

**AN APPROPRIATION LIMIT LINKING GOVERNMENT
SPENDING TO ALASKA'S PRODUCTIVE ECONOMY**

GDP-Based Spending Cap

Senator James Kaufman
District F – Anchorage – Abbott Loop, Lower
Hillside, Prospect Heights

Current Constitutional Limit

- Constitutional: Article IX, §16 (effective in 1982)
- “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.”
 - \$2.5 B plus inflation and population growth since 1982
 - Calculation for FY26 would be over \$11 billion
- Exemptions to the cap include, PFD’s, bond proceeds, debt service payments, non-state sources of revenue, public corporation revenue appropriations, and disaster declarations, school bond debt reimbursement

Current Statutory Limit

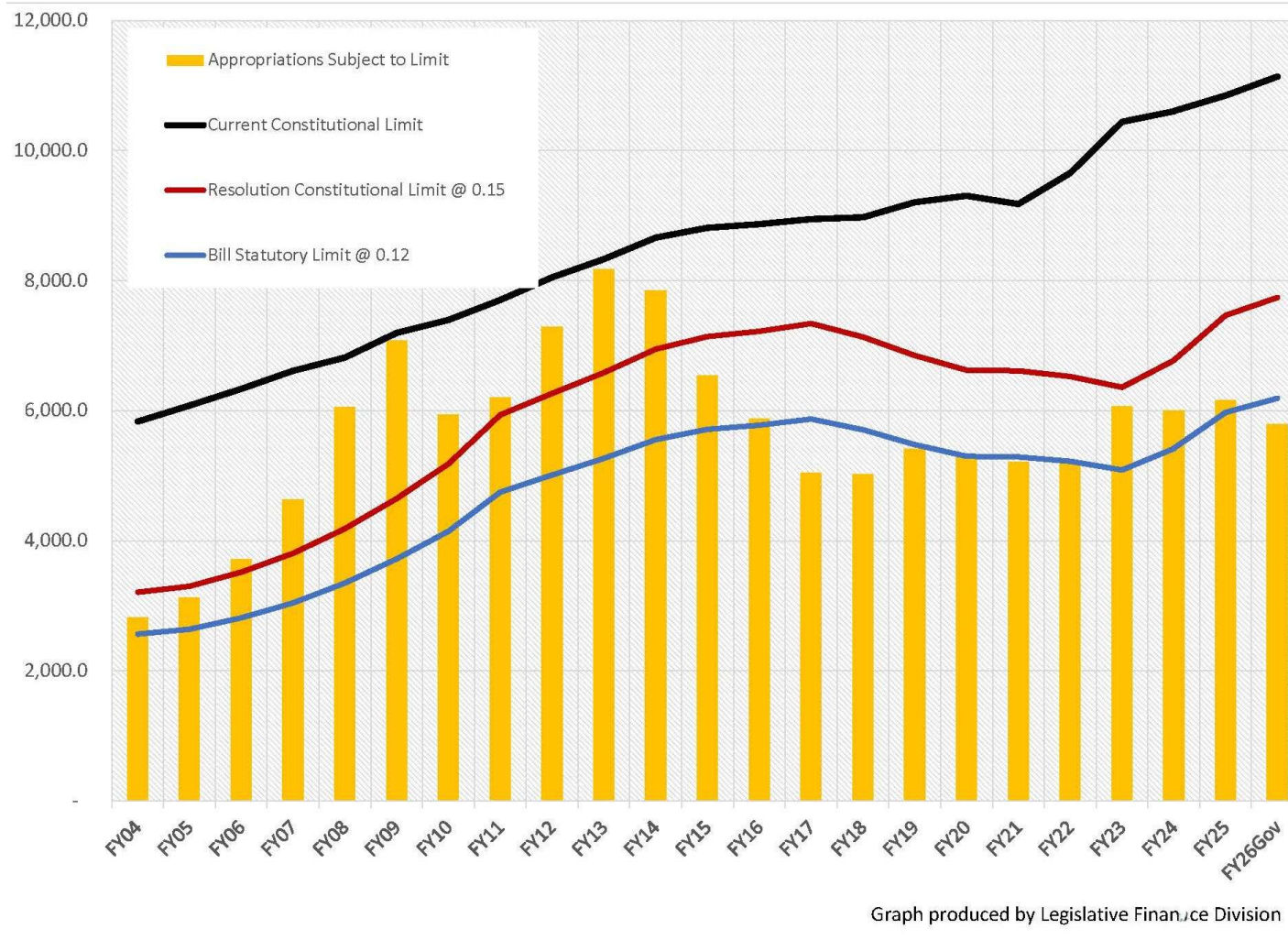
- AS 37.05.540 - Enacted in 1986
- Based on appropriations made *in* a fiscal year, not *for* a fiscal year
 - Counts supplementals in the year appropriated, not effective
- Limits spending growth to population plus inflation plus 5%
 - The use of *both* factors to calculate the limit has caused the limit to outgrow effectiveness
 - The timing of data for calculation of this limit does not work well with the budget process. The limit is not known before the annual budget process

Proposed Appropriation Limit

- Calculated by subtracting government spending from historical State GDP values and adjusting for inflation
- Stability is improved by averaging these values over the previous full five fiscal years
- Constitutional Cap, upper limit, would cap spending at 15% of GDP
- Statutory Cap, lower limit, caps spending at 12% of GDP

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Proposed Appropriation Limit



Spending Subject to Limit

6

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Spending Subject to the Limit ▾	Not Limited by this Proposal ▾
▪ All UGF Operating Expenditures	▫ Permanent Fund Dividends
▪ All UGF Capital Expenditures	▫ Appropriations to Permanent Fund / PCE Endowment
▪ Retirement Payments	▫ Appropriations to a state savings account (e.g. CBR)
	▫ Appropriations to capitalize state retirement accounts
	▫ Direct Spending on a Disaster Declaration
	▫ Proceeds of bonds approved by the voters

Benefits

- Effective and Reasonable
 - This proposal would set the cap roughly at current levels and would include a constitutional provision for some flexibility in the case of unforeseen risks
- Stable and Predictable
 - The 5-year trailing average creates stability and predictability by smoothing out annual volatility in oil prices and financial markets.
- GDP factor creates a private-sector focus

Thank you!

8

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