

Senate State Affairs Committee
February 14, 2017

SJR 2

CONSTITUTIONAL APPROPRIATION LIMIT - REVISION

What is the Appropriation Limit?

- ▶ **Article IX, Section 16 of Alaska's Constitution**



- ▶ **In Alaska:** An annual cap on appropriations which can be enacted, which grows yearly by the increase in population and inflation, and held binding by the constitution. Some categories of appropriations are exempted.

- ▶ **According to Alaska's OMB – “Appropriation”** is defined as:
Statutory authorization to spend a specific amount of money for a stated purpose. Appropriations are often subdivided into allocations in the appropriations bill. Funds may not be spent without an appropriation made by law.”

How Many States Have Limits?



- ▶ Appropriation limits are part of a broader category of Tax & Expenditure Limits, or TELs.
- ▶ According to NCSL, as of 2010:
 - ▶ 30 states operate under a tax or expenditure limit
 - ▶ Spending Limit – 23 states
 - ▶ Tax Limits – 3 states
 - ▶ Both Spending & Tax Limits – 4 states
 - ▶ Roughly half of these limits are constitutional, the other half are statutory

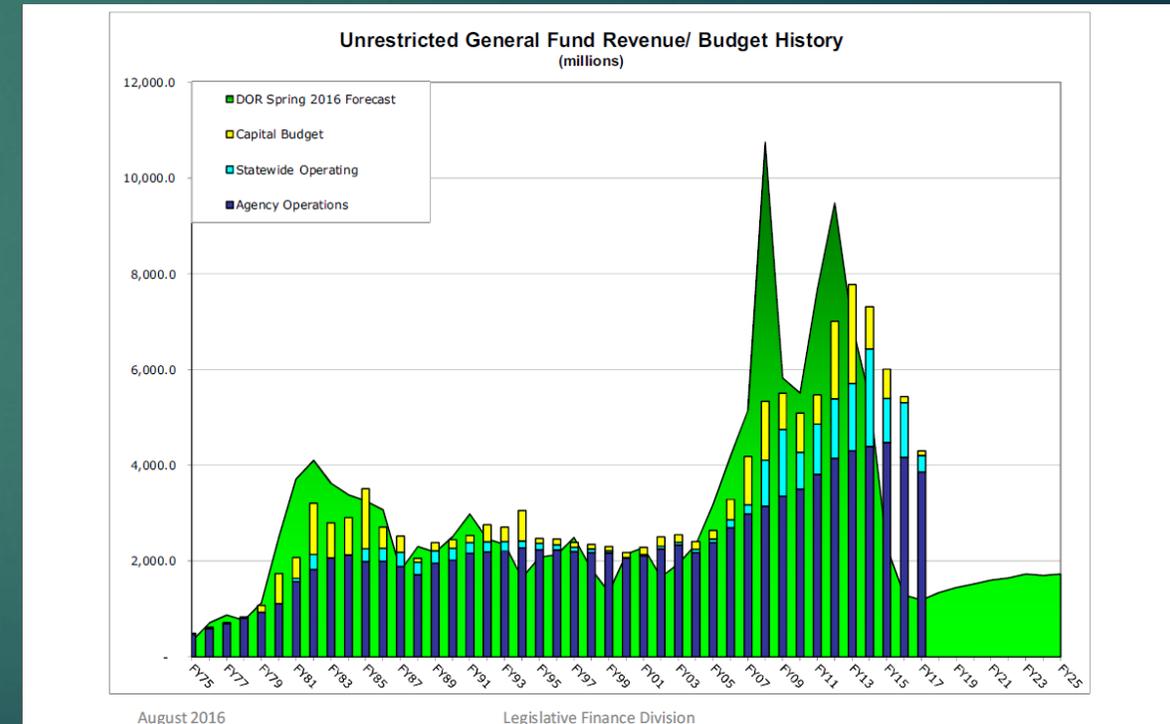
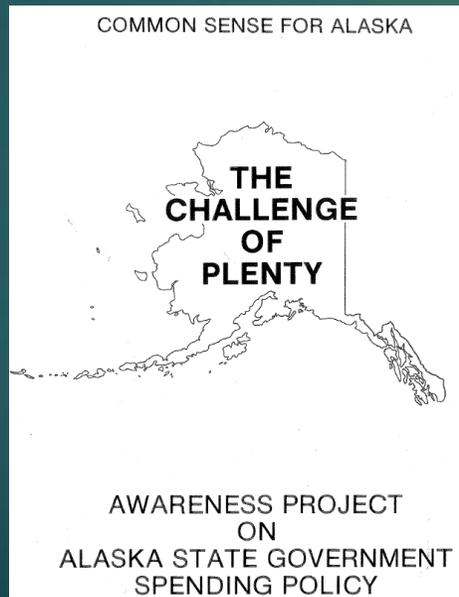


Source: NCSL, 2010 at <http://www.ncsl.org/research/fiscal-policy/state-tax-and-expenditure-limits-2010.aspx>

How Did We Get Our Appropriation Limit?

▶ Historical Context:

- ▶ TAPS completed, first oil flowed June 20, 1976
- ▶ Alaska's Permanent Fund established by voters November 2, 1976
- ▶ From FY79 to FY82, Alaska's total budget tripled, going from \$1,079.4 bn to \$3,209.7 bn (*excl. fund transfers*)
 - ▶ For reference, the FY2006 budget was \$3,290.5 bn.



Source: http://www.legfin.state.ak.us/Charts/Budget_History_Presentation_8-10-16.pdf

How Did We Get Our Limit? (cont'd.)

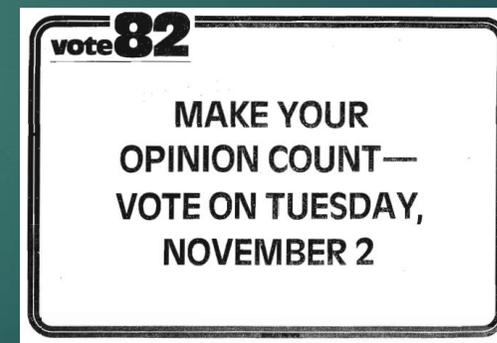
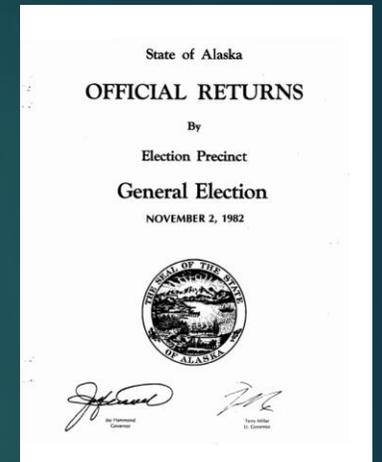
5

▶ Timeline:

- ▶ July 15, 1981 - Legislature passed Governor Hammond's SJR 4 in a special session
- ▶ November 2, 1982 - Voters enshrined the amendment limiting appropriation increases in the Alaska constitution, passing Ballot Measure 4 with a 61% to 39% tally
- ▶ November 4, 1986 - Voters reaffirmed the amendment in a planned revisit of the limit. This time support was 71% to 29%

▶ Later Fiscal Measures:

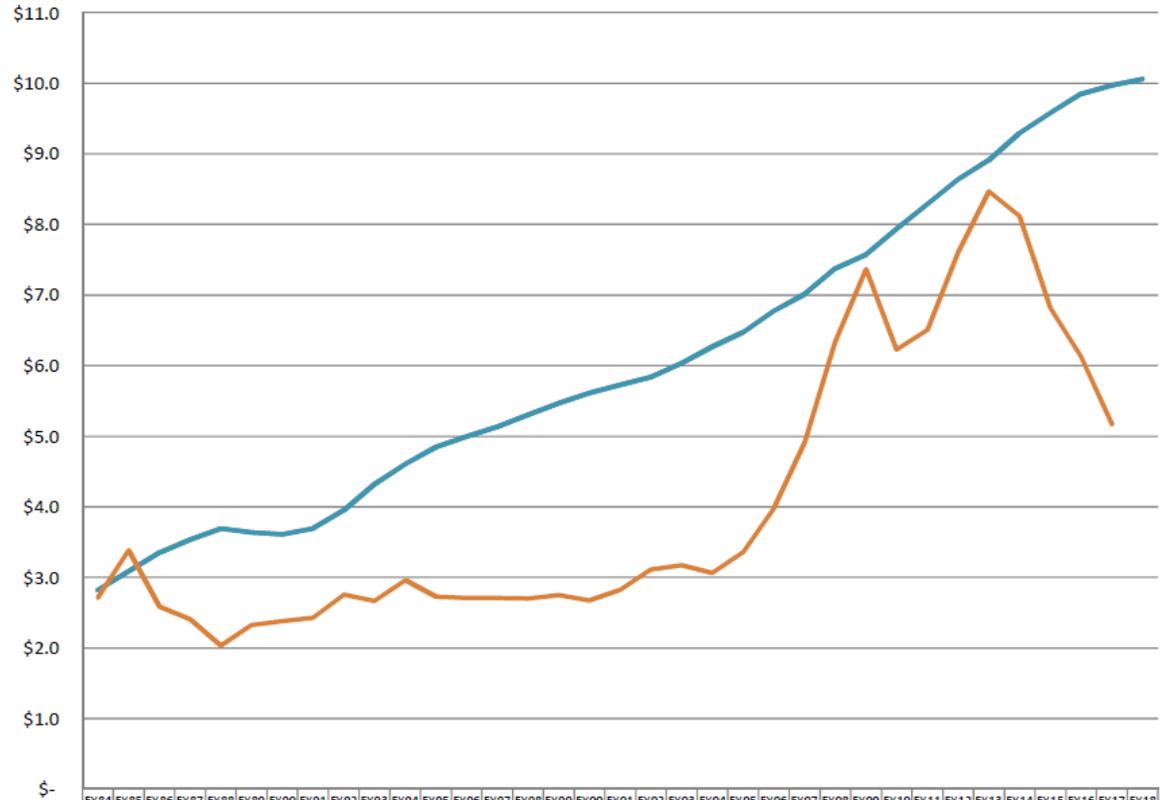
- ▶ 1986 – Statutory Appropriation Limit
- ▶ 1991 – Statutory Budget Reserve Fund
- ▶ 1991 - Constitutional Budget Reserve Fund



Sources: <http://treasury.dor.alaska.gov/Debt-Management/Reserve-Balances.aspx> ,
Alaska Division of Elections Official Election Pamphlets, and
<http://archives2.legis.state.ak.us/PublicImageServer.cgi?lib/8600790RECONSIDERATION%20OF%20ALASKA%27S%20CONSTITUTIONAL%20SPENDING%20LIMIT.pdf>

Why SJR 2 Was Brought Forward

Constitutional Appropriation Limit (Article 9, Section 16)
(\$billions)



- ▶ The appropriation limit in Article IX, Section 16 is in need of repair. It has soared out of reach, and failed to impact any spending since its enactment.
 - ▶ FY17 budget was \$5.2bn, while the limit was \$10.0 bn
- ▶ The limit may never come into play again unless it is “reset.”
- ▶ The intent of the voters should be respected, and there should be a meaningful appropriation limit.

Why SJR 2 Was Brought Forward (cont'd)

- ▶ During the 2016 interim, Senator Dunleavy asked Legislative Finance Division (LFD) to review the existing Statutory and Constitutional Appropriation Limits.
- ▶ LFD responded with analysis, and also provided a look at problems associated with the state's spending limits, loopholes in the limits, and recommendations for ways to assist in “developing a workable loophole-proof (*as much as possible*) spending limit that would:
 - ▶ 1. Suppress the growth of government during revenue surpluses, and
 - ▶ 2. Address rapid burning of reserves during revenue shortfalls”
- ▶ Staff worked with LFD, Legal Services Division, and individuals involved in the creation of the existing appropriation limit, to craft a revised appropriation limit for Alaska.

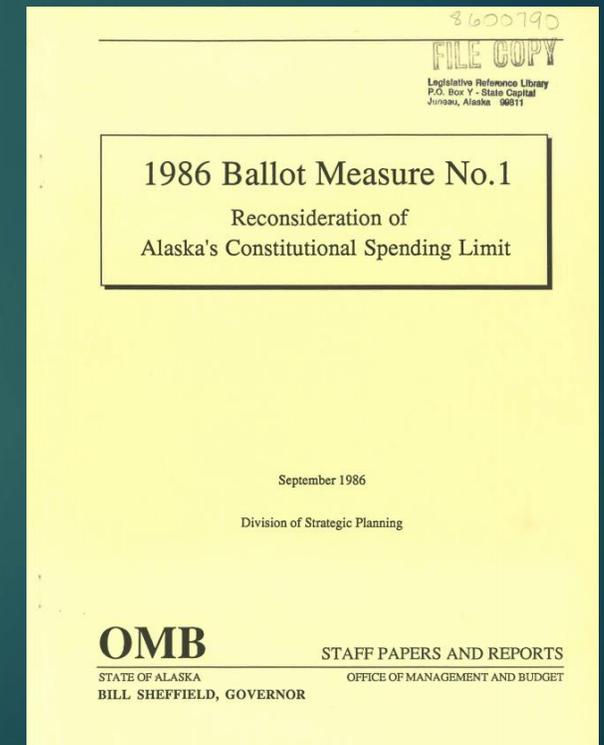
Key Elements of SJR 2's Revisions to the Constitutional Appropriation Limit

▶ Simplicity in Presentation

- ▶ Voters must be able to clearly understand the limit. It must not be so complex or wonky that it cannot be easily explained.
- ▶ SJR 2 was designed to simplify the existing limit.

▶ Sophisticated in Function

- ▶ Borrows from lessons learned following implementation of the 1982 limit.
- ▶ OMB's Division of Strategic Planning wrote a paper in 1986 which characterized the 1982 limit as:
“...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.”



Basics of SJR 2

- ▶ Would need to pass during the 30th Legislature, prior to the November 2018 General Election

- ▶ Constitutional Amendments & Conventions:

AS 15.50.030. Placing proposition on ballot. The lieutenant governor shall direct the director to place the ballot title and proposition on the ballot for the next statewide general election held after the amendment proposed by the legislature or held 120 days after the amendment proposed by a constitutional convention. If there is insufficient time to permit the proposition to be placed on the regular ballot by the director, the lieutenant governor shall direct the director to prepare a separate ballot for the proposition.



- ▶ Effective Date: Under AS 15.50.060, would become effective 30 days after certification.
 - ▶ This means SJR 2 would be effective for the FY2020 budget, contemplated in early 2019.

Basics of SJR 2 (cont'd)

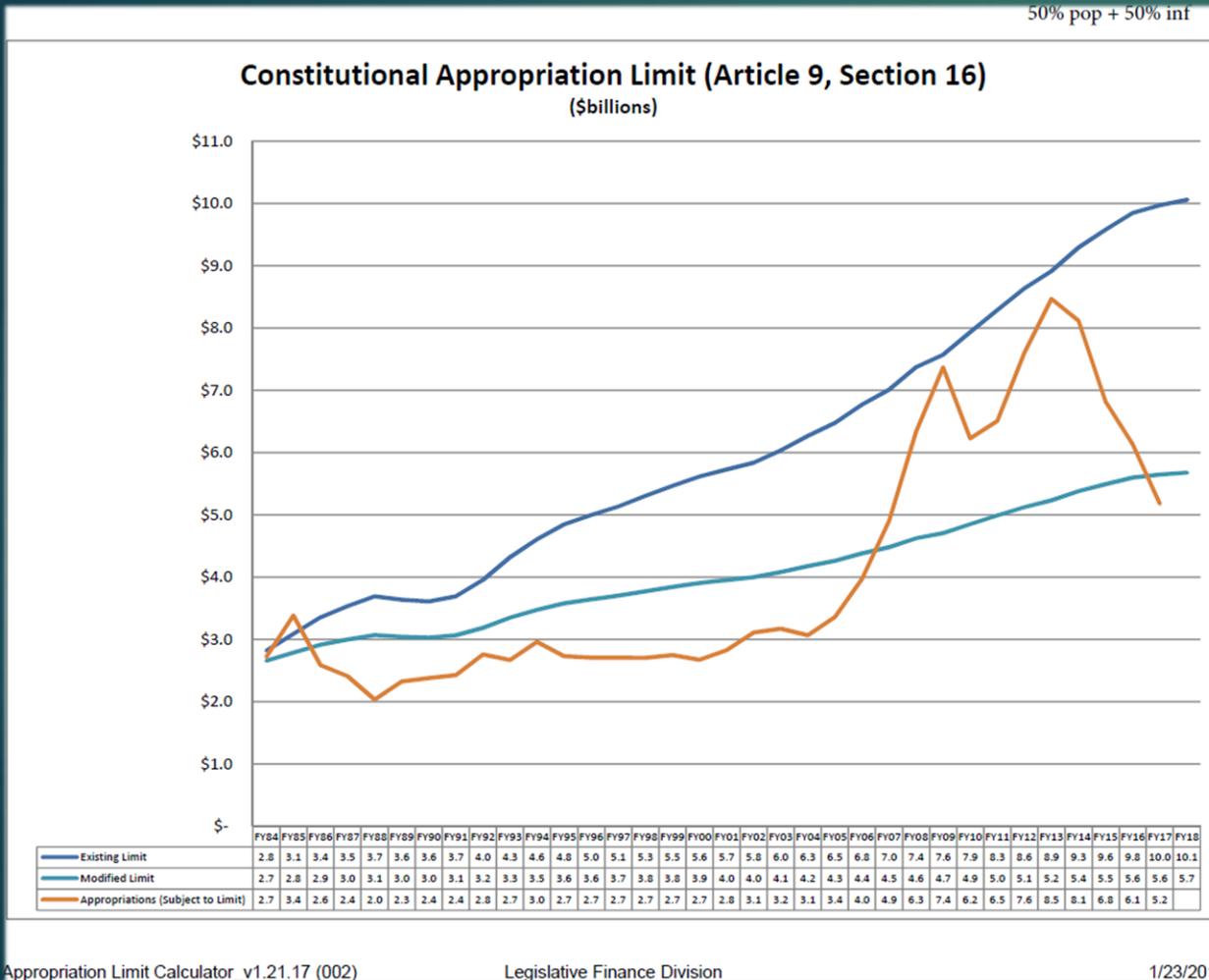
Spending exempt (“outside”) the limit: Appropriations made:

1. To the Alaska Permanent Fund
2. For payment of PFDs
3. To meet a state of disaster declared by the governor as prescribed by law (*see AS 26.23.020*)
4. Of state general obligation or revenue bond proceeds
5. Required to pay obligations under State general obligation bonds and revenue bonds
6. Of money received from the federal government
7. That is a reappropriation of a previous unobligated appropriation
8. Of money for expenditure by a state agency to provide internal services, or to provide services to another agency, and another state agency has also received an appropriation of the same money
9. Of money held in trust by the state for a particular purpose
10. Of money received by the state from a source other than the state or federal government that is restricted to a specific use by the terms of a gift, grant, bequest, or contract
11. Of revenue of a public enterprise or public corporation that issues revenue bonds
12. Of money deposited into the CBR, back to the funds and accounts from which the money came (*reverse sweep*)
13. To a state savings account or fund as prescribed by law
14. Of dedicated funds

What Is Inside & Outside The Limit?

APPROPRIATION ITEM COMPARISON for SJR 2 - 30-LS0123\N - 1/27/2017		
<u>Type of Appropriation</u>	<u>Existing Limit</u>	<u>"New Limit"</u>
Permanent Fund Dividends	Outside	Outside
General Obligation Bond Proceeds (STATE)	Inside, unless in Capital Budget & approved by voters	Outside, universally
General Obligation Bond Principal Repayment (STATE)	Outside	Outside
General Obligation Bond Interest Repayment (STATE)	Outside	Outside
Municipal Debt Service	Outside	Inside
Revenue Bond Proceeds	Outside	Outside
Revenue Bond Debt Service	Inside	Outside
Money held in trust by the State for a particular purpose	Outside	Outside
Revenues of public enterprise or public corporation of the State that issues revenue bonds	Outside	Outside
Federal receipts	Outside	Outside
Reappropriations	Outside, per AG Opinion	Outside, explicitly
I/A Services & Duplicate Appropriations	Implied Outside	Outside, specified
Gift, grant, bequest, or contract --restricted money from neither Feds or State for a specific use	Implied Outside	Outside, specified
CBR reverse-sweep	Not contemplated	Outside
To a state savings account, as prescribed by law (designated in the statutory bill), which require further appropriation in order to spend. (SBR, CBR)	Implied Outside	Outside, specified
Dedicated funds (per Constitutional definition)	Outside w/exceptions	Outside
Appropriations from <u>other than</u> the Treasury	Outside	Inside
Appropriations into the Permanent Fund	Outside	Outside
State Capital Budget	Inside, unless valid & approved by voters as prescribed by law	Inside, generally
Disaster (when declared by governor, as provided by law)	Outside	Outside

The Built-In Growth Formula



- ▶ The mechanism which adjusts the appropriation cap annually is a critically important element.
- ▶ The existing limit's formula adjusts the spending cap by 100% of the cumulative change in population and inflation.
- ▶ This led to a trajectory for the limit which quickly became unattainable.
- ▶ If the formula in 1982 had been set at 50% of the cumulative change in population and inflation, the limit would have performed as indicated on this slide.

Further Policy Considerations

13

▶ Flagged spending items for further examination:

- ▶ Revenue Bond Debt Service
 - ▶ Specifically, whether this exemption should be limited to bonds that generate sufficient revenue (or anticipated reductions) to cover debt service.
- ▶ Unrestricted Federal Funds (approx. \$7.4m in FY18)
- ▶ Reappropriations (and scope changes)
- ▶ University Receipts (DGF or Other)
- ▶ Appropriations to a state savings account, as designated by law
 - ▶ Statutory clarification needed. CBR, SBR, ???
- ▶ Dedicated Funds
 - ▶ *Ex:* Fish & Game Fund currently inside the limit, the introduced bill would place all dedicated funds outside the limit.
Note: Dedicated Funds are not the same as Designated Funds
- ▶ Capital Budget
 - ▶ This is an obvious loophole if placed outside the limit

▶ Pressure-Relief Valve

- ▶ A method to exceed the appropriation limit, whether it be through referral to voters, legislative super-majority, or otherwise



Questions?

