

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

GDP-Based Spending Cap

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District 32 - East Fairbanks / Ft. Wainwright

Appropriation Limits Overview

- Structure of an appropriation limit
 - Exemptions List: Appropriations subject to the limit
 - The Appropriation Limit: Define the calculation factor, starting point, growth rate, and other limit mechanisms
 - Other: Capital projects or other specific language
- Current Appropriation Limit
 - Constitutional: Article IX, §16 (effective in 1982)
 - Statutory: AS 37.05.540(b)
- Types of Appropriation Limits
- Proposed Appropriation Limit (HJR 2 / HB 38)

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 FY 21 would be about \$9.8 billion
- At least 1/3 of limit reserved for Capital Projects and Loans
 - Can also break the limit for appropriations to Permanent fund, capital projects if signed by governor or approved by the voters, and a state of disaster

Current Constitutional Limit: Exemptions

“Except for appropriations for Alaska permanent fund dividends, appropriations of revenue bond proceeds, appropriations required to pay the principal and interest on general obligation bonds, and appropriations of money received from a non-State source in trust for a specific purpose, including revenues of a public enterprise or public corporation of the State that issues revenue bonds... No other appropriation in excess of this limit may be made except to meet a state of disaster declared by the governor as prescribed by law.”

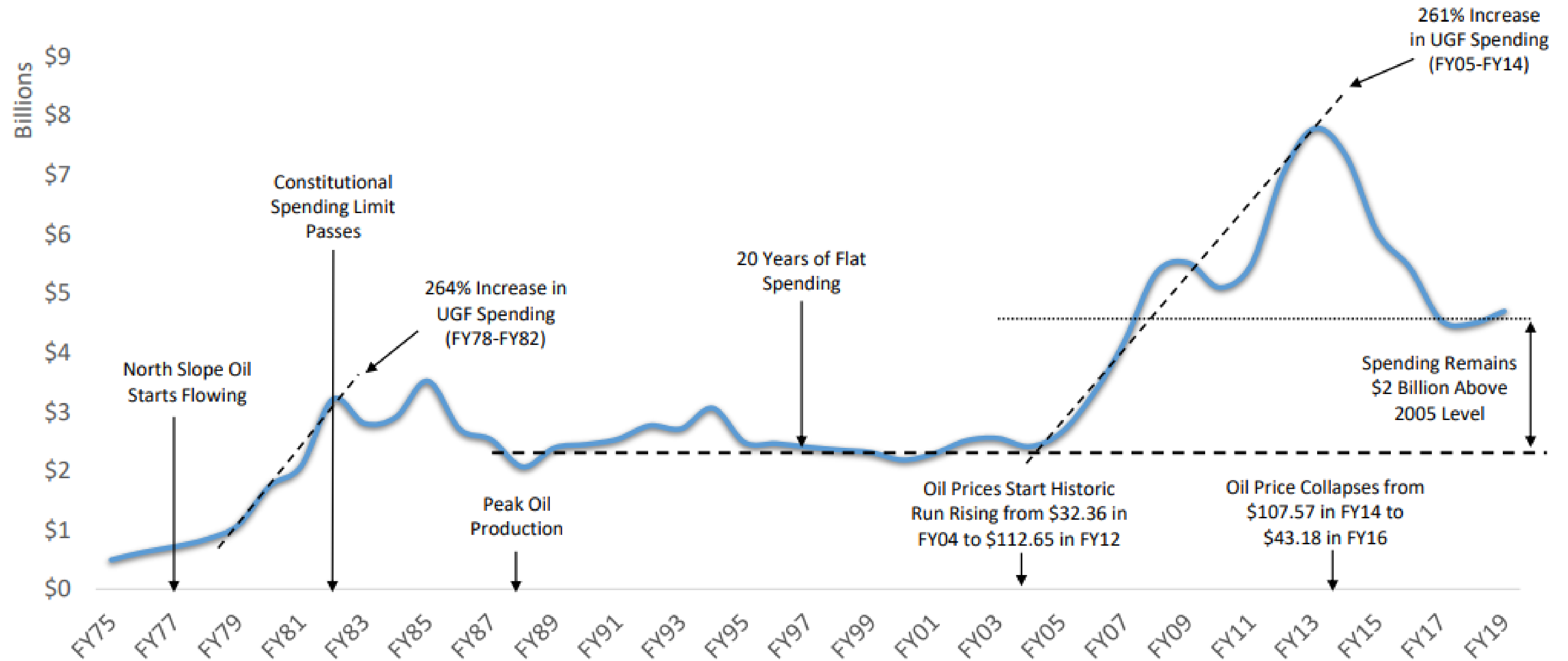
- Creates exemptions for fund sources as well as purposes
- Current limit applies to all UGF, most statewide items, and some DGF items
- Excludes PFDs, bond proceeds, debt service payments, non-State sources of revenue, public corporation revenues, and disaster declarations
- School Bond Debt Reimbursement is excluded from the limit

Current Statutory Limit

- 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

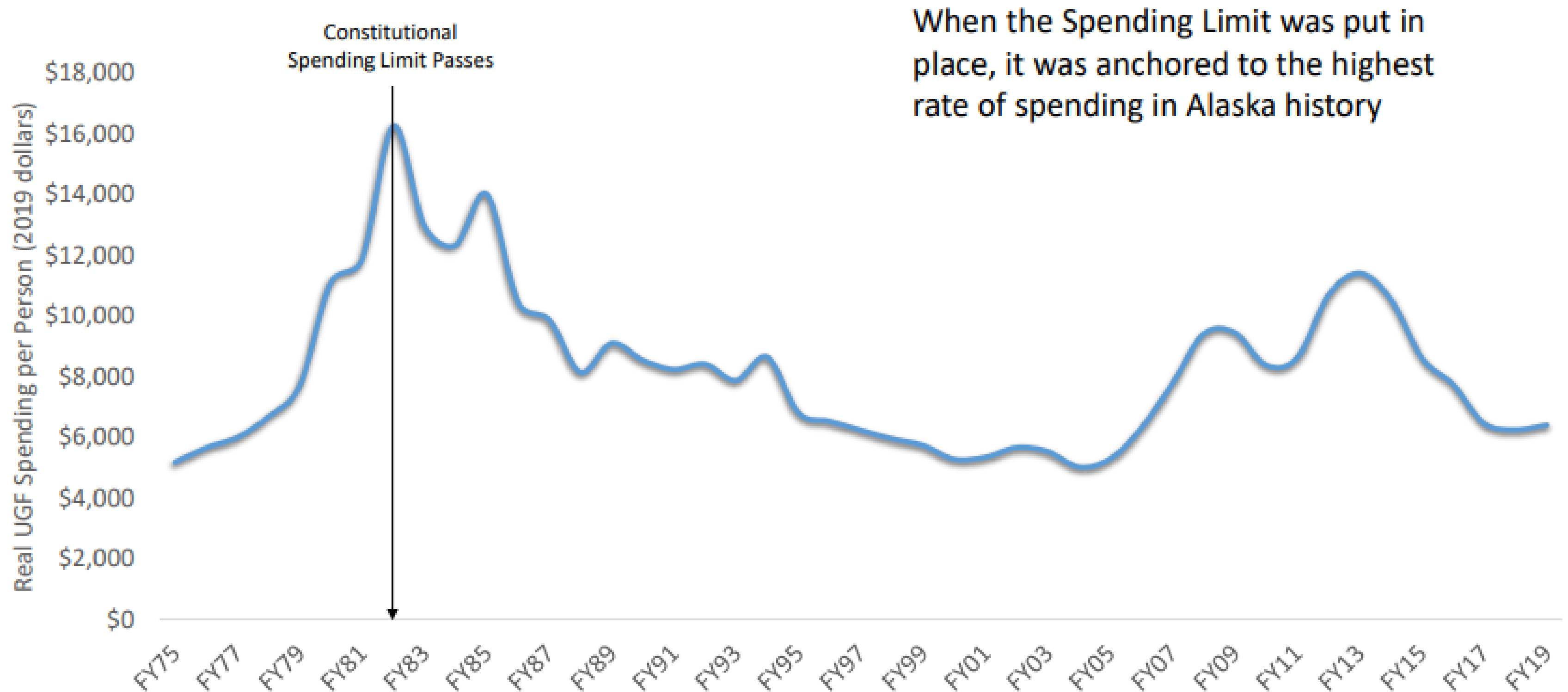
UGF Spending History

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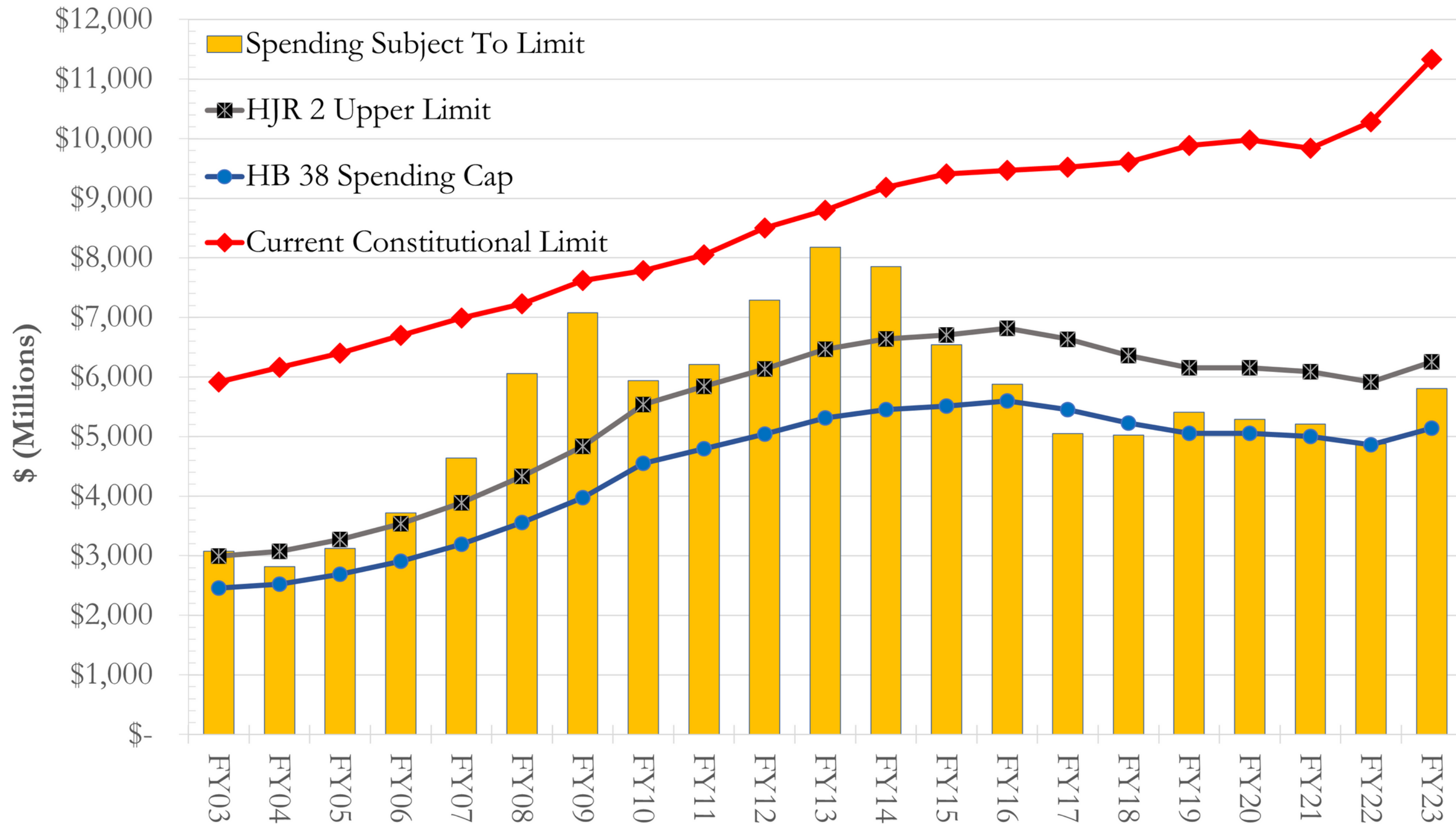
Inflation and Population Adjusted UGF Spending



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 amendment, as drafted, caps the statutory limit at 14% of the calculated value
- Statutory limit, as drafted, caps appropriations at 11.5% of value
 - FY22 appropriations were roughly \$16 Million below 11.5% of the calculated value (the statutory limit)



Proposed Appropriation Limit



Spending Subject to Limit

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HJR 2 / HB 38

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

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HJR 2 / HB 38

- 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, smooths out overspending when revenues are up, allows government spending to fall much slower than GDP during poor years, and the limit is known before the budget process begins
- Private-Sector Focused
 - Open the discussion to outcomes during the budget process

Questions? Contact Me!

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