State of Alaska
Office of Management and Budget

Senate Joint Resolution 6

Alaska Spending History & Appropriation Limits

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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.

Current Limit Concerns

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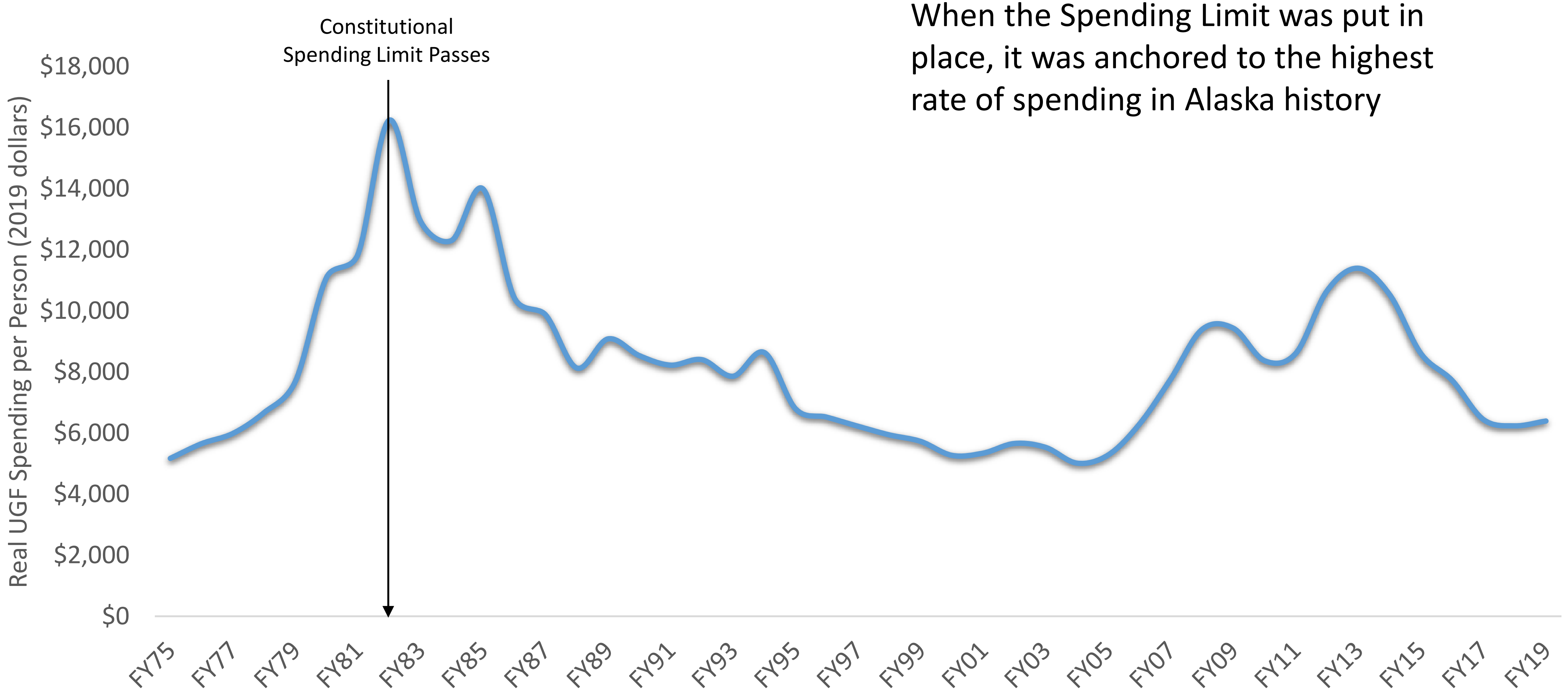
Inflation and Population Adjusted UGF Spending



When the Spending Limit was put in place, it was anchored to the highest rate of spending in Alaska history

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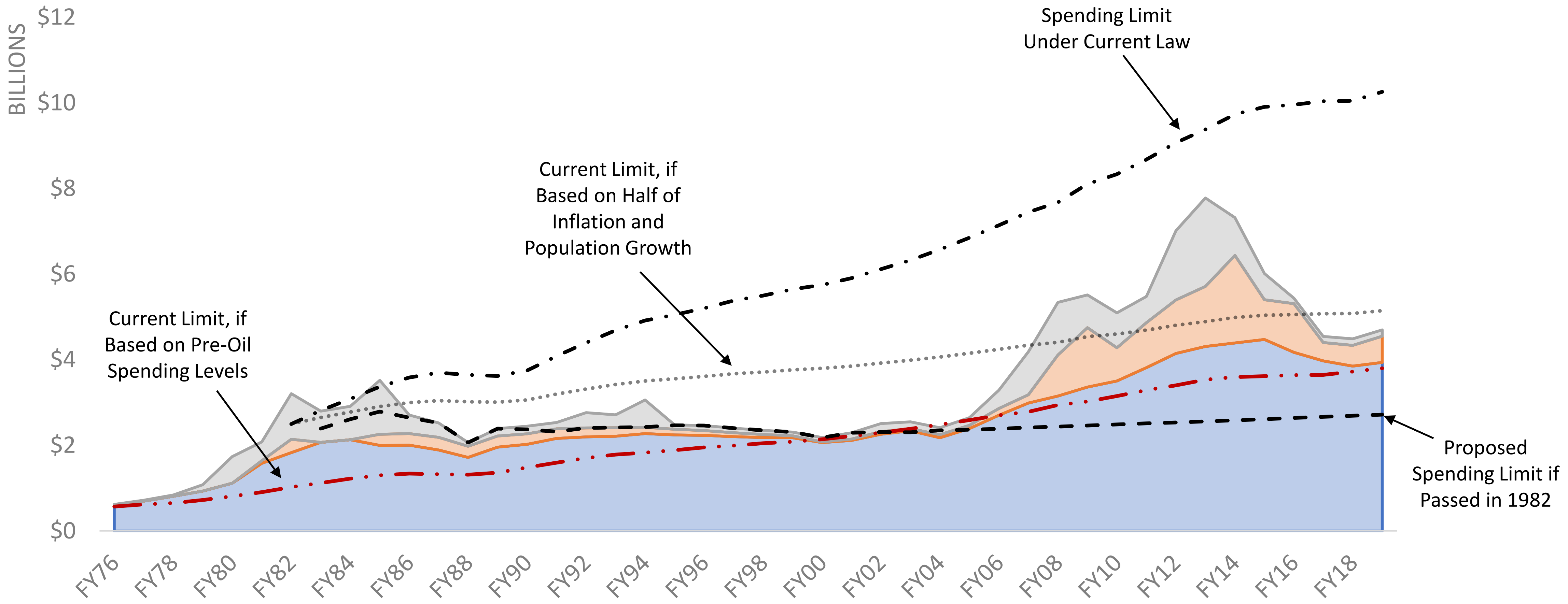
Source: Legislative Finance Division

UGF Spending History and Different Limits



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Source: Legislative Finance and ERG calculations

Considerations

- Not all government spending needs to grow with population
  - Teachers and troopers, maybe
  - Regulators and auditors, maybe not
- For 20 years, the State did not need inflation adjustments, even when they were allowed
- A high allowed rate of growth from a record high spending level leads to an ineffective limit

Why Amending the Limit is Necessary

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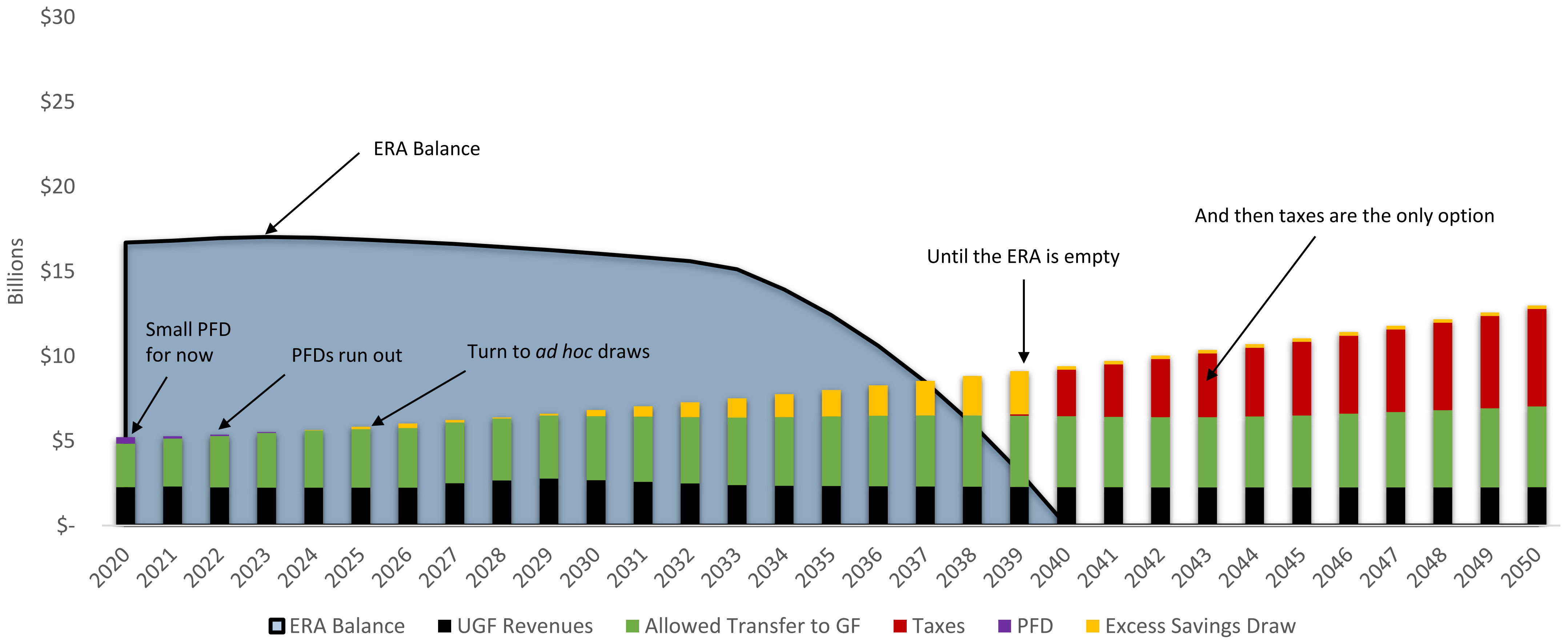
Where Does the Current Path Lead?

No PFD, No Savings, and No Good Options for Future Alaskans



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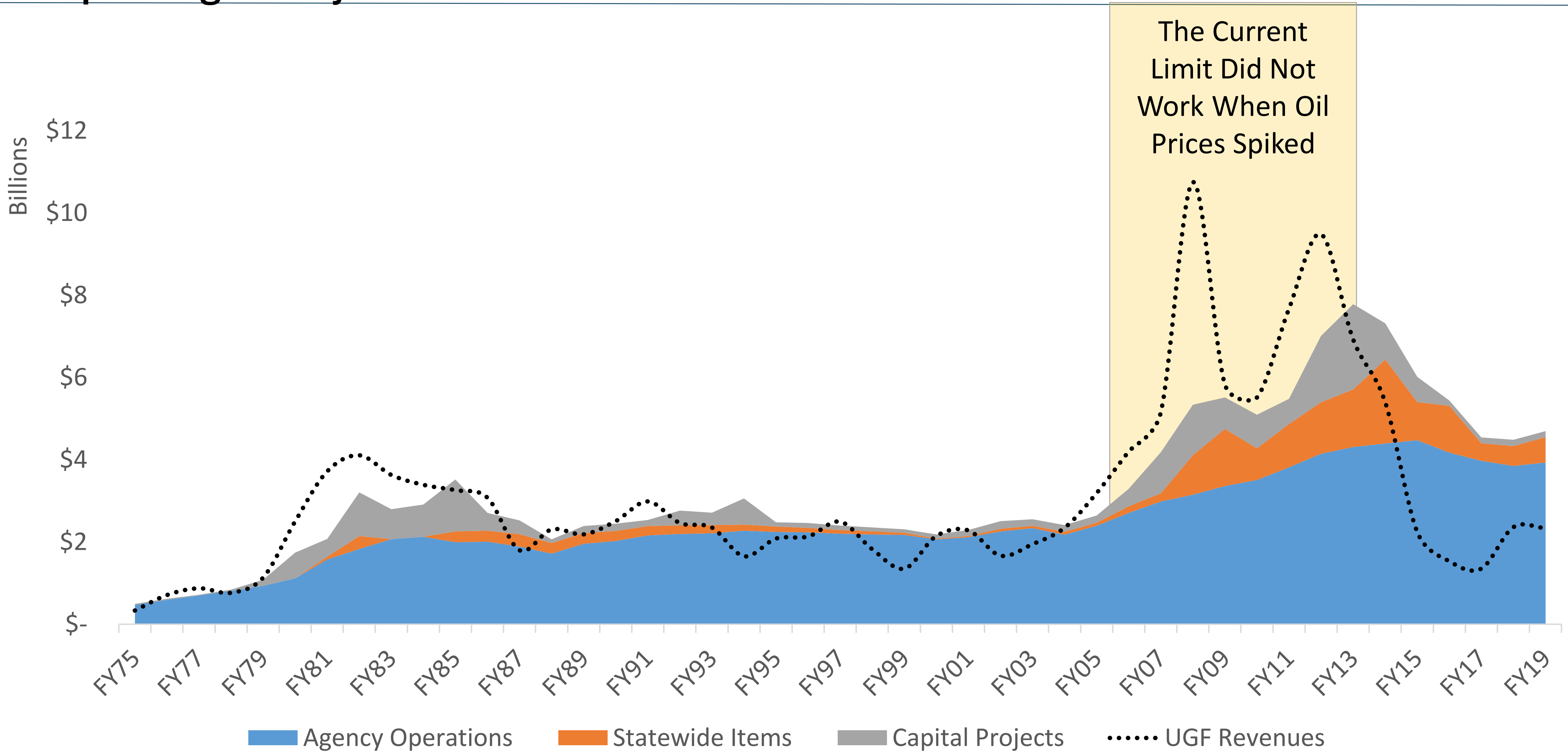
UGF Spending History



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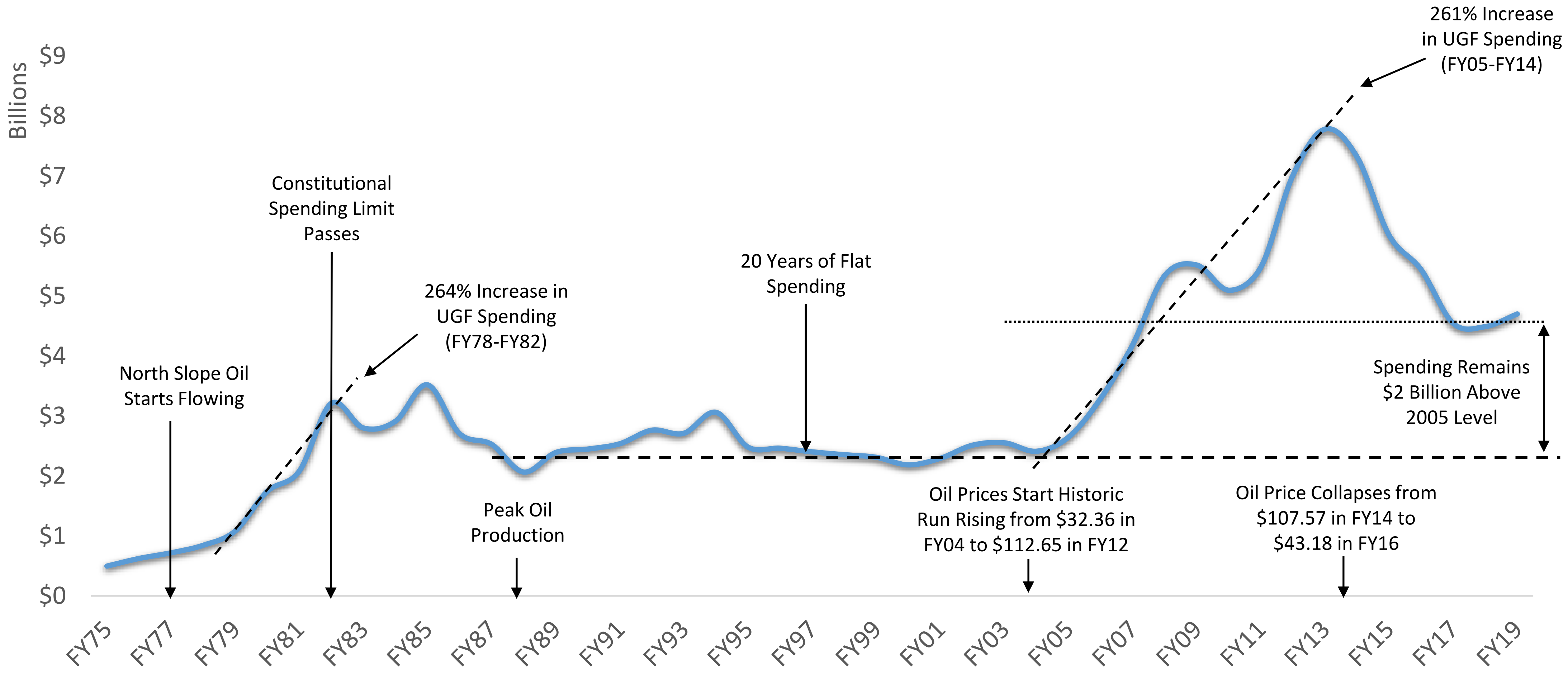
Source: Legislative Finance Division

UGF Spending History



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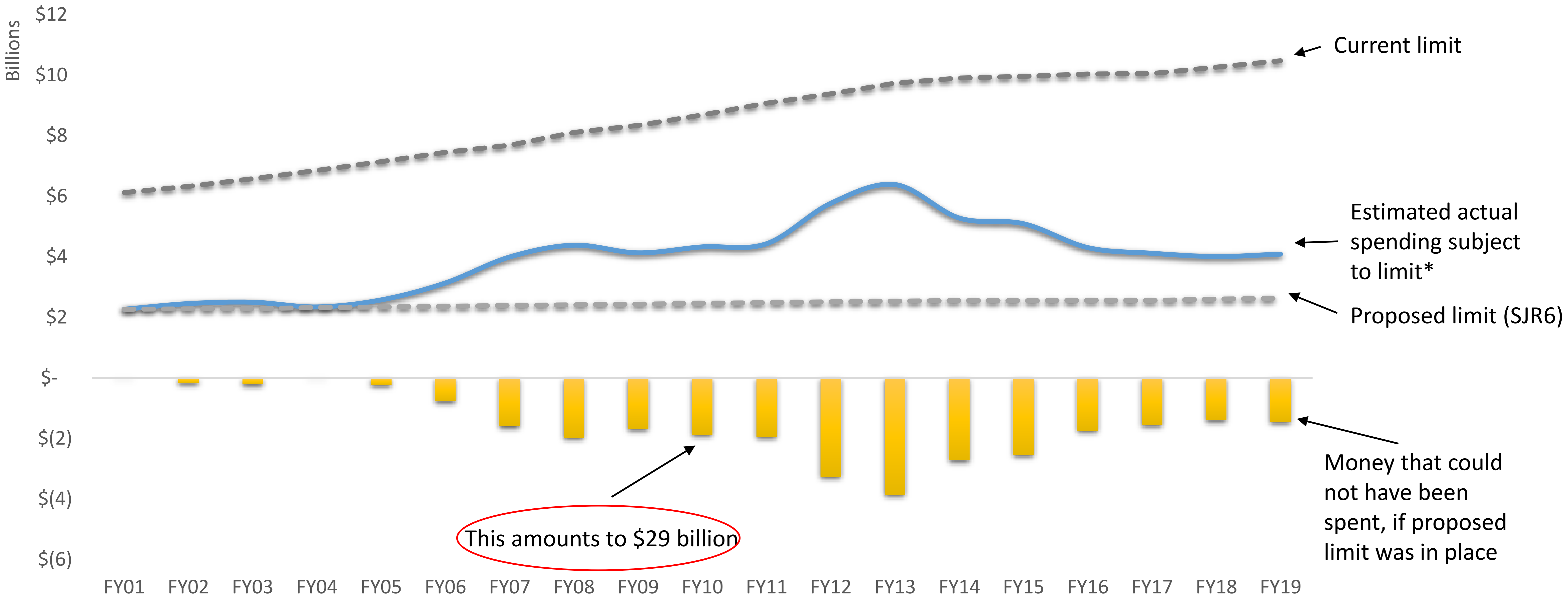
Source: Legislative Finance Division

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



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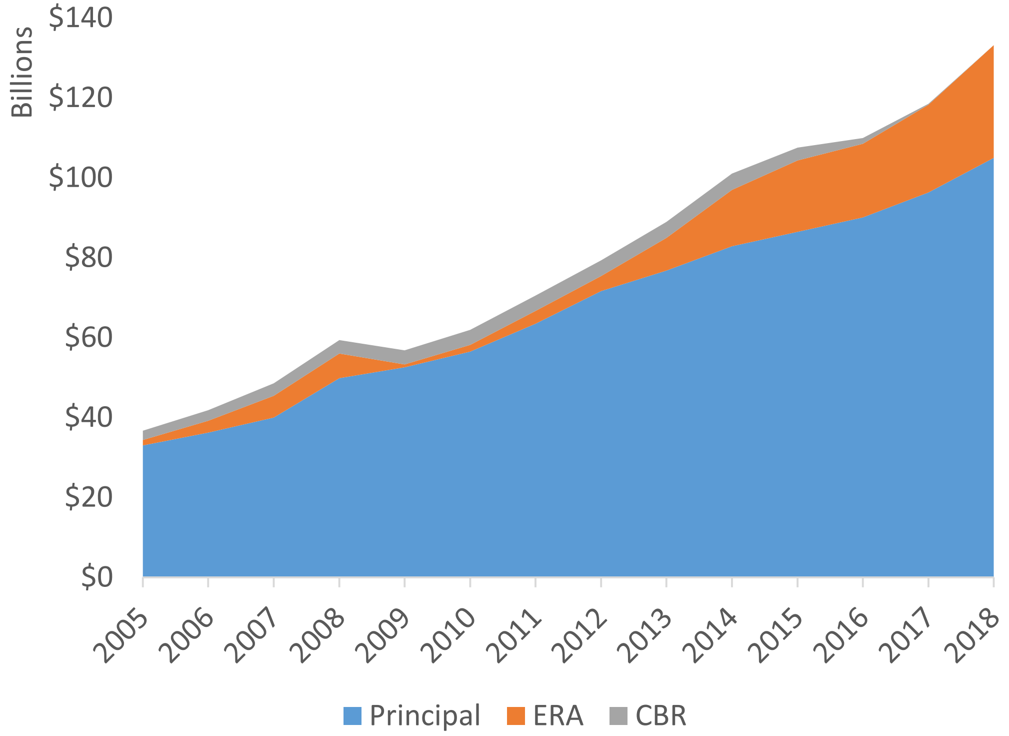
*Assumes oil tax credits would have reduced revenue rather than become budget items, and that contributions to unfunded pension obligations would be excluded from the cap

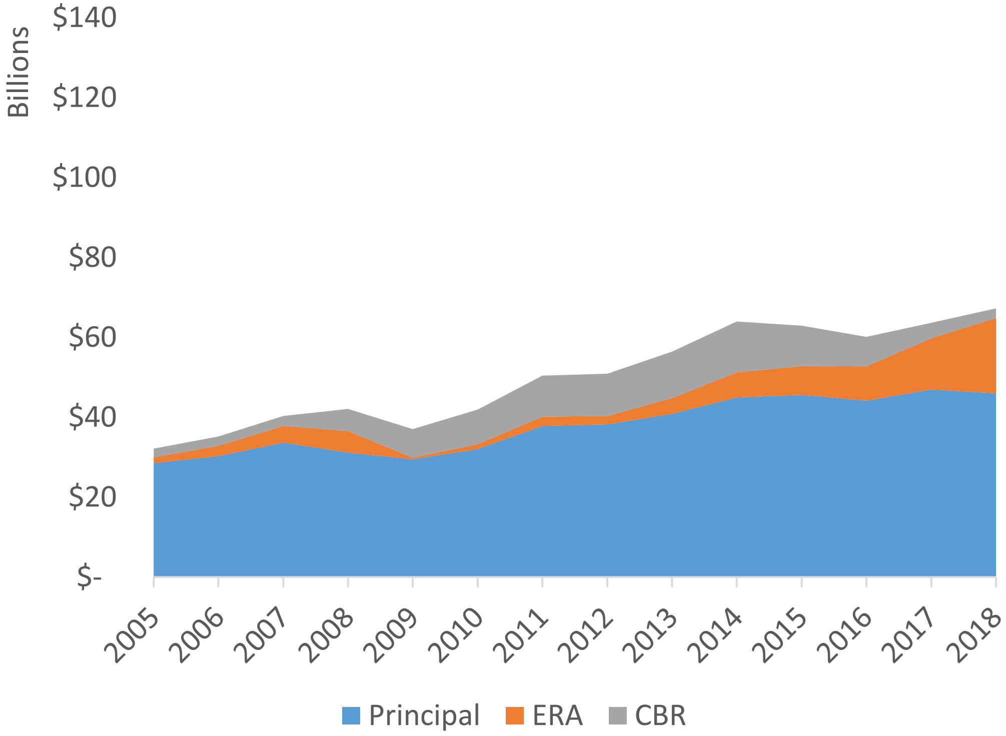
Size of Permanent Fund if Proposed Spending Limit was in Place before Oil Prices Spiked?

With Proposed Spending Limit



Note: Roughly half of the additional balance comes from money not allowed to be spent, the rest comes from compounding interest on those savings

Current Situation



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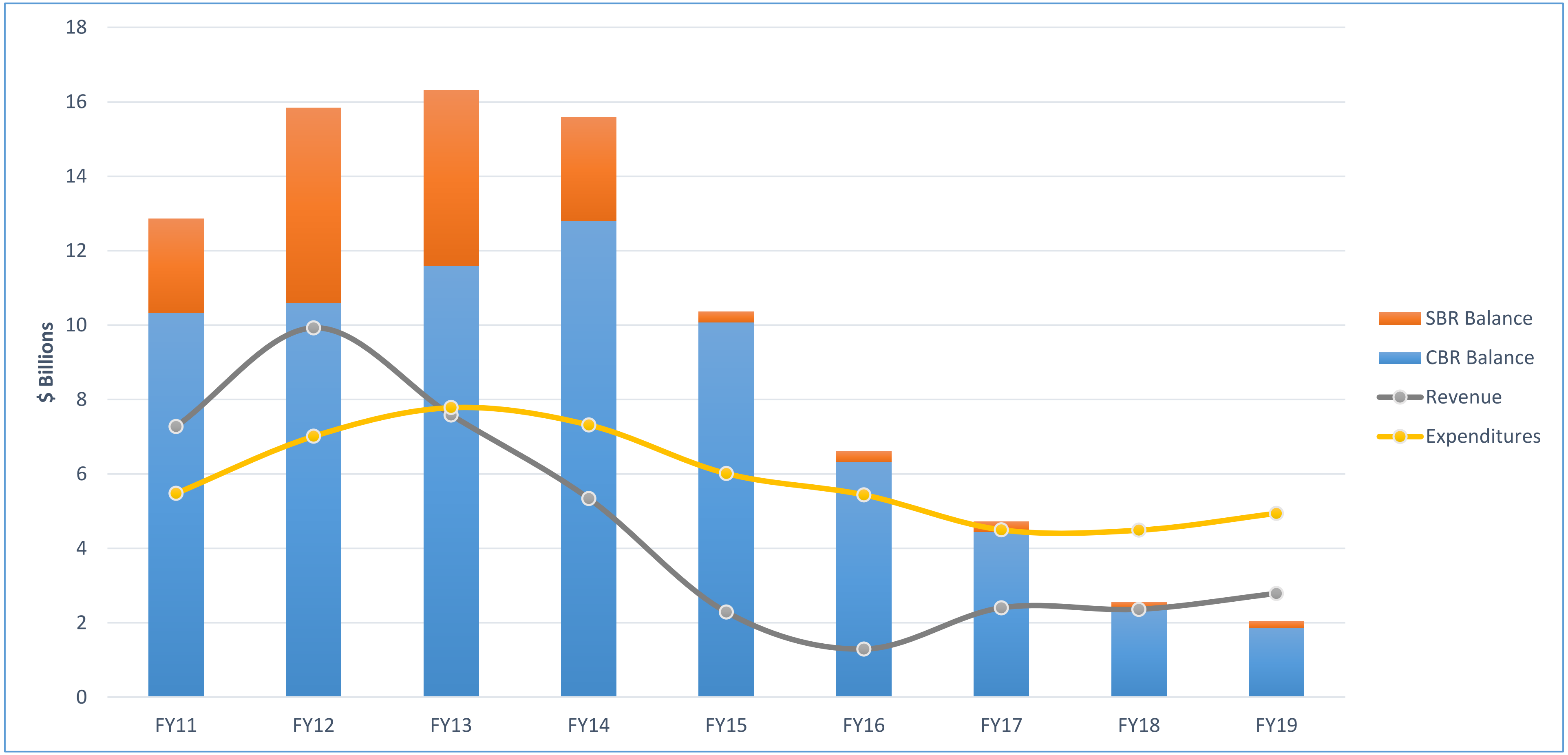
Source: APFC, Treasury Division, and ERG calculations

What Actually Happened



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The Governor’s Plan

Governor’s Constitutional Amendments

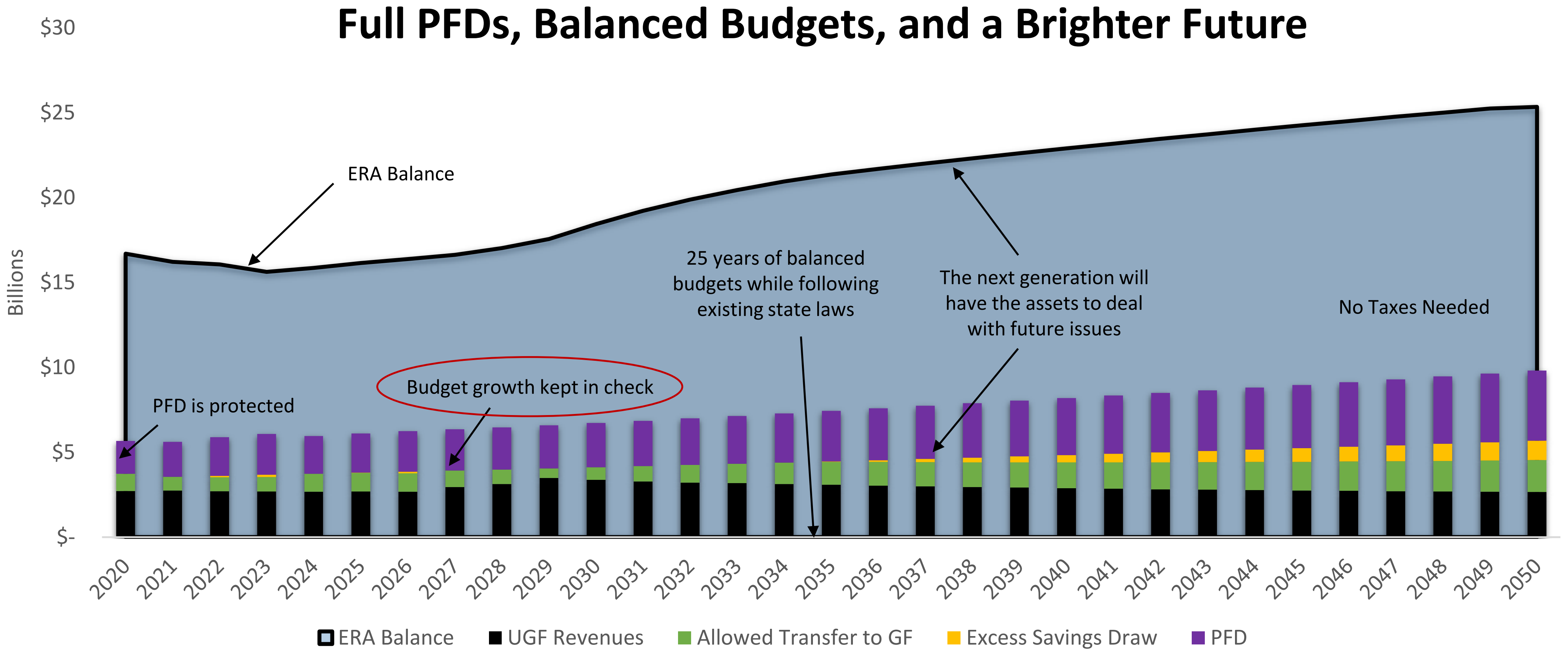
Three constitutional amendments were introduced to provide sustainability, predictability, and affordability for Alaska:

- SJR 6: Set an annual spending and savings rule to stabilize spending and grow the Permanent Fund.

- SJR 5: Changes to the current PFD formula would require a vote of the people– Alaska is an owner state.

- SJR 4: Require a vote of the people before the implementation or increase of any tax.

Where Does Governor Dunleavy's Plan Lead?



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Comparing the Current Limit to the Proposed Limit

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

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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

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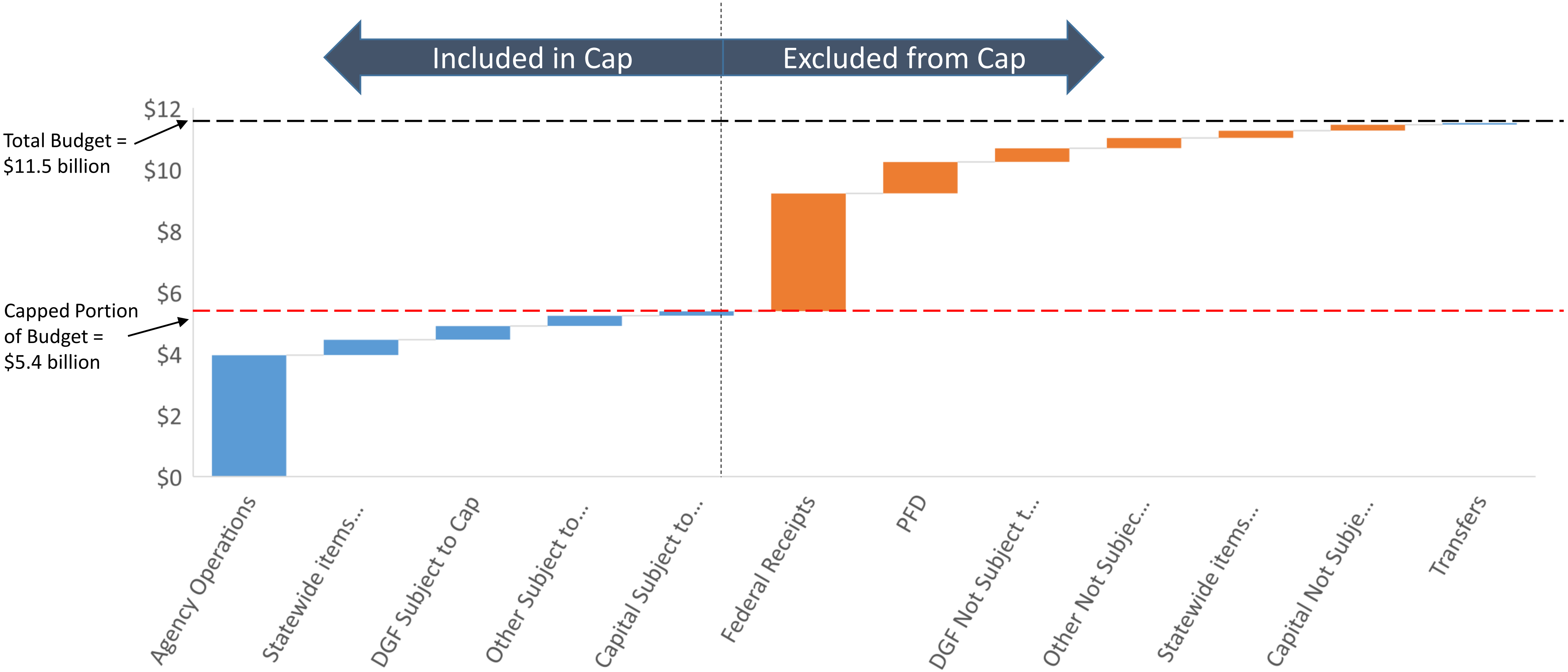
Illustration of Total Budget and Appropriation Limit



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Calculation of Appropriation Limit

The lesser of:

$(Year_{-3} + Year_{-2} + Year_{-1})/3 \times (1 + (Inf + Pop)/2)$

OR

$(Year_{-3} + Year_{-2} + Year_{-1})/3 \times (1.02)$

$Year_{-3}$ = \$5.4

$Year_{-2}$ = \$5.5

$Year_{-1}$ = \$5.6

Inflation = 2.25%

Population Growth = 1%

Then:

$(5.4 + 5.5 + 5.6)/3 \times (1+ (.0225 + .01)/2) = \text{limit}$

$16.5/3 \times (1+(.0325/2)) = \text{limit}$

$5.5 \times 1.01625 = \text{limit}$

$5.6 = \text{limit}$

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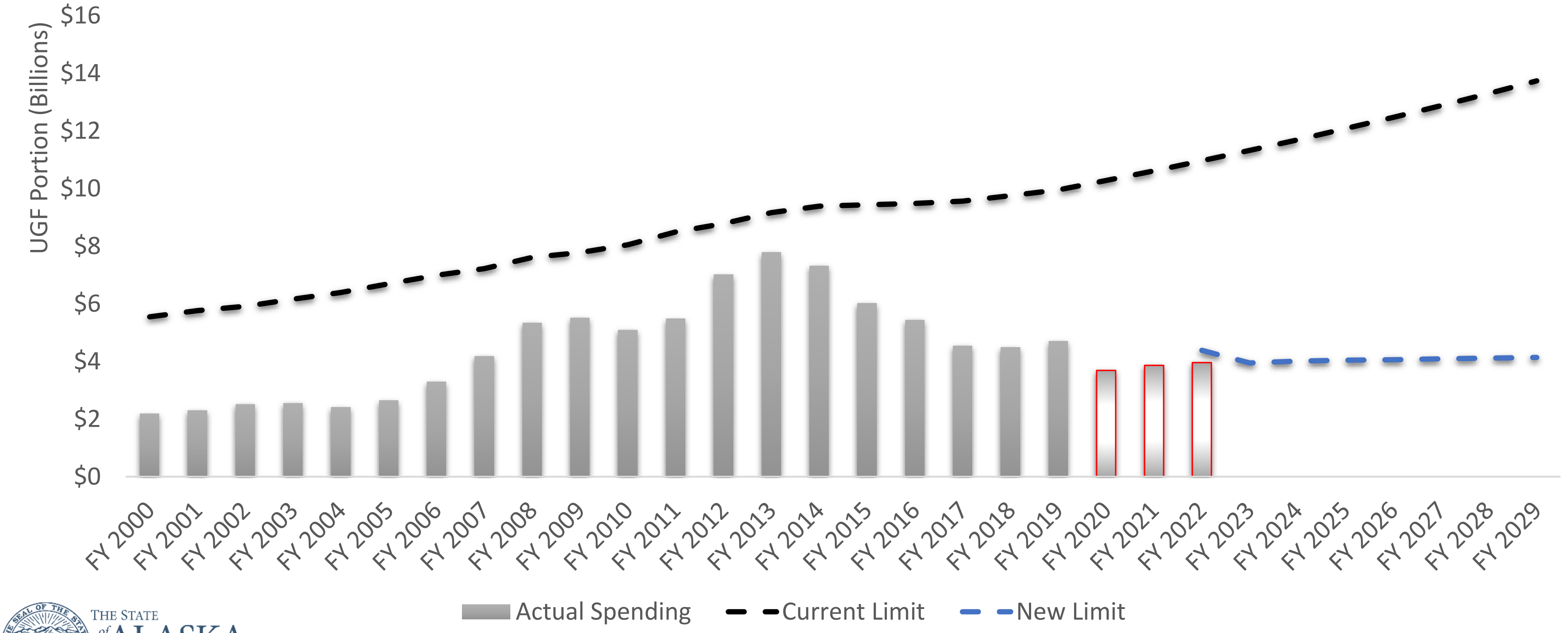
Comparison of Current Limit to Proposed Limit



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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

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Appropriation Limit: Sections 2, 3, and 5

Existing Budget Reserve Fund

Tax and royalty settlements

Constitutional Budget Reserve Fund

Sweep of general fund for repayment (but always reversed through 3/4 vote by legislature)

General fund appropriation (can be done **for any public purpose** with 3/4 vote)

New Savings Reserve Fund

Tax and royalty settlements (no change from existing CBR)

Portion of excess revenues based on priorities in new appropriation limit

Savings Reserve Fund

Legislature, **by majority vote**, may **only appropriate amount to fill gap** between revenues in general fund and appropriation limit. *(Repeals sweep provision and ¾ vote for any public purpose.)*

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Conclusion

- The current spending limit is ineffective
- Without an effective limit, government spending will continue to grow
- Without an effective savings rule, future generations will have less than we have today.
- Growth in government will lead to a depletion in savings, the erosion of the PFD program, or the introduction of broad-based taxes
  - Given time, it will require all three

Questions?

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