

# State of Alaska Office of Management and Budget

## House Joint Resolution 7 *Appropriation Limit*



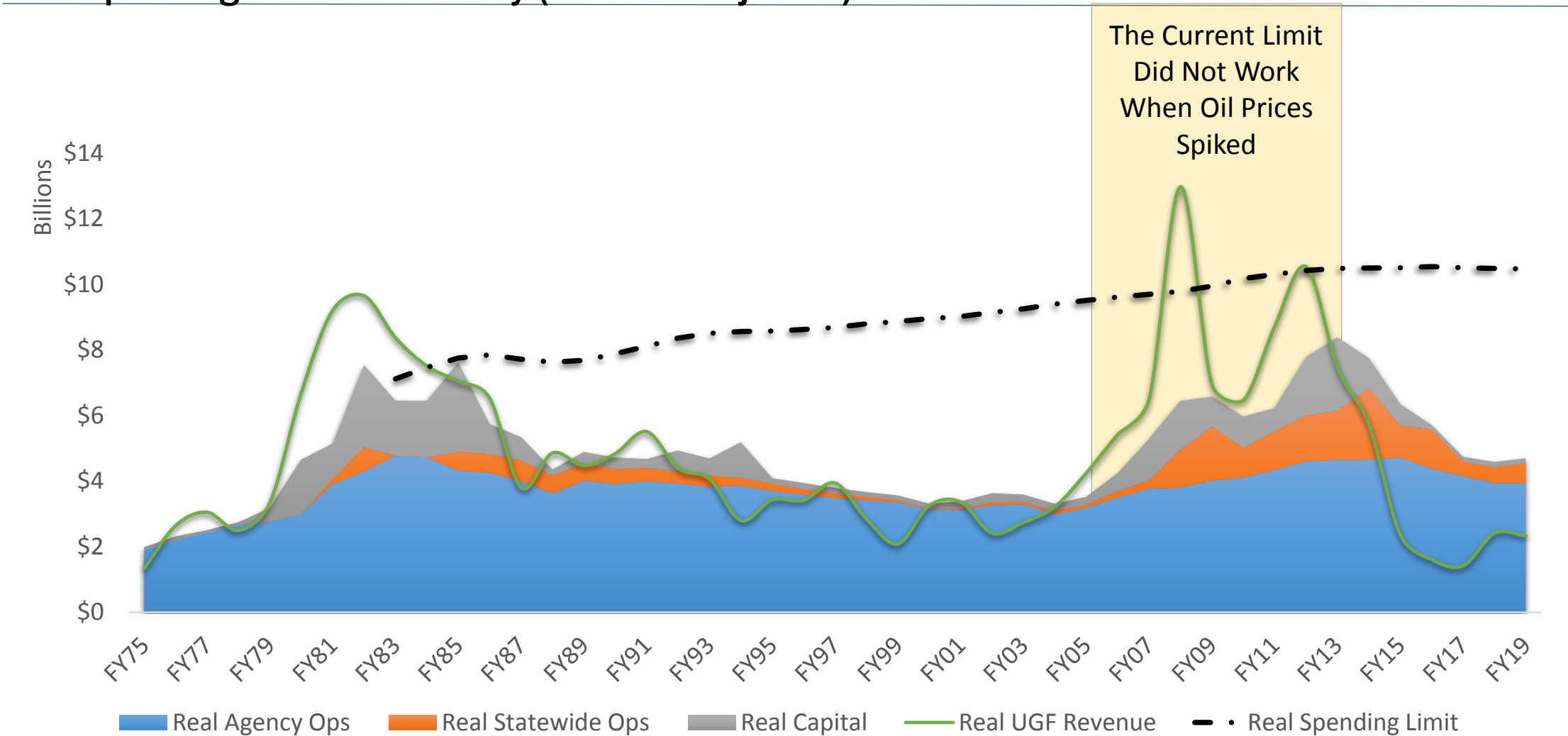
THE STATE  
of **ALASKA**  
GOVERNOR MICHAEL J. DUNLEAVY

## Current Constitutional Spending Limit (Article 9, Section 16)

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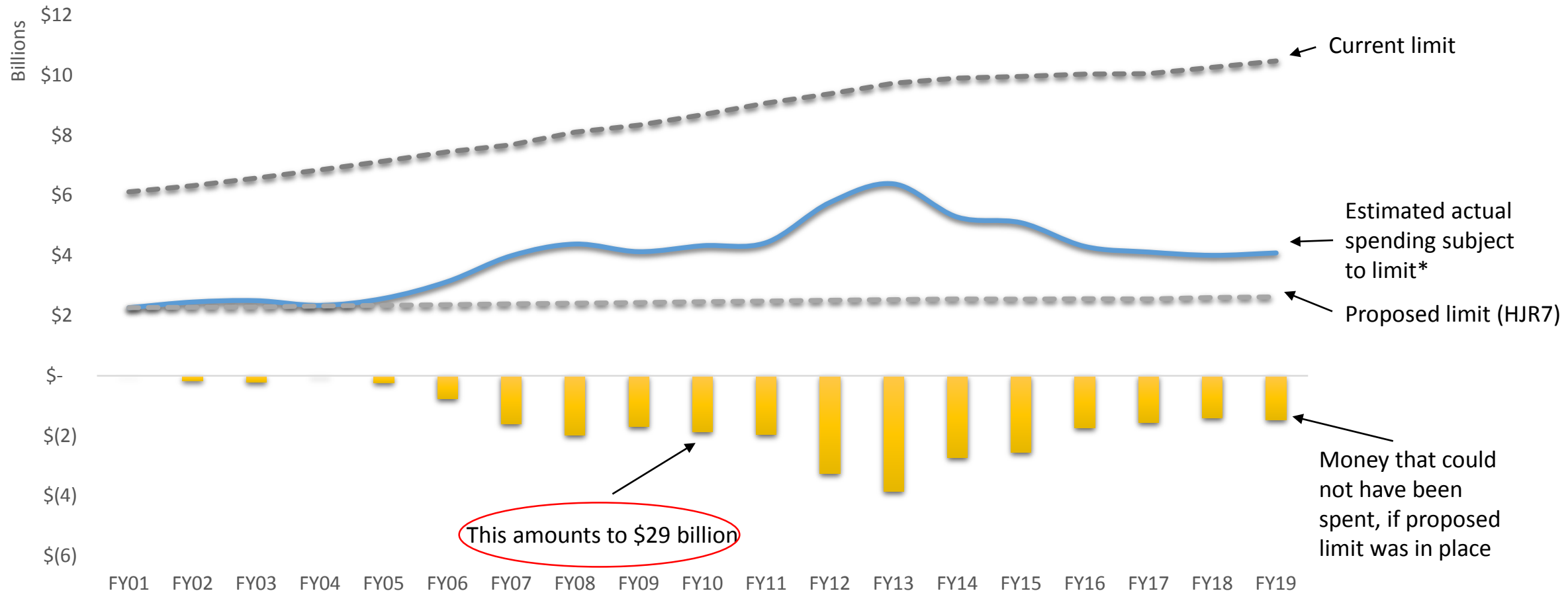
- Limit set at \$2.5 billion, plus inflation and population growth since 1982
  - Calculation for FY20 would be about \$10.5 billion
- Spending subject to cap includes all UGF operating and capital expenditures, most statewide items, plus some DGF items
- Excludes PFDs, bond proceeds, debt service payments, 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)

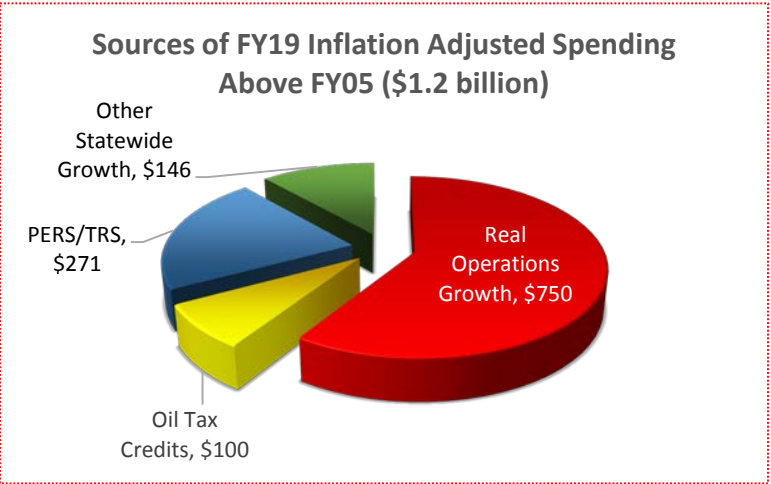
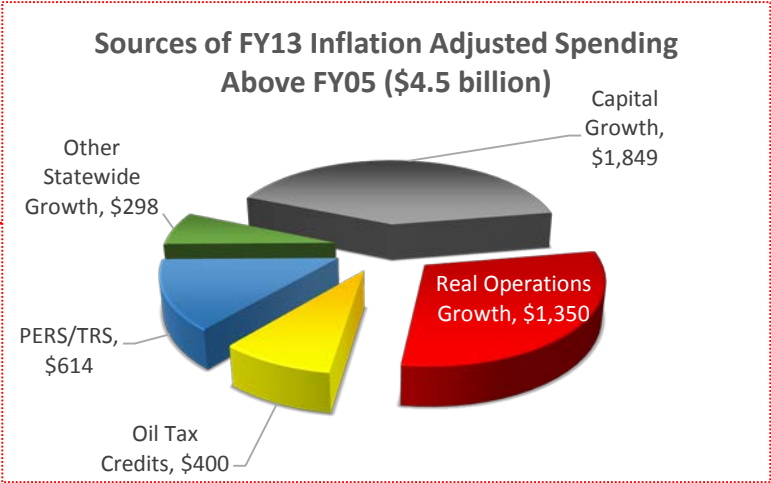
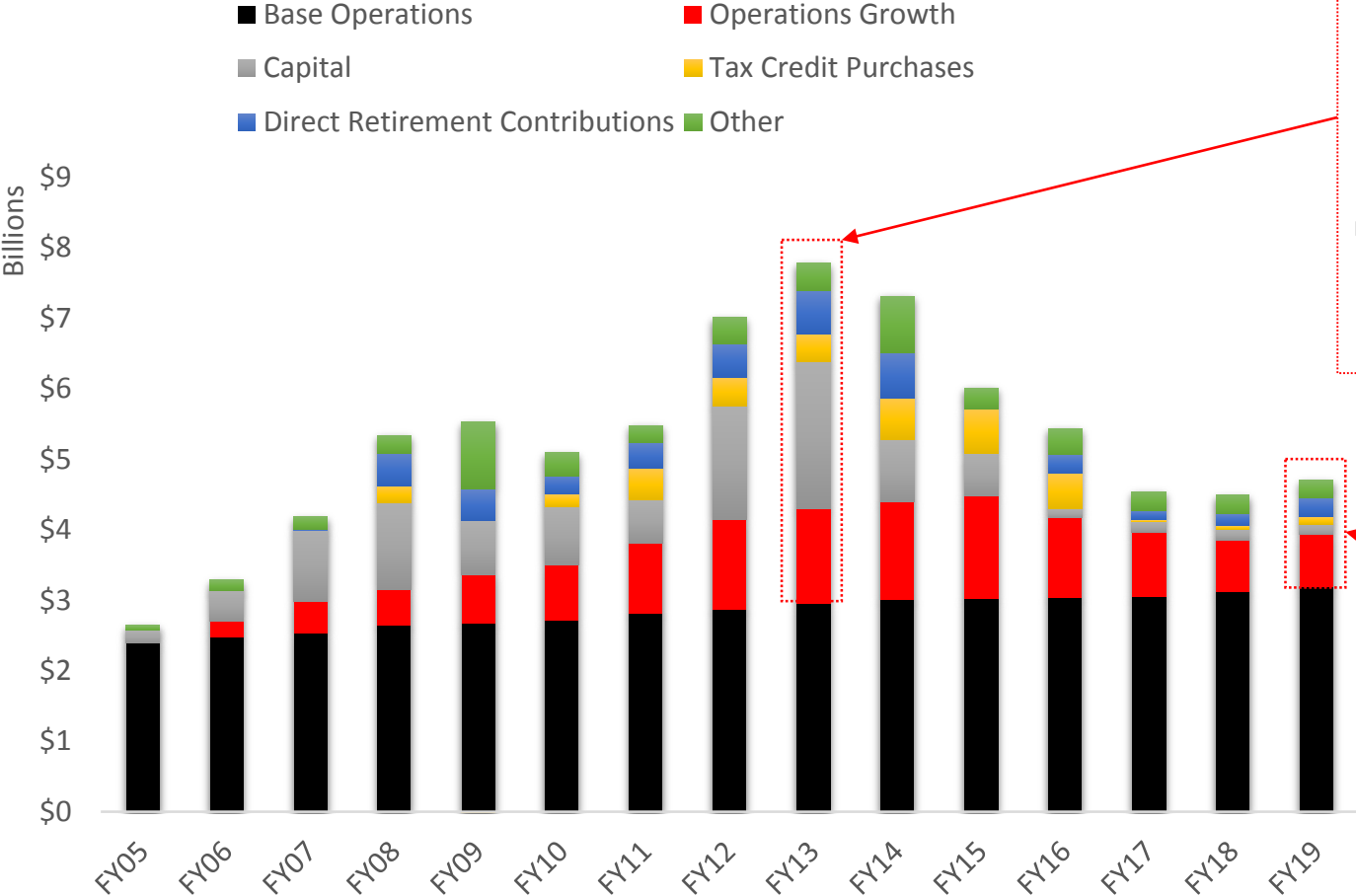


Source: Legislative Finance and ERG calculations

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



# Sources of UGF Spending Growth



# Appropriation Limit (SJR 6/HJR 7)

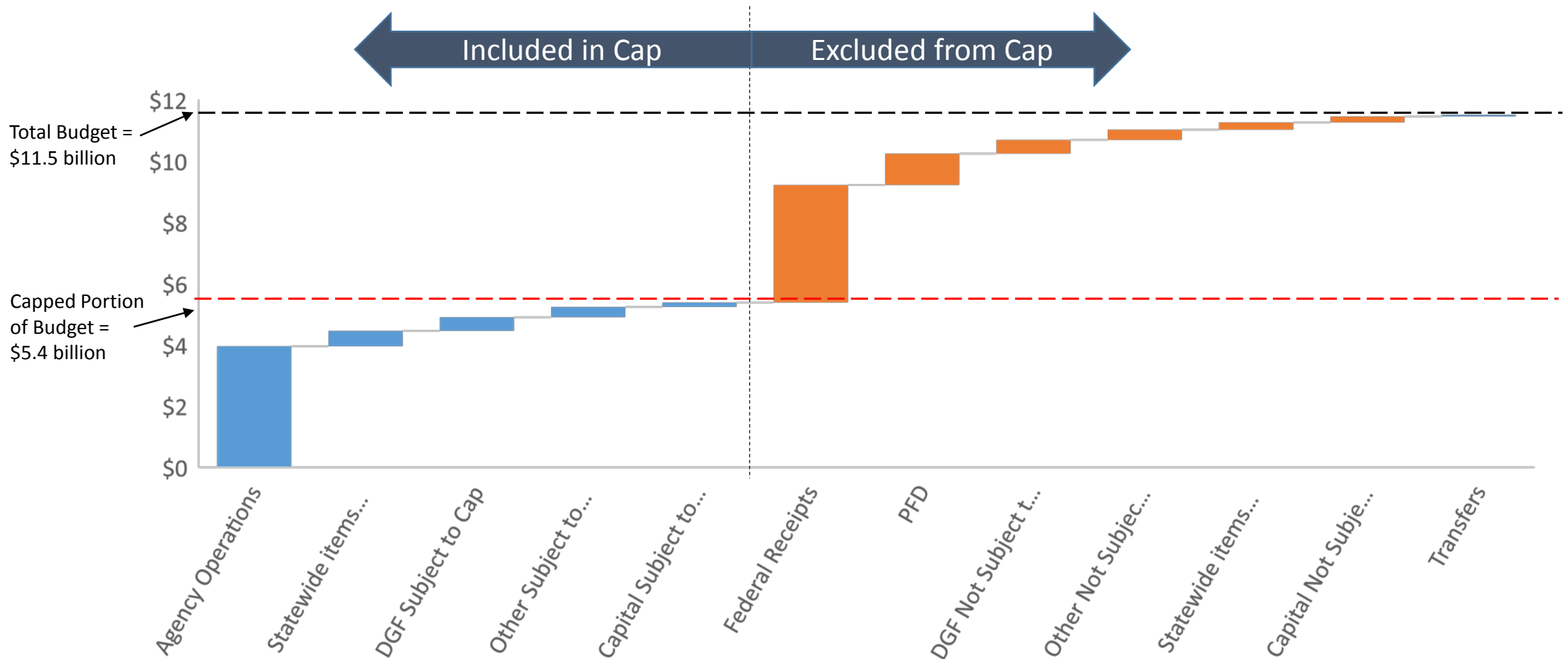
Big picture:

- 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)**

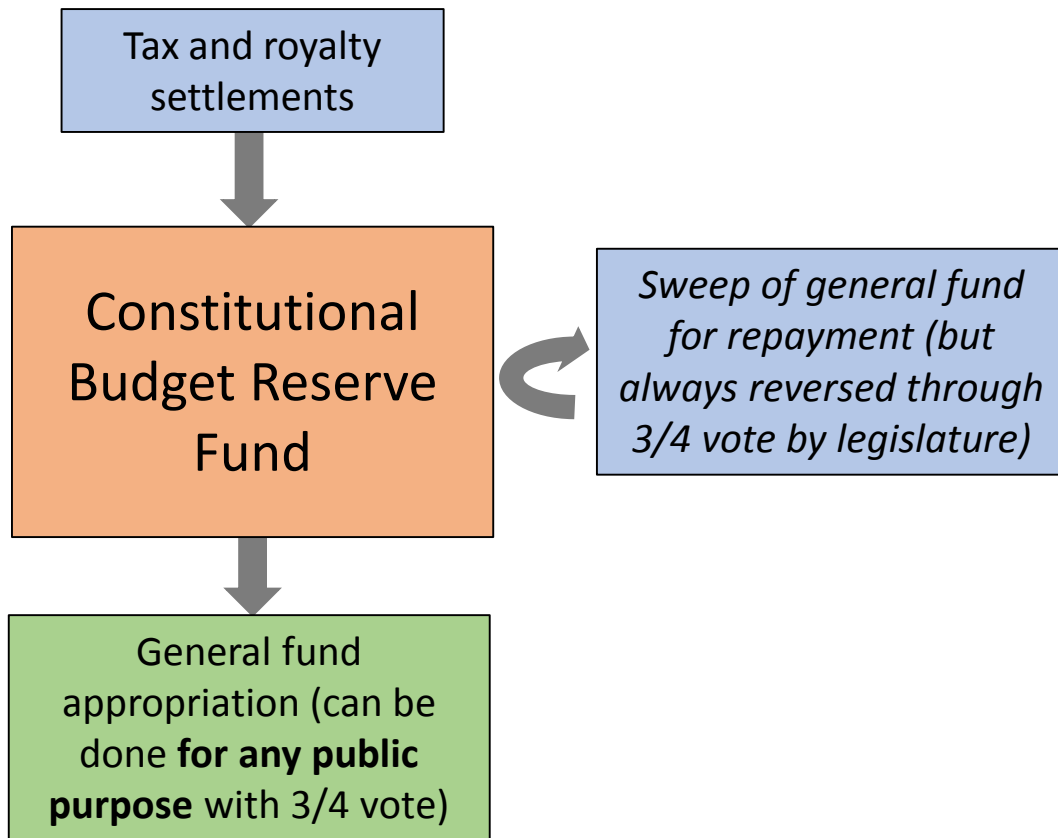
**Priority #1:** Pay back the permanent fund principal 50% of the income that was deposited into the ERA that fiscal year

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

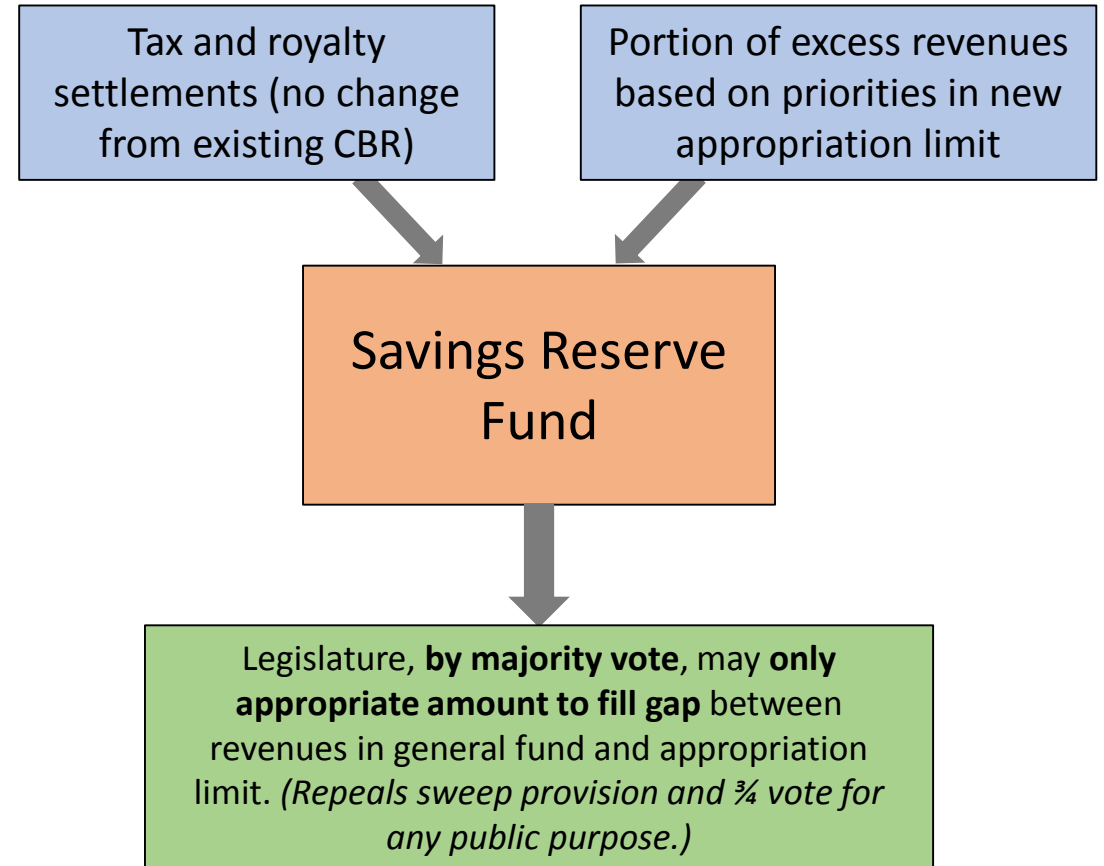
**Priority #3:** *[if money remains after priority #2]* Put money into permanent fund principal to continue growing the fund

# 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”

A scenic landscape photograph of a calm lake reflecting the sky and surrounding mountains. A dense forest of evergreen trees is on the right side, and snow-capped mountains are in the background under a cloudy sky.

# Questions?



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