

Alaska State Legislature

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REPRESENTATIVE JAMES KAUFMAN

Sponsor Statement for HJR 401 / HB 4006 – Bill Version A

HJR 401 and its companion bill HB 4006 work together to create a constitutional and statutory framework for how we limit appropriations. Spending limit reform is one of very few subject matters in which the Comprehensive Fiscal Plan Working Group unanimously agreed to be necessary. This legislation can meet that need.

Alaska has been operating without an effective appropriation limit for nearly 40 years, resulting in less than meaningful control of our state spending. The current limit was enacted in 1982, when approaching peak oil production. The timing of instituting this cap, plus the population and inflation adjustment, have made the cap so generous that it is no longer useful in controlling our appropriations and spending.

Successful appropriation limits have boundaries that meet the needs of the unique way that government operates; the right mix of rigidity where it counts and flexibility when and where it's absolutely needed. Alaska's inflation rate often varies from national inflation numbers, our tax structure is unique, and our spending per capita is wildly different than most. If Alaska follows suit in using these common factors, we risk failure because we may use a formula that does not meet our unique needs.

Considering what I have outlined above, and all the other things that make our situation unique, I propose a new, functional cap which uses a factor based upon a five-year trailing average of our private sector economic performance. Specifically, Real GDP less government spending, which measures the value produced within our borders.

The government must support policy that will enable the growth of our private sector economy if they would like to spend more. The five-year averaging will moderate the effects of volatility, leading to stability. This proposal would set a spending cap roughly at current levels and would include a constitutional provision allowing flexibility in the case of unforeseen risks.

Our Permanent Fund is a tremendous asset, but it creates a risk that Alaska will be destined to become a "financialized" economy. Instead of maintaining our status as Alaskans that build, add value, and produce, we could become Alaskans that wait and passively watch the market while hoping for the best. A financialized government that is funded increasingly by some portion of the permanent fund will grow to have little to no interest in the private sector. A spending limit tethered to GDP creates a constructive link to our private sector and ensures that government does not outgrow the private sector that it is meant to support.

We need to create strong links between government and our productive economy before it's too late. We have immense opportunity to solve our structural issues and deliver a better future centered around Alaska's productive economy. Let's be productive and take this opportunity.