

State of Alaska Office of Management and Budget

House Joint Resolution 7 *Appropriation Limit*

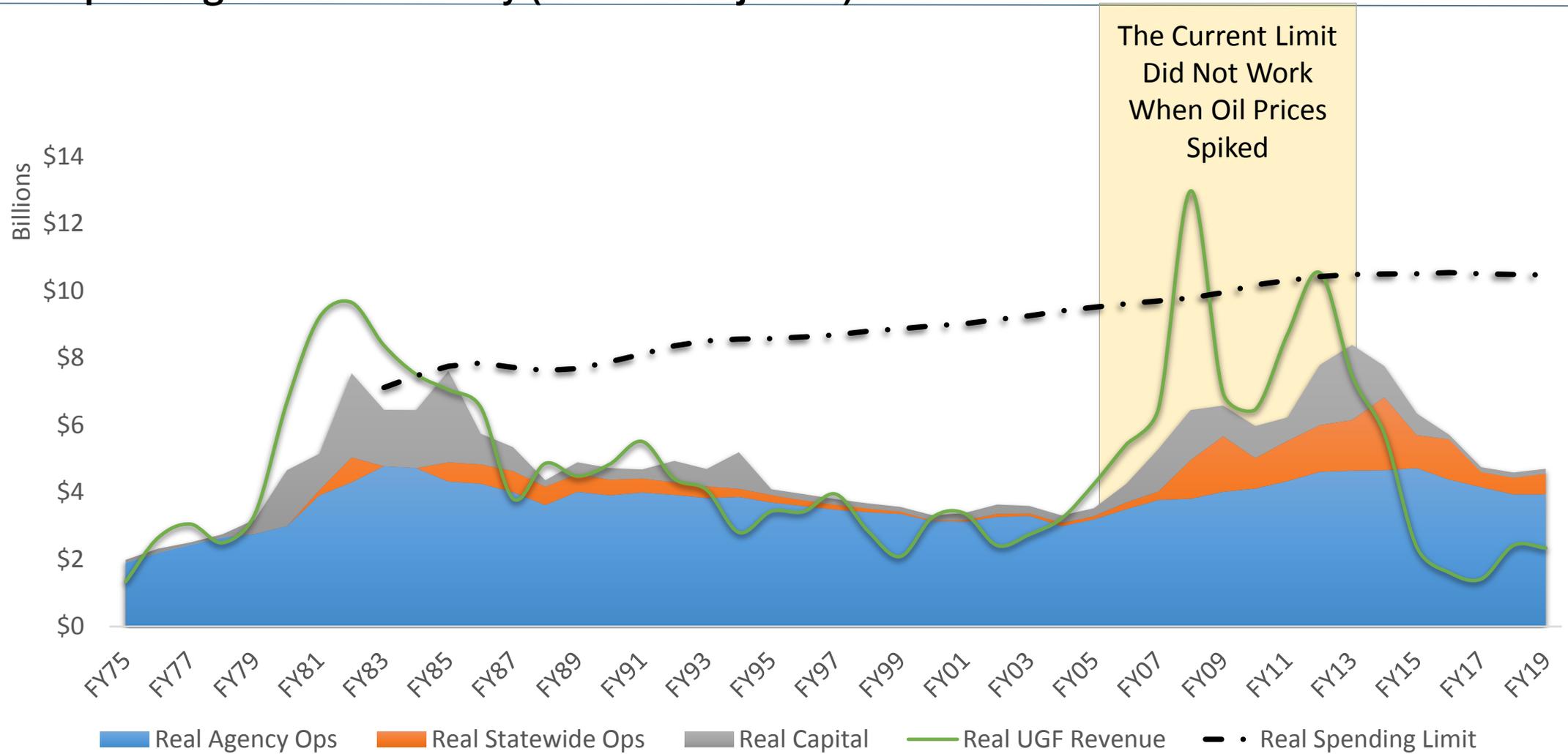


THE STATE
of ALASKA
GOVERNOR MICHAEL J. DUNLEAVY

Current Constitutional Spending Limit (Article 9, Section 16)

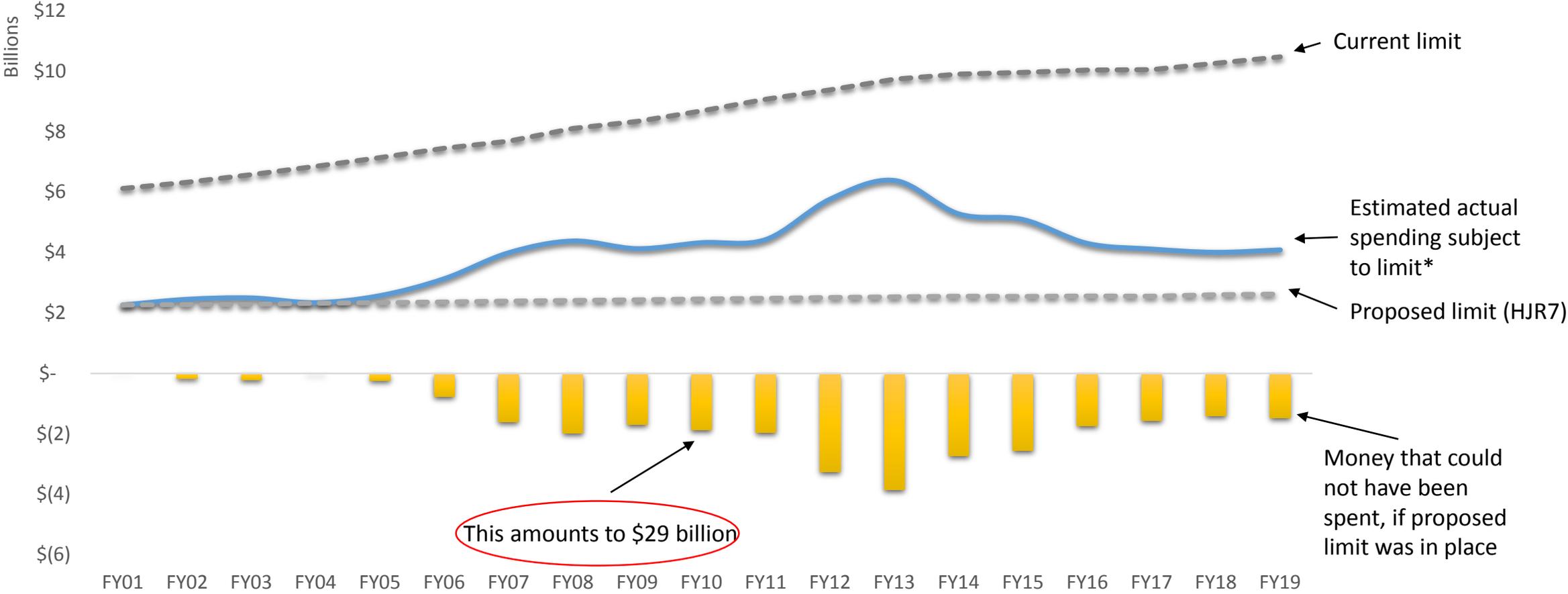
- Limit set at \$2.5 billion, plus inflation and population growth since 1982
 - Calculation for FY20 would be about \$10.5 billion
- Spending subject to cap includes all UGF operating and capital expenditures, most statewide items, plus some DGF items
- Excludes PFDs, bond proceeds, debt service payments, non-State sources of revenue, public corporation revenues, and disaster declarations
- At least 1/3 of limit reserved for capital projects and loans
 - Can break the limit for capital projects, if approved by the voters.

UGF Spending and Limit History (Inflation Adjusted)



Source: Legislative Finance and ERG calculations

What if the Proposed Spending Cap Passed before Oil Prices Spiked?

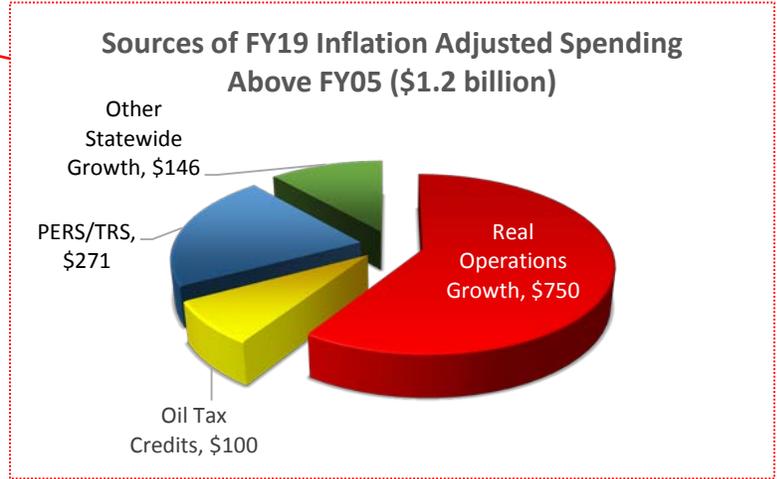
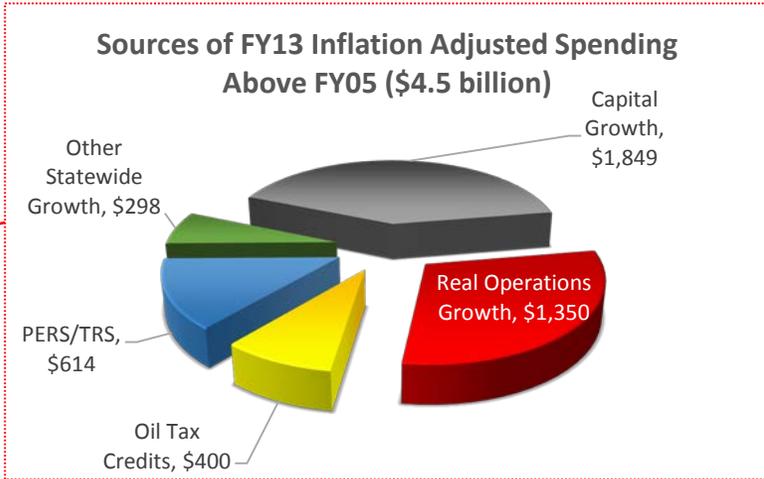
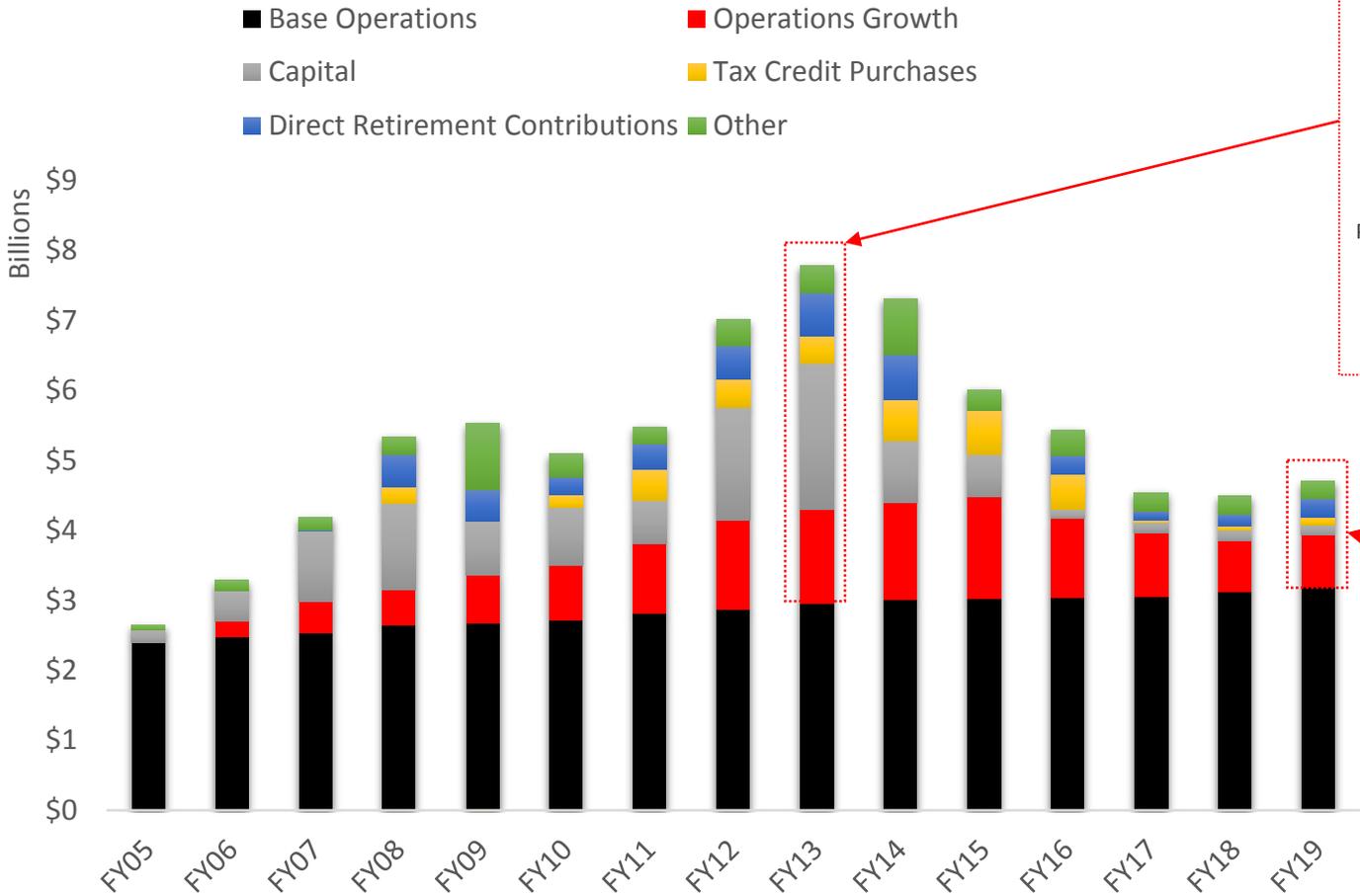


This amounts to \$29 billion



*Assumes oil tax credits would have reduced revenue rather than become budget items, and that contributions to unfunded pension obligations would be excluded from the cap

Sources of UGF Spending Growth



Appropriation Limit (SJR 6/HJR 7)

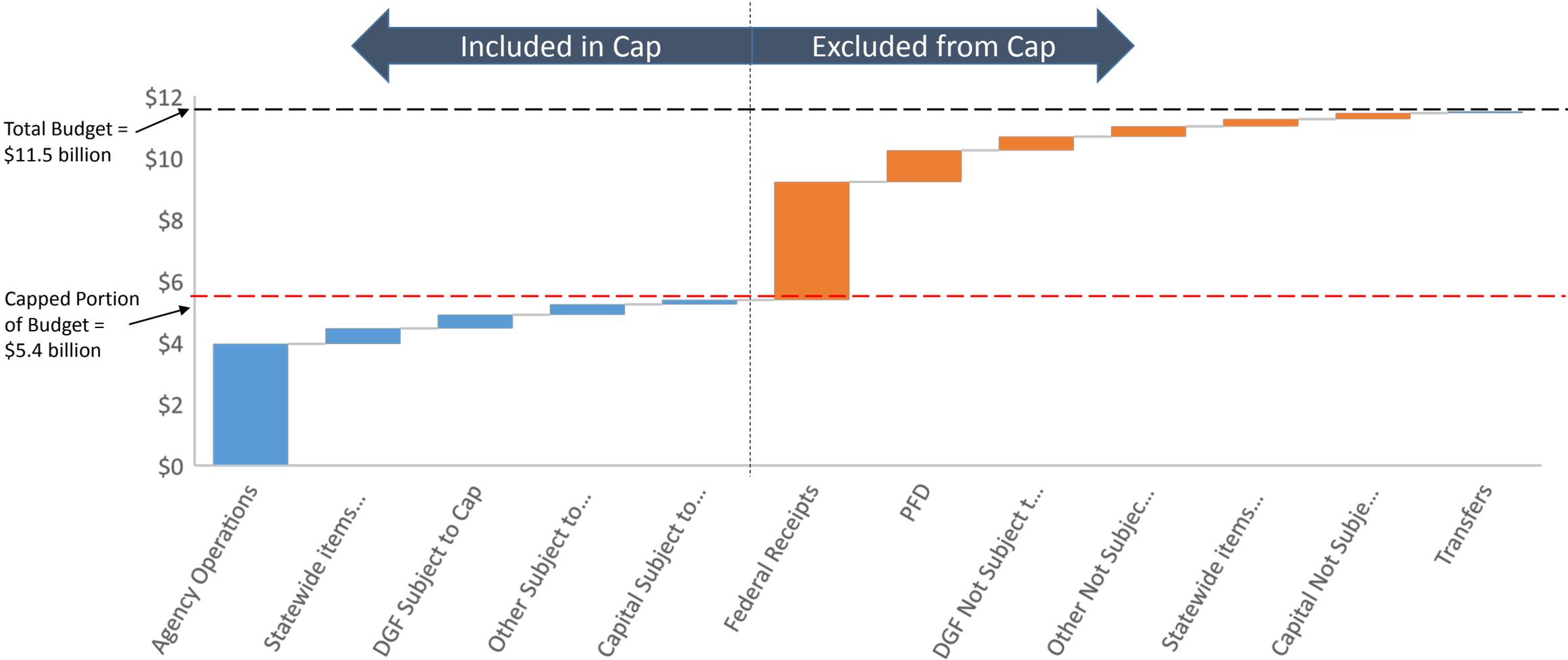
Big picture:

- Current appropriation limit is so high that the limit is never met
- Constitutional Amendment changes the current appropriation limit to be more meaningful and impactful over time
- Deposits excess revenues annually into savings
- Changes the Constitutional Budget Reserve Fund to the Savings Reserve Fund and limits spending and fund size

Appropriation Limit: Section 1(a)

- Appropriation Limit – “Appropriations made for a fiscal year **shall not exceed** the average of the appropriations made in the previous three fiscal years by more than **fifty percent of the cumulative change in population and inflation since January 1 of the previous calendar year**, derived from federal indices as prescribed by law, **or two percent, whichever is less.**”
 - Provides a **list of exceptions** for spending that falls outside the appropriation limit cap
 - Examples: permanent fund dividends and money placed in the fund; money for disasters; obligations and proceeds from G.O. bonds and revenue bonds
 - Most substantial change from existing exceptions--**capital spending is not an exception** and falls within the appropriation limit cap

Illustration of Total Budget and Appropriation Limit



Appropriation Limit: Section 1(b) and (c)

- Excess revenues would automatically be deposited into savings accounts in priority order

Total amount in general fund that is “unexpended, unobligated, and unappropriated” (i.e., excess revenues)

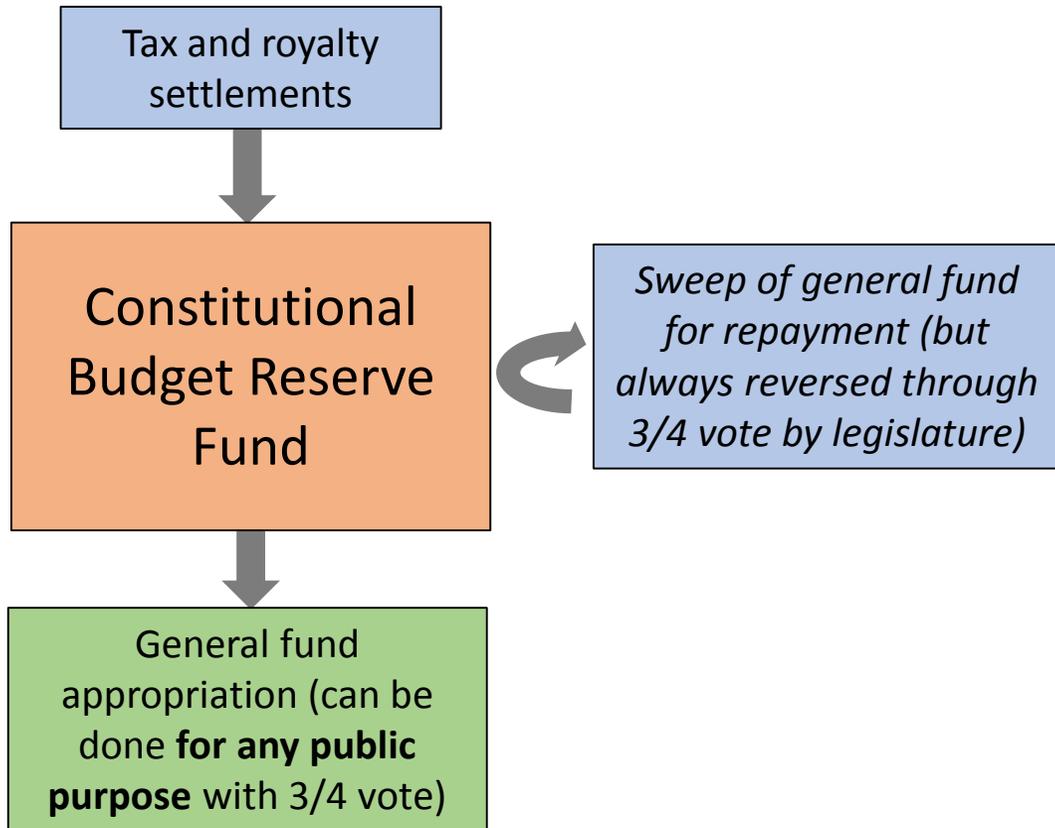
Priority #1: Pay back the permanent fund principal 50% of the income that was deposited into the ERA that fiscal year

Priority #2: *[if money remains after priority #1]* Get savings reserve fund balance up to appropriation limit (formerly the CBR)

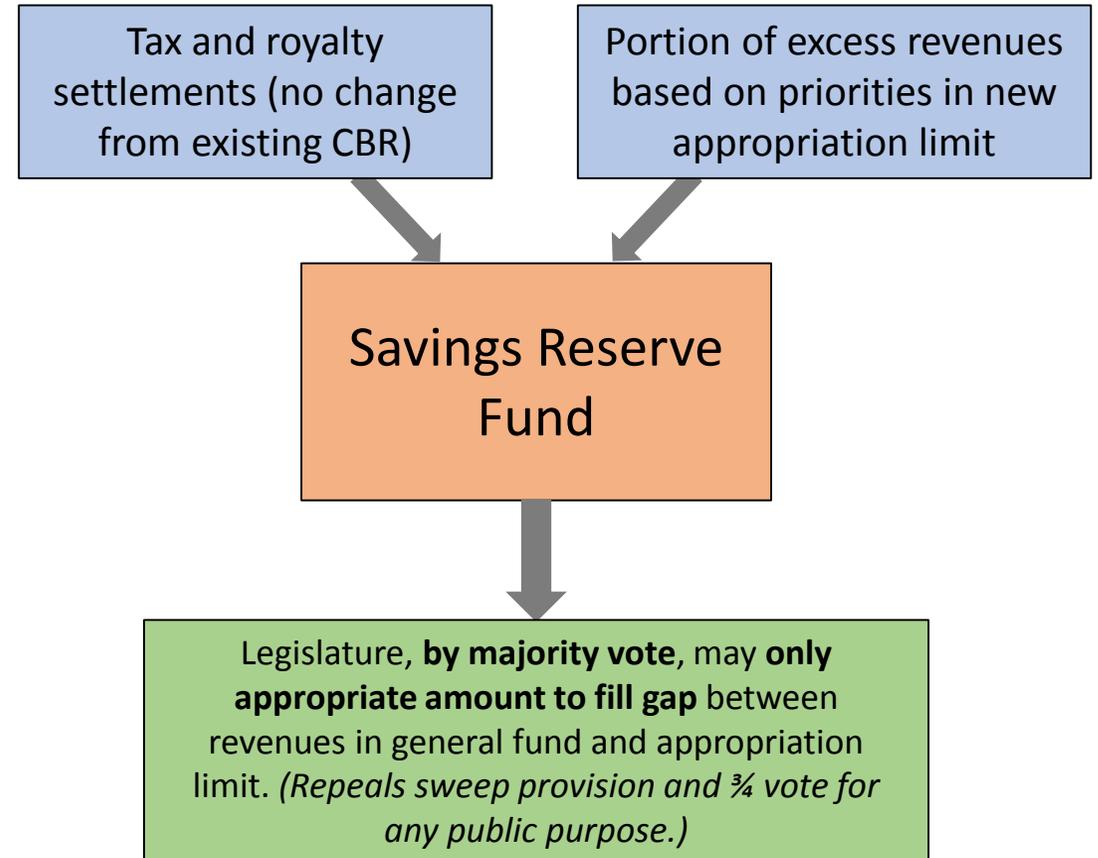
Priority #3: *[if money remains after priority #2]* Put money into permanent fund principal to continue growing the fund

Appropriation Limit: Sections 2, 3, and 5

Existing Budget Reserve Fund



New Savings Reserve Fund



Legislative Changes in Senate

- Growth rate has been changed to the five year average of Anchorage Consumer Price Index; eliminated cap of 2%.
- Combined two exceptions into one—ensures that money received in trust (federal receipts, Mental Health Trust Authority receipts, certain revenues by public corporations, etc.) are outside of the limit
- Allows spending on capital improvements outside of the appropriation limit, but cannot exceed 10% of the amount of the limit
- Removed “Savings Reserve Fund” and kept the name “Budget Reserve Fund”

Questions?