implication of this, particularly in view of the revenue decline shown in the table, is that falling revenue has done more to constrain State spending than any effects of the spending limit. (See Table 3.)

Table 4, which compares with the spending limit only those appropriations which were subject to the spending limit, shows this even more clearly. As can be seen, not only has the spending limit never been exceeded, but the chances of exceeding it have become increasingly unlikely. /32 (See Table 4.)

32

In general, appropriation amounts have fallen below the level set by the spending limit for two reasons. One is the revenue decline experienced in recent years. The second is the steady elevation of the limit produced by the fact that a fixed-amount base is being adjusted annually for population and inflation changes. So long as Alaska's population continues to increase and inflation rates remain greater than zero, the appropriation ceiling set by the spending limit will continue to rise.

*
TABLE 3

TOTAL UNRESTRICTED REVENUE APPROPRIATIONS
VERSUS THE SPENDING LIMIT

FY 1984 - FY 1987

(\$Millions)

For FY	Unre- stricted Revenue	Spending Limit	Total Unres- tricted Revenue Appropriations	Amount By Which Appropriations Exceed (Fall Below) The Limit
84	3,390	2,980	3,011	31
85	3,260	3,654	3,620	(34)
86	2,679	3,998	3,060	(938)
87	2,078	4,652	2,456	(2,196)

*

Revenue figures shown for FY 1987 are based on the Department of Revenue's March 1986 revenue forecast. FY 1987 appropriation amounts shown do not include supplemental appropriations and do not reflect budget reductions announced after the release of the June 1986 revenue forecast. Special Permanent Fund deposits attributed to FY 1984 and FY 1985, as well as other extraordinary appropriation items, are included in the appropriation amounts shown.

Source: Office of Management and Budget.

★
TABLE 4

UNRESTRICTED REVENUE APPROPRIATIONS
SUBJECT TO THE SPENDING LIMIT

FY 1984 - FY 1987

(\$Millions)

For FY	Spending Limit	Appropriations Subject To The Limit	Amount By Which Appropriations Exceed (Fall Below) The Limit
84	2,980	2,739	(241)
85	3,654	3,355	(299)
86	3,998	2,790	(1,208)
87	4,652	2,157	(2,495)

★
FY 1987 appropriation amounts shown do not include supplemental appropriations and do not reflect budget reductions announced after the release of the June 1986 revenue forecast. Special Permanent Fund deposits attributed to FY 1984 and FY 1985, as well as other extraordinary appropriation items, are included in the appropriation amounts shown.

Source: Office of Management and Budget.

Effect On Appropriations For Capital Projects And Loans

As discussed earlier, substantial problems of interpretation have surrounded the spending limit definition's requirement that "within this limit, at least one-third shall be reserved for capital projects and loan appropriations." /33

Specifically, the spending limit definition is unclear as to whether appropriations for capital projects and loans should equal one-third of:

- o the amount of unrestricted revenue appropriated for items subject to the spending limit ("**apropriation amount**" criterion);
- o the amount established as the spending limit ("**limit amount criterion**"); or,
- o the amount of unrestricted revenue available for appropriation ("**revenue amount criterion**").

While it is unclear as to which of the above criteria the framers of the spending limit may have had in mind, and in spite of the fact that the State has followed a consistent policy of not applying the one-third allocation criterion for capital projects and loans (in accordance with the 1983 Attorney General's

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See the section on "Allocation For Capital Projects And Loan Appropriations" in Part Three.

opinion), /34 it may be informative to determine whether appropriations for capital projects and loan appropriations have met any of the three criteria during the four years of the spending limit's operation. As shown in Tables 5-7, it is clear that they have not, coming close only for FY 1985. (See Tables 5-7.)

Many factors, of course, have influenced capital project and loan appropriation decisions during the past four years, not the least of which have been declining revenues and uncertainty about how to interpret the one-third reserve requirement. Nonetheless, it seems at least clear that the spending limit was not one of those factors.

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Cited in Note 4.

TABLE 5
ONE-THIRD OF "APPROPRIATION AMOUNT" CRITERION
FOR CAPITAL PROJECTS AND LOAN APPROPRIATIONS

(\$Millions)

For FY	★		★★	
	Approp- riations Subject To Limit	Operating	Capital Projects Plus Loans	Percentage For Capital Plus Loans
84	2,439	1,747	691	28.3%
85	3,055	2,009	1,046	34.2
86	2,651	2,017	634	23.9
87	2,157	1,871	286	13.3

★

Excludes FY 87 supplemental appropriations and budget reductions announced after release of the June 1986 revenue forecast.

★★

Excludes extraordinary items.

Source: Office of Management and Budget.

TABLE 6
ONE-THIRD OF "LIMIT AMOUNT" CRITERION
FOR CAPITAL PROJECTS AND LOAN APPROPRIATIONS
(\$Millions)

<u>For FY</u>	<u>Spending Limit</u>	[*] <u>Capital Projects Plus Loans</u>	<u>Percentage</u>
84	2,980	691	23.2%
85	3,654	1,046	28.6
86	3,998	634	15.9
87	4,652	286	6.2

^{*}
Excludes extraordinary items.

Source: Office of Management and Budget.

TABLE 7
ONE-THIRD OF "REVENUE AMOUNT" CRITERION
FOR CAPITAL PROJECTS AND LOAN APPROPRIATIONS
(\$Millions)

<u>For FY</u>	[*] <u>Unre- stricted Revenue</u>	^{**} <u>Capital Projects Plus Loans</u>	<u>Percentage</u>
84	3,390	691	20.4%
85	3,260	1,046	32.1
86	2,679	634	23.7
87	2,078	286	13.8

^{*}
March 1986 Revenue Forecast (Department of Revenue).

^{**}
Excludes extraordinary items.

Source: Office of Management and Budget.

SUMMARY: PRO'S AND CON'S OF THE SPENDING LIMIT

Alaska voters will have the option this November of voting "yes" or "no" on the State's constitutional spending limit (Ballot Measure No. 1 - Reconsideration of Amendment Limiting Increases in Appropriations). If a majority of those voting on the measure favors the measure, the limit will be retained. If a majority votes against the measure, the limit will be repealed. (In either event, the statutory spending limit contained in AS 37.05.156, which lacks constitutional force, will remain in effect.) /35

In reaching a decision about the constitutional spending limit, however, voters will face several obstacles.

For one thing, the limit is embodied in a definition whose provisions, formulas, and technical terms (and the special treatment often afforded them) may not be readily understandable to those outside of State government. For another, the definition itself contains a number of ambiguities and technical problems which

have led to fundamental disagreements, even within state government circles, about how the spending limit should be interpreted and applied.

Probably the most important factor complicating the decision for voters is the turn-about in the State's income and fiscal outlook that began in the very year that the limit was adopted. This turn-about masks the performance of the spending limit during its four years of operation, and complicates easy determination of whether the limit has "worked" or not; or if it has, in what way.

These factors notwithstanding, however, it is still possible to draw some broad conclusions about the spending limit that may help in deciding whether it should be retained or not.

On the negative side of the ledger, as already mentioned, the spending limit definition has a number of important technical flaws and ambiguities. These include the fact that no one (no single agency, entity, or branch of state government) has the responsibility for annually calculating the limit. More importantly, no clear methodology has been adopted for making the population and inflation adjustments that annual adjustment of the limit requires. Additionally, no consensus has been reached about how to implement the provision requiring that one-third of something should be allocated for capital projects and loan appropriations, or even how to define what is meant by a "capital project".

In fairness, it should be pointed out that most of these technical problems are due primarily to the fact that the general provisions of the constitutional definition of the limit have never been implemented through clarifying statutory provisions.

Beyond these factors, the spending limit may be viewed as somewhat deficient in an overall sense, because of two factors that would not be clarified by implementing language. One is the fact that the limit does not apply to all categories of State spending, and is thus not a particularly strict or efficient limitation on spending. The other is the attribution approach employed by the spending limit definition (whereby appropriations for a fiscal year are limited, regardless of when enacted, instead of the appropriations enacted during a given period of time), which in some circumstances can make it difficult to determine whether or how well the limit may be working.

Most important of all, perhaps, is the difficulty one encounters in attempting to conclude that the spending limit has had, in any meaningful sense, a significant effect on State spending in Alaska. The limit has never been exceeded, but that is primarily because the fixed-base formula used in calculating it causes the appropriation "ceiling" it establishes to rise higher and higher with each passing year. If the State's revenue income were to rise as fast as that ceiling, it's conceivable that the limit might act as some kind of a brake on spending. But especially in view of the revenue downturn that has occurred, and the current

outlook for a flat stream of revenue income in the future, /36 it may be that the spending limit (at least in its present form) will never attain its purpose of limiting or controlling State spending.

Still, even if this spending limit doesn't work, might it nevertheless be the case that Alaska still needs some kind of a spending limit? Might there not still be a need to control State spending, even if the kind of control needed is different from the kind that was needed four years ago? After all, what will be left if the current spending limit is repealed? In short, might it not be worth "repairing" the current spending limit, rather than simply abandoning it?

On the positive side of the ledger, therefore, rests the fact that at least the spending limit is a spending limit. In the absence of anything else, it at least stands as a constitutional imperative that State spending shall be restrained, and in this regard establishes an important and vital precedent and statement of constitutional intent. Certainly the limit has its flaws, and

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There are some litigation cases in progress (chiefly involving oil-related claims of the State) that could result in the State's receiving upwards of hundreds of millions of dollars in settlement income in the future. It is also possible that oil prices might escalate dramatically before production declines at Prudhoe Bay significantly lessen the revenue implications of such price hikes for the State. For the most part, however, the fiscal outlook for as far as can currently be seen into the future is that the State's revenue income will remain fairly close to current levels, if not lower.

ambiguities; but equally certainly, those imperfections probably would be ironed out in law, and promptly, if the State's revenue income were suddenly to turn around again and start increasing rapidly. Under such circumstances, it seems likely indeed that, even with its imperfections, the spending limit would in fact become binding, and act to limit State spending. Also under such circumstances, it's likely that the spending limit's constitutional basis would prove extremely valuable in forcing the the continued containment of spending; far more effective, for example, than a statutory limitation on spending might prove.

Beyond these factors, it is worth noting too that the spending limit accomplishes some important objectives. One, which would quickly become relevant if revenue income began to rise, is that the limit may be overridden (with the approval of voters) to allow special appropriations to the Alaska Permanent Fund. In this respect, the limit does not penalize savings. Another is that, by a similar process, the limit can be overridden to allow special capital projects that voters may demand. In this respect, the limit may be viewed as very sensitive to the desires of Alaskans, at least with regard to capital projects.

Additionally, there are two important aspects of the spending limit definition that bear keeping in mind, as they would be lost if the limit were repealed. One is the line item veto power over bonding propositions that the definition currently gives Alaska governors. The other is the definition's requirement that all

unexpended balances in the State treasury must be invested so as to provide a market rate of return, thus preventing the use of general fund money for less economically beneficial purposes. These two provisions alone are of fundamental importance, even apart from considerations of the spending limit's vices or virtues. Depending on how one views them, it might be wise to think hard before abandoning them by voting to repeal the limit.

Unfortunately, voters will not have a vast range of options when they confront the spending limit ballot measure this November. They will have the choice only of voting yes, and keeping the current limit with all of its warts; or voting no, and sending it down. If they choose to keep the limit, the process of improving it (which will require amendment of the Alaska Constitution) may be arduous. If they repeal it, all that will be left in terms of formal spending controls will be the statutory spending limit that was adopted during the 1986 legislative session, which lacks the strength of constitutionality. **See Appendix C for a description of the two limits and their relationship.)**

Given this black-or-white choice, voters may well feel uncomfortable with either option. Nevertheless, the question stands: will it be easier to improve something that resists improvement, or to build something entirely new, from scratch? That is the question that voters will have to answer for themselves come November.

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APPENDICES

- Appendix A** - Ballot Measure No. 1 (1986)
- Appendix B** - Ballot Measure No. 4 (1982)
- Appendix C** - Comparison of Constitutional and Statutory Spending Limits
- Appendix D** - Ballot Returns (1982)
- Appendix E** - Chronology of SJR 4 (1981)
- Appendix F** - "Minority Report" on SJR 4 (1981)

- - Appendix A - -

BALLOT MEASURE NO. 1 - 1986 GENERAL ELECTION

The 1986 voter's pamphlet prepared by the Division of Elections for the November 1986 general election will contain the summary shown below for the constitutional spending limit ballot measure (Ballot Measure No. 1). The summary will not contain pro and con statements because none were submitted by interested parties prior to the Division's published deadline for submissions. **(The voter's pamphlet for the 1982 general election, however, did contain pro and con statements on the spending limit measure, Ballot Measure No. 4, as well as a more comprehensive summary of the limit - see Appendix B.)**

SUMMARY

"In 1982 the voters adopted an amendment to the Alaska Constitution which limits the amount of money that the legislature may appropriate. The 1982 amendment provided for reconsideration of the limit by the voters at this general election. Article IX, sec. 16, of the Alaska Constitution limits appropriations for a fiscal year to \$2.5 billion, adjusted annually for changes in population and inflation since 1981. At least one-third of the limitation amount is reserved for appropriations for capital projects and state loan programs. The remainder (up to two-thirds) may be spent for governmental operations. Appropriations to the Alaska Permanent Fund and appropriations or bond authorizations for capital projects may exceed this limit if they are not vetoed by the governor and are approved by the voters. The limit could also be exceeded to meet a state of disaster declared by the governor. The limit would not apply to appropriations for Permanent Fund dividends, general obligation bond payments, or for appropriations from revenue bond proceeds.

A vote "FOR" retains the appropriation limit. FOR []

A vote "AGAINST" repeals the appropriation limit. AGAINST []"

(Summary provided by the Division of Elections, State of Alaska)

- - Appendix B - -

BALLOT MEASURE NO. 4 - 1982 GENERAL ELECTION

The 1982 voter's pamphlet prepared by the Division of Elections contained a full summary and description of the constitutional spending limit ballot measure (Ballot Measure No. 4), including pro and con statements prepared by interested parties. That summary and description appears on the pages which follow. (See **Appendix A for the spending limit summary prepared by the Division of Elections for the November 1986 general election.**)

BALLOT MEASURE NO. 4

Constitutional Amendment

AMENDMENT LIMITING INCREASES IN APPROPRIATIONS

(Free Conference Committee Substitute for Senate Joint Resolution No. 4)

SUMMARY

(As it will appear on the November 2, 1982 General Election Ballot)

This amendment adds a new section to article IX of the Alaska Constitution. The section limits appropriations for a fiscal year to \$2.5 billion, adjusted annually for changes in population and inflation since 1981. At least one-third of the limitation amount is reserved for appropriations for capital projects and state loan programs. The remainder (up to two-thirds) may be spent for governmental operations. Appropriations to the Alaska Permanent Fund and appropriations or bond authorizations for capital projects may exceed this limit if they are not vetoed by the governor and are approved by the voters. The limit could also be exceeded to meet a state of disaster declared by the governor. The limit would not apply to appropriations for permanent fund dividends, general obligation bond payments, appropriations from revenue bond proceeds, or for costs associated with relocation of the capital (if Ballot Measure No. 8 is passed). The amendment provides for reconsideration of the limit by the voters at the 1986 General Election.

BALLOT FORM:

A vote "FOR" adopts the amendment.

A vote "AGAINST" rejects the amendment.

FOR ☐

AGAINST ☐

VOTE CAST BY MEMBERS OF 12TH STATE LEGISLATURE ON FINAL PASSAGE

Senate	(20 members):	Yeas <u>15</u>	Nays <u>4</u>	Absent or Not Voting <u>1</u>
House	(40 members):	Yeas <u>27</u>	Nays <u>13</u>	Absent or Not Voting <u>0</u>

LEGISLATIVE AFFAIRS AGENCY SUMMARY

(As required by law)

The proposed amendments to the Constitution of the State of Alaska would impose a limit on the amount of money that could be appropriated from the state treasury for a state fiscal year. The limit for a fiscal year would be \$2,500,000,000 plus an amount representing cumulative changes in population and inflation from July 1, 1981, to the fiscal year in question. Within the limit on appropriations, one-third of the amount available to be appropriated would be reserved for capital projects and loan appropriations.

The following appropriations would be exempt from the limit on appropriations:

1. an appropriation for Alaska permanent fund dividends;
2. an appropriation of revenue bond proceeds;
3. an appropriation to pay principal and interest on state general obligation bonds;
4. an appropriation of money received from non-state sources in trust for specific purposes;
5. an appropriation to the Alaska Permanent Fund if the appropriation bill is approved by the governor, becomes law without the signature of the governor, or is passed by a three-fourths vote of the membership of the legislature over the veto of the governor; and is approved by the voters as prescribed by law;
6. an appropriation for capital projects if the appropriations bill is confined to projects of the same type; is approved by the governor, becomes law without the signature of the governor, or is passed by a three-fourths vote of the membership of the legislature over the veto of the governor; and is approved by the voters as prescribed by law after the voters are informed of the cost of operations and maintenance of the proposed projects; and
7. an appropriation to meet a state of disaster declared by the governor, as prescribed by law.

BALLOT MEASURE NO. 4 (Cont.)

LEGISLATIVE AFFAIRS AGENCY SUMMARY (cont.)

The ballot measure also includes three transitional measures associated with the appropriations limit. If the voters approve both the appropriations limit and the cost of providing for relocation of the capital, additional voter approval of appropriations for relocation of the capital would not be required under the appropriations limit. If the appropriation limit is adopted the same proposition must be placed on the 1986 ballot for a second vote and if it is rejected in 1986 the appropriation limit would be repealed. The appropriation limit would apply to appropriations made for the state fiscal years beginning July 1, 1981, and thereafter.

FULL TEXT OF PROPOSED CONSTITUTIONAL AMENDMENT

SECTION 16. APPROPRIATION LIMIT. Except for appropriations for Alaska permanent fund dividends, appropriations of revenue bond proceeds, appropriations required to pay the principal and interest on general obligation bonds, and appropriations of money received from a non-State source in trust for a specific purpose, including revenues of a public enterprise or public corporation of the State that issues revenue bonds, appropriations from the treasury made for a fiscal year shall not exceed \$2,500,000,000 by more than the cumulative change, derived from federal indices as prescribed by law, in population and inflation since July 1, 1981. Within this limit, at least one-third shall be reserved for capital projects and loan appropriations. The legislature may exceed this limit in bills for appropriations to the Alaska permanent fund and in bills for appropriations for capital projects, whether of bond proceeds or otherwise, if each bill is approved by the governor, or passed by affirmative vote of three-fourths of the membership of the legislature over a veto or item veto, or becomes law without a signature, and is also approved by the voters as prescribed by law. Each bill for appropriations for capital projects in excess of the limit shall be confined to capital projects of the same type, and the voters shall, as provided by law, be informed of the cost of operations and maintenance of the capital projects. No other appropriation in excess of this limit may be made except to meet a state of disaster declared by the governor as prescribed by law. The governor shall cause any unexpended and unappropriated balance to be invested so as to yield competitive market rates to the treasury.

SECTION 26. APPROPRIATIONS FOR RELOCATION OF THE CAPITAL. If a majority of those voting on the question at the general election in 1982 approve the ballot proposition for the total cost to the State of providing for relocation of the capital, no additional voter approval of appropriations for that purpose within the cost approved by the voters is required under the 1982 amendment limiting increases in appropriations (art. IX, sec. 16).

SECTION 27. RECONSIDERATION OF AMENDMENT LIMITING INCREASES IN APPROPRIATIONS. If the 1982 amendment limiting appropriation increases (art. IX, sec. 16) is adopted, the lieutenant governor shall cause the ballot title and proposition for the amendment to be placed on the ballot again at the general election in 1986. If the majority of those voting on the proposition in 1986 rejects the amendment, it shall be repealed.

SECTION 28. APPLICATION OF AMENDMENT. The 1982 amendment limiting appropriation increases (art. IX, sec. 16) applies to appropriations made for fiscal year 1984 and thereafter.

STATEMENT IN FAVOR OF BALLOT MEASURE NO. 4

Ballot Measure No. 4 deserves the support of all Alaskans. It will prevent the continuation of excessive state spending which has been the pattern in recent years. This spending spree is the result of more projects and more programs. Inflation and population growth have not played a major role.

For example, in 1960, the state budget was \$41 million, the population was 226,000, and the Consumer Price Index 103. In 1980, state spending was \$1.14 billion, the population 400,000, and the Consumer Price Index stood at 290. In Fiscal Year 1982, state spending (not including appropriations to the Permanent Fund), was \$3.84 billion. Population and Consumer Price Index figures have not been published for 1982, but if it is assumed that during the 1980-82 period state population increased to 440,000 and the Consumer Price Index rose to about 350, then between 1960 and 1982, state population increased 94% while the Consumer Price Index increased by 239%. But state spending increased by an astounding 9,265% during this same period.

The passage of Ballot Measure No. 4 will halt that sort of runaway government growth by providing a constitutional limit on most items of state spending. The limit is set at \$2.5 billion each year, adjusted for the

changes in population and inflation. At least one-third of the expenditures must be for capital projects and loans, thus, the day-to-day operating budget of the State is held to two-thirds of the limit, or a maximum of \$1.66 billion, plus adjustments. Provisions are made for additional capital expenditures which are approved by the people and for other expenditures in the event of a disaster declared by the governor.

Although it is true that the Fiscal Year 1983 budget is less than Ballot Measure No. 4 would permit, this relatively austere budget was passed during a time of rapidly falling revenue projections. Had this restraint not been present, there is little reason to believe that the Legislature would have deviated from its past practices of excessive spending.

While Ballot Measure No. 4 is not perfect and does not provide for all the limitations one might want, nevertheless, it is the only constitutional spending limit available. Only by voting to accept this ballot measure can the people of Alaska show their determination to restrain spending by the Legislature and begin the road back to state fiscal responsibility.

—Kent Edwards, President
Common Sense for Alaska, Inc.

STATEMENT AGAINST BALLOT MEASURE NO. 4

Only the first two sentences of this measure apply to a spending limitation; the remainder list seven exceptions for spending above the limit, only two of which make much sense: 1) putting money in the Permanent Fund; and 2) spending to clean up a disaster. The remaining five exceptions are loopholes that give legislators and the governor the ability to continue excessive spending on: A) bond authorizations for capital projects; B) issuance of Permanent Fund dividends; C) general obligation bond payments; D) appropriations from revenue bond proceeds; and E) costs of the Capital Move, if passed. All five of these expenditures can be over the spending limit.

But let's back up to those first two sentences. The biggest abuses in government spending are in the area of "capital expenditures," otherwise called "pork". After each capital project is built, it carries operating and maintenance costs. Whatever of the one-third in the limit we spend for capital projects, we are automatically adding to the cost of doing the state's business (the other two-thirds). We cannot continually add to the state's responsibilities and expect the operating two-thirds of the budget to be covered by an increase in population and inflation. We will quickly reach the point where each project built will necessitate cuts in social or educational programs, or will cause a cut in maintenance, leaving our capital projects to decay.

As if this weren't bad enough, let's add in loophole "A", bond authorizations for capital projects. If one-third of the usable revenues aren't enough for desired

and needed capital projects, the Legislature can issue an authorization for the State to sell bonds to build the project. If the governor does not veto the authorization, you will be asked to approve the sale of bonds at a general election. When we sell bonds to get money for projects, we later pay back the buyers—with interest. In loophole "C" we don't even have to count that payback against the spending limit!

Nothing in this measure lays out which projects will be included in the one-third capital limit and which will be put before the voters. As a legislator, I would guess that pet projects of key legislators will be in the budget so they won't be as easily seen by the public. Projects of statewide importance—jails and schools—will be put on the ballot. Each approved project will further impact the operating budget causing a deeper cut in programs and operations.

In addition, there is no provision for declining revenues. This "spending limit" is before you under the assumption we will have increasing revenues each year. That is not likely. As revenues decline, we would be foolish to continue to allocate one-third of our available revenues for building and loans when we will have continually less revenue for operations. In such a case, the only way to maintain government operations would be to increase personal taxes and return to a personal income tax.

We need a spending limitation, but this isn't it.

—Sally Smith, Representative
Alaska State Legislature

**A COMPARISON OF ALASKA'S CONSTITUTIONAL
AND STATUTORY SPENDING LIMITS**

Two spending limits currently govern the appropriations of the State of Alaska. One is a constitutional spending limit, which was adopted by voters in the November 1982 general election. The other is a statutory spending limit, which was enacted during the 1986 legislative session as part of the legislation establishing a Budget Reserve Fund.

The constitutional spending limit will be reconsidered by voters in the November 1986 general election (**see Appendix A**), and will be either retained or repealed. Regardless of the outcome, however, the statutory spending limit will remain in effect. Thus, the possibility exists that both spending limits will continue to govern State appropriations in the future.

The analysis presented below explains in general terms how the two limits work, and how they would affect appropriation levels under conditions of increasing or decreasing revenues.

Constitutional Spending Limit

The constitutional limit (Alaska Constitution, Article IX, Section 16) requires that appropriations enacted **for** a given fiscal year not exceed \$2.5 billion by more than the cumulative change in population and inflation since July 1, 1981. The formula for calculating this limit is therefore:

$$SL = \text{Base} \times (1 + P) \times (1 + I)$$

where "SL" is the spending limit or maximum amount allowed for appropriations enacted **for** a given fiscal year (*i.e.*, attributed to that fiscal year, regardless of the legislative session or sessions during which appropriations for that fiscal year are made), "Base" is equal to \$2.5 billion, "P" is the cumulative population increase since July 1, 1981 (expressed as a percentage), and "I" is the cumulative inflation increase since July 1, 1981 (expressed as a percentage).

Statutory Spending Limit

The statutory limit (AS 37.05.156; Chapter 58, SLA 86) requires that appropriations enacted during a given fiscal year not exceed the amount of appropriations made in the preceding fiscal year by more than five percent plus the change in population and inflation since the beginning of the preceding fiscal year. The formula for calculating this limit is therefore:

$$SL = A + .05 A + [A \times (1 + P) \times (1 + I) - A]$$

where "SL" is the spending limit or maximum appropriation amount allowed for appropriations made during a given fiscal year (i.e., regardless of the fiscal year or years to which those appropriations are attributed), "A" equals the amount of appropriations made during the preceding fiscal year, ".05 A" is the five percent increase allowed over the amount of appropriations made during the preceding fiscal year, "P" is the cumulative population increase since the beginning of the preceding fiscal year (expressed as a percentage), and "I" is the cumulative inflation increase since the beginning of the preceding fiscal year (expressed as a percentage).

Effects of the Two Limits

The definitions and formulas of the two limits are very different, and somewhat complex to grasp at first glance. The effects on spending (appropriations) that they produce, however, which are very different from each other, derive from fundamental and ultimately very simple differences.

Basically, the constitutional limit tends to increase or decrease dramatically (depending on whether population and inflation rise or fall, respectively). This is due to the fact that the constitutional limit is driven by its fixed-amount base of \$2.5 billion, and is extremely sensitive to cumulative population and inflation changes (as compounded over an increasingly long period of time, which also has a fixed base, 1981). Thus, the constitutional limit tends to either rise extremely rapidly (if population and inflation are rising), or fall extremely rapidly (if population and inflation are falling), regardless of what recent appropriation levels have been or how much money the State has available.

The statutory limit, by contrast, does not evidence such powerful swings. Nor is it, so to speak, a beast with a mind of its own. Its movement is more of a "trailing" phenomenon, as the limit is tied to very recent events; i.e., the appropriations, population changes and inflation changes that took place only during the immediately preceding year. Thus, the statutory limit tends to

establish a limit on appropriations that is relatively close to recent appropriation levels.

For these reasons, the constitutional limit tends to rise out of sight when population and inflation changes are positive (regardless of how much money the State has available), and plummet when those changes are negative. The result is an irrelevantly high limit in one case, and an extremely draconian limit in the other.

The statutory limit, in contrast, tends to rise gradually when population and inflation changes are positive, and fall equally gradually when those factors are negative (because the compounding occurs over only a one-year period). Moreover, the fact that the statutory limit is tied to the preceding year's appropriation level produces a "sea anchor" effect, tending to keep the appropriation limit in the general vicinity of last year's appropriation level. This dragging effect is even more pronounced when changes in the amount of money the State has run counter to the direction of population and inflation changes.

For example, starting at the State's current unrestricted revenue level of about \$2 billion, and assuming an average annual population growth in Alaska of 2 percent and an average annual inflation rate of 5 percent, the State's revenue income would have to grow by an average of about \$600 million a year before available revenues even caught up to the constitutional limit, which wouldn't even occur until fiscal year (FY) 1999.

In contrast, if revenue growth occurred that quickly, use of the statutory limit (which would begin constraining appropriations when annual revenue growth reached the \$245 million level) would produce surpluses above the statutory spending limit level that averaged about \$1.2 billion per year over the FY 1988-1999 period.

If the State's revenue income were to decline in the future, while population and inflation changes remained positive, neither limit would be binding on appropriations, as both limit levels would be higher than the amount of money available for appropriations. Were revenue income to fall while population and inflation also declined, however, the constitutional limit level would rapidly plunge below the level of revenue available, forcing budget reductions at an even faster pace than that dictated by dwindling money supplies.

Effects If Both Limits Are In Effect

If the constitutional limit is retained by voters in November, leaving both spending limits in effect, it is virtually certain that the statutory spending limit will first become binding on appropriations (under an extremely wide range of appropriation, population and inflation assumptions). For all practical purposes, consequently, the statutory limit would be the governing spending limit.

- - Appendix D - -

**1982 BALLOT RETURNS
ON THE SPENDING LIMIT QUESTION**

Shown below, by election district, are the November 2, 1982, voting returns on the constitutional spending limit question (Ballot Measure No. 4). The districts are ranked according to the percentage of votes in favor of adopting the limit.

Election District	Main Communities	Votes For	Votes Against	Percent For
15	Anchorage	6,018	3,034	66.5%
9	Anchorage	5,309	2,805	65.4
14	Anchorage	5,999	3,261	64.8
7	Anchorage	2,960	1,641	64.3
8	Anchorage	6,029	3,388	64.0
16	Palmer-Wasila	6,848	3,858	64.0
6	Valdez	2,551	1,471	63.4
18	Eilson-North Pole	2,954	1,725	63.1
13	Anchorage	4,961	2,907	63.1
11	Anchorage	5,277	3,098	63.0
10	Anchorage	5,392	3,183	62.9
5	Homer-Kenai	5,825	3,483	62.6
20	Fairbanks	5,706	3,534	61.8
19	Circle-Ft. Wain.	3,168	1,992	61.4
17	Glennallen-Tok	2,634	1,753	60.0
21	Chena-University	3,337	2,236	59.9
12	Anchorage	5,116	3,488	59.5
27	Kodiak	2,148	1,497	58.9
3	Sitka	2,740	1,956	58.3
1	Ketchikan-Wrangell	4,741	3,451	57.9
26	Dillingham-Unalaska	2,078	1,560	57.1
22	Barrow-Kotzebue	2,023	1,522	57.1
24	Fort Yukon-Galena	2,232	1,732	56.3
23	Nome-Unalakleet	2,096	1,632	56.2
2	Craig-Yakutat	2,428	1,904	56.0
4	Juneau	7,979	6,787	54.0
25	Bethel	2,120	1,933	52.3
TOTALS:		110,669	70,831	61.0%

Source: Office of Management and Budget, based on official voting returns data from the Division of Elections.

- - Appendix E - -

CHRONOLOGY OF SENATE JOINT RESOLUTION NO. 4

JANUARY-JULY, 1981

Below is a chronology of the principal legislative events during 1981 involving the passage of Senate Joint Resolution No. 4 (SJR 4), which proposed a constitutional spending limit (limit on appropriations) for the State of Alaska. SJR 4 was adopted by voters in the November 1982 general election.

Numbers in brackets refer to page numbers in the 1981 journals of the Alaska Legislature (H = House, S = Senate, FSS = First Special Session).

1981--Regular Legislative Session

- 1/12 Twelfth Legislature convenes in Juneau.
- 1/13 SJR 3 (Colletta) introduced in the Senate; referred to Community and Regional Affairs Committee and Finance Committee. [S 14]
- SJR 4 (Governor-Rules) introduced in the Senate; referred to Transportation, Judiciary and Finance Committees. Resolution is accompanied by a transmittal letter from the Governor. [S 14-16]
- 3/26 SJR 4 passes to Senate Judiciary Committee after Senator Ray (chairman, S-Trans) waives referral. [S 559]
- 5/5 Senate Judiciary Committee adopts substitute for SJR 4, CS SJR 4 (Jud). Senators Rodey (chairman, S-Jud) and Ray vote do pass; Senator Parr votes no recommendation. CS SJR 4 (Jud) moves to Senate Finance Committee. [S 956]

6/11 Senate Finance Committee adopts its own substitute for SJR 4, CS SJR 4 (Fin). Senators Dankworth (co-chairman), Bennett, Eliason, Ferguson and Sturgulewski vote do pass. CS SJR 4 (Fin) moves to S-Rules. [S 1450]

6/12 Senate
Senate Rules Committee places CS SJR 4 (Fin) on the Senate calendar for June 12. Senators Kelly (chairman), Dankworth (co-chairman), Ferguson and Ziegler approve. [S 1465]

Senate adopts CS SJR 4 (Fin), 16-3-1, after Senator Ray objects to Senator Sturgulewski's motion for unanimity. [S 1471]

Senate fails to adopt Amendment No. 1 by Senator Fischer, 7-12-1 [S 1472], but adopts Amendment No 2. by Senator Fischer, 11-9-0, and Amendment No. 3 by Senator Ray, 14-6-0. [S 1473]

CS SJR 4 (Fin)am passes the Senate, 19-1-0. Senator Hohman casts the lone opposing vote. [S 1474].

House
Coups occurs in the House. Minority-led coalition assumes leadership. [H 2113]

6/15 CS SJR 4 (Fin)am is introduced in the House and is referred to the Finance Committee. [H 2173]

6/16 House leadership of Representatives Duncan (Speaker) and Meekins (Majority Leader) is replaced by a new coalition whose leadership is led by Representatives Hayes (Speaker) and Halford (Majority Leader). [H 2135]

6/18 House Finance Committee adopts a substitute for SJR 4, HCS CS SJR 4 (Fin). Representatives Adams (chairman), Chuckwuk, Cotten, Fuller and Hurlbert concur. Representatives Bettisworth and Cuddy recommend do not pass unless amended. Representative Montgomery has no recommendation unless the substitute is amended. HCS CS SJR 4 (Fin) moves to the Rules Committee. [H 2234]

6/19 HCS CS SJR 4 (Fin) is amended on the House floor, 38-1-1, to become HCS CS SJR 4 (Fin)amH. (An amendment by Representative Halford changes "1981" on page. 1, line. 16 of the substitute, to "1980".) [H 2266]

HCS CS SJR 4 (Fin)amH is adopted by the House, 39-0-1, with Representative Anderson voting no. [H 2268]

HCS CS SJR 4 (Fin)amH fails to pass the House, 22-17-1. Representative Freeman gives notice of reconsideration. [H 2269]

6/20 HCS CS SJR 4 (Fin)amH passes the House, 37-1-2. Representative Clocksin casts the lone opposing vote. [H 2290]

6/21 Senate

At Senator Rodey's recommendation, the Senate fails to concur with the House amendments contained in HCS CS SJR 4 (Fin)amH, 0-19-1. [S 1572]

Senators Sturgulewski (chairman), Colletta and Kelly are appointed to the Senate's free conference committee on SJR 4, should one be necessary. [S 1573] [S 1599]

House

After learning of the Senate's failure to concur with the House's amendments to SJR 4, the House follows Representative Halford's recommendation and fails to recede from its amendments in HCS CS SJR 4 (Fin)amH, 0-40-0. [H 2364]

Representatives Montgomery (chairman), Freeman and O'Connell are appointed to the House's free conference committee on SJR 4. [H 2364]

6/24

Governor

Governor Hammond transmits a joint letter to the House and Senate, warning that he will call a special session if an acceptable version of SJR 4 isn't passed before the Legislature adjourns. [H 2596, S 1725]

House

House Speaker Hayes discharges the House's free conference committee on SJR 4, and appoints a second free conference committee consisting of Representatives Halford (chairman), Bettisworth and Malone. [H 2602]

Senate

Senate Rules Committee recommends that CS HJR 39(Hess), regarding federal support for the arts, be replaced with SCS CS HJR 39(2nd Rules), regarding a spending limit. Senators Kelly (chairman), Dankworth and Ferguson concur. Senator Kelly additionally recommends do pass. A new committee substitute, SCS CS HJR 39(2nd Rules), is placed on the Senate's June 24 supplemental calendar. [S 1727].

After learning that the House has discharged its first free conference committee on SJR 4 and appointed a second one, Senate President Bennett discharges the Senate's free conference committee on SJR 4, and appoints Senators Ray (chairman), Ferguson and Gilman to a second Senate free conference committee on SJR 4. [S 1744]

Following creation of the second Senate free conference committee on SJR 4, SCS CS HJR 39(2nd Rules) is adopted [S1750] with a letter of intent [S 1751-1755]. SCS CS HJR 39(2nd Rules) passes the Senate, 19-0-1. Senator Rodey requests reconsideration of it, but it passes the Senate upon reconsideration, 17-0-1-2. [S 1756-1757] The House receives SCS CS HJR 39(2nd Rules) from the Senate, and holds it over until the following session under unfinished business. [H 2647]

The Senate adjourns at 7:06 P.M. [S 1764]

6/25 The House adjourns at 12:23 A.M. [H 2638]

Governor Hammond transmits a joint letter to the House [H 2645] and Senate [S-FSS 1], calling a special legislative session for July 13 to consider SJR 4 and its substitutes.

1981--Special Legislative Session

7/13 Special Session convenes in Juneau.

11:00 am Governor Hammond addresses the Joint Session.
[S-FSS 3]

1:30 pm Free conference committee on SJR 4 meets in the Governor's Conference Room in the Capitol Building. [S-FSS 3]

4:00 pm Free conference committee on SJR 4 meets in the Governor's Conference Room in the Capitol Building. [H-FSS 3]

9:32 pm The (second) free conference committee issues its report on SJR 4, recommending adoption of FCCS SJR 4, with a letter of intent to be published at a later date. (The Senate Journal says that the letter will be published on July 14, while the House Journal simply says that the letter will be forthcoming). Senator Ray (chairman for the Senate) signs "no recommendation", while Senators Ferguson and Gilman sign "do pass". Representatives Halford (chairman for the House) and Bettisworth sign "do pass", while Representative Malone signs "do not pass", and submits a dissenting (minority) report. [S-FSS 5] [H-FSS 6]

7/14

Senate

The Senate passes FCCS SJR 4 (without any letter of intent), 15-4-1. Senators Sturgulewski, Fischer, Parr and Stimson vote against it; Senator Eliason is excused. [S-FSS 8-9]

The Senate adjourns at 6:11 P.M.

House

Representative Brown's motion, for the House to rescind its earlier action in failing to recede from its amendments to CS SJR 4 (Fin)am, fails, 16-23-1. [H-FSS 8]

7/15

House

At 1:10 A.M., the House passes FCCS SJR 4 (without any letter of intent), 27-13-0. Representative Buchholdt changes her vote from "nay" to "yea", representing the 27th vote in favor of the resolution. [H-FSS 15]

The House adjourns at 1:32 A.M. [H-FSS 16]

Governor

FCCS SJR 4 is transmitted to Governor Hammond at 1:45 P.M. [S-FSS 13] The Governor signs it, as FSS - Legislative Resolve No. 1. [S-FSS 14]

- 7/16 Representative Malone's "Minority Report" on FCCS SJR 4 appears in the Final Supplement to the House Journal [originally paginated as H-FSS 17-19].
- 7/23 A letter from House Speaker Hayes instructs Hopuse Clerk Irene Cashen to delete Malone's minority report from the House Journal, and to reissue the Final Supplement to the House Journal without the report. [H-FSS 17, as corrected]
- 7/27 A "Corrected Final Supplement" (minus Malone's report) appears as pages 17-19 of the House Journal. [H-FSS 17, as corrected]

1982--General Election

- 11/2 Voters approve Ballot Measure No. 4 (110,669 to 70,831), adopting a constitutional amendment to limit State appropriations.

- - Appendix F - -

"MINORITY REPORT" ON SENATE JOINT RESOLUTION NO. 4

The report which appears on the following pages was submitted by Representative Hugh Malone, who on July 13, 1981, voted "do not pass - see minority report" on the Second Free Conference Committee version of Senate Joint Resolution No. 4 (2nd FCCS SJR 4). The resolution passed the committee on a 4-1 vote with one vote of no recommendation, and on July 15, 1981, was signed into law by Governor Jay Hammond.

Representative Malone's report appeared in the "Final Supplement" of the House Journal of the Alaska State Legislature on July 16, 1981, as it appears here. The report was subsequently removed from the House Journal, however, and does not appear as part of the record today. (See July 23, 1981, letter to House Chief Clerk Irene Cashen from House Speaker Joe Hayes in the "Corrected Final Supplement", House Journal, First Special Session, July 27, 1981, p. 17.)

HOUSE JOURNAL

ALASKA STATE LEGISLATURE

TWELFTH LEGISLATURE - FIRST SPECIAL SESSION

JUNEAU, ALASKA

Thursday

July 16, 1981

FINAL SUPPLEMENT

As Chief Clerk I certify as to the correctness of the journal for the second and third days of the First Special Session.

FCCSSJR 4

The Minority Report referred to on page 6 of the First Special Session Journal under the 2d Free Conference Committee Report on FCCSSCR 4 appears as follows:

MINORITY REPORT

2nd FCCS SJR 4

This spending "limit" is a fraud. It will do little to slow the dramatic rise in the budget of recent years. It will distort the spending which does take place. Finally, it will be found to be unworkable and abandoned. Unfortunately, while the people of this state have been demanding a halt to "total" government spending, some individuals have mysteriously and erroneously interpreted this cry to include only operating expenditures. Such an approach is doomed to failure.

Since the famous \$900 million Prudhoe Bay lease sale of 1969, the budget has grown at a rate in excess of 32%, accelerating in recent years. The fastest growth has been, directly and indirectly, in the area of capital improvements. This proposed amendment would allow every capital "project" (a wider, looser term than capital "improvement") which prevails in the normal legislative process to go to the voters as an override of the limit. The projects will be grouped by types, forcing the voters to accept every project, the bad with the good, or do without. The voters will be offered "free" projects in the sense that, for many years, they will not face any taxes as the result of a favorable vote. The elections, probably occurring every year, will be vulnerable to high pressure media campaigns for some causes, while other groups will not have the money to make their case statewide. In order to better their chances at the polls, many legislators will have to agree to a third, fourth, and lower priority item in the search for a proposal that has political "balance". Putting all these considerations together, they appear to be a recipe for continuing the present growth rate of the budget.

FCCSSJR 4 (continued)

Spending will be distorted. No less than one-third of expenditures must be for capital projects, regardless of how used or unused they may be, whether or not they are placed in the proper location, no matter how expensive they are to keep up, and no matter if the public would prefer to spend more, say, on education and postpone other projects. The origin of the one-third provision is obscure. It is arbitrary, bearing no relationship to past or present spending decisions, and pre-empting flexibility in the future. Sadly, this "fixed ratio" violates the long standing constitutional principle that no special dedications of funds should exist within the budget.

Finally, this limit, probably, will fail and will be seen to fail. No room is left in the operating budget for the later staffing, administrative, maintenance, and operating costs of capital projects. Instead of encouraging the legislature and the public to deal with the trade-offs between operating and capital purposes, immediate and downstream, on a regular, session to session basis, it leaves these questions to an inevitable crisis. Rather than sacrifice education, medical, and other programs that are seen as vital by a wide cross-section of the public, the limit is probably going to be abandoned, unless, of course, local governments are willing (and able) to compensate for this revenue squeeze by instituting higher taxes. (A "spending limit" with a built-in local tax escalator!) Given the existing level of the budget, and the large capital spending now in the pipeline, this crisis is likely to be in time for the "second-thought" vote on the limit in 1986.

The oil revenues accruing to the state of Alaska are unprecedented and unlikely to last beyond the immediate future. This peculiar and munificent turn of events places a responsibility upon us to create laws and principles which will lead to the wisest use of these revenues. The free conference version would distort and increase state spending by virtue of its arbitrary guidelines. Its language is unfit for permanent law, much less a constitution.

A spending limit should have the same effect that limited revenues would have. It must make all expenditures, for whatever purpose, compete equally for consideration. Then state funds will be allocated on the basis of first things first, instead of being decided by arbitrary constitutional law.

It is ironic that the versions of the resolution that passed the House and Senate were both very close to a proper approach, while the final free conference version is so far away from that approach. The lesson here is not that the legislature has done so badly, but that the legislature can do so much better.

FCCSSJR 4 (continued)

The Free Conference Report should be rejected by the legislature.


Hugh Malone

FISCAL ANALYSIS

2nd FCCS SJR 4

The resolution sets a limit on the budget of the state of \$1,666,666,666.67, exclusive of capital appropriations, permanent fund dividends, and g.o. bond debt service. The limit would be adjusted periodically upward by inflation and population so that real per capita spending would remain level in 1981 dollars. Given a state population of 401,000, state spending would be fixed at \$4,100 per capita in 1981 dollars, exclusive of the exemptions.

If the same exemptions¹ are applied to the FY 82 actual appropriations by this legislature (\$1,888,500,000), the comparable figure for actual appropriations for FY 82 is \$1,570,000,000² (\$3,900 per capita, approximately). Thus, the "limit" proposed in FCCS SJR 4 would allow, applied to FY 82, approximately \$100,000,000 more spending than the already record budget provides. This is even more difficult to justify when we recognize that total FY 82 appropriations made so far exceed estimated revenues to fund those appropriations.³

In spite of the seemingly generous lid on spending, operating and maintenance costs on new facilities must be reflected within the fixed per capita "operating limit". The FY 82 appropriations for capital improvements are in excess of \$1.5 billion. How long it takes before the situation is unworkable is anyone's guess.

This information is not based on a professional or thorough analysis of FCCS SJR 4. None has been done.


Hugh Malone

FCCSSJR 4 (continued)

NOTES:

1. Exemptions subtracted from this years "operating" budget:

Permanent Fund dividends	\$150,000,000
State g.o. bond debt service	\$128,500,000
Local (school) debt service paid by state	\$150,000,000
2. Based on subtracting the total exemptions from the appropriations for the FY 82.
3. July 8 memo to Rep. Al Adams from Milt Barker.

MESSAGES FROM THE SENATE

The following messages dated July 14, 1981 were received from the Senate:

FCCSSJR 4

The Senate has adopted the 2nd Free Conference Committee Report considering CSSJR 4(Fin)am and HCS CSSJR 4(Fin)amH, thus adopting:

FCCSSJR 4 (proposing amendments to the Constitution of the State of Alaska relating to limiting increases in appropriations)

CSHB 298(Fin)

The Senate has passed CSHB 298(Fin) (making appropriations to the University of Alaska; and providing for an effective date) with the following amendment:

SCS CSHB 298(2d Rules) (making a special appropriation for operation of the Twelfth Legislature - First Special Session; effective date)

and it is transmitted for consideration.

July 16, 1981

HOUSE JOURNAL
FINAL SUPPLEMENT

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MESSAGES FROM THE GOVERNOR

FSS-FCCSSJR 4

The following message dated July 15, 1981 was received stating the Governor had read the following resolution and was transmitting the enrolled and engrossed copies to the Lieutenant Governor's Office for permanent filing:

FSS-FREE CONFERENCE COMMITTEE SUBSTITUTE
FOR SENATE JOINT RESOLUTION NO. 4
(Proposing amendments to the Constitution
of the State of Alaska relating to limit-
ing increases in appropriations)

Legislative Resolve No. 1

* * * * *

This final supplemental journal completes the record of legislation for the First Special Session of the Twelfth State Legislature.



Irene Cashen
Chief Clerk of the House

July 16, 1981