AML has advocated for a sustainable fiscal policy for more than a decade and recognizes the balance that must be achieved between new revenues, the efficient delivery of government services, the effective use of Permanent Fund earnings, and the ability to address Alaska's infrastructure deficit and Constitutional obligations. We recognize that a spending cap is part of a strategic approach that must be given careful scrutiny and analysis relative to the other components of a fiscal policy.

HB38/SB20 is an innovative approach to a spending cap, establishing an appropriation limit based on a percentage of the State's GDP. On its face, there's a lot to be said for establishing a linkage between Alaska's economy and its State budget. The same and more direct would occur with a broad-based tax. While searching for a linkage between the economy and the State budget, these bills set limits based on external factors like oil prices and financial markets, while the demand for services depends upon the quantity of economic activity and population, which doesn't always correspond.

That's important because one of the main functions of a spending cap in other jurisdictions is to provide surety to taxpayers, and to even be able to ratchet down tax rates or otherwise provide relief when revenues outpace the State's budget. In this case, higher revenues will simply mean less of those revenues being reinvested into Alaska. GDP decline, or other negative indicators, don't mean the costs of delivering services get any cheaper.

It has been argued that this "extra" would be saved instead. A fund balance at the State level is important to manage cash-flow and to ensure a future that holds as much promise as today. This generational equity is a fundamental principle of the Permanent Fund, where Alaska converts a non-renewable resource into renewable revenues for the future. There is also the CBR to recapitalize. Alaska has been exceptional at savings, committing 30% more to the Permanent Fund than it had to, a process that really had the impact of displacing the CBR as the Legislature's main tool for managing its fund balance. There does not appear to be a savings policy that comes with this spending cap proposal, with few metrics to evaluate performance, milestones, or goals. By excluding some categories of spending, it also means that any excess revenues might just flow into those things outside the cap and be spent.

It's interesting to look at analyses of the value of the State's spending. We can point to research on spending to the University and ferry system, where the State's dollar is leveraged for more than two. Alaska is earning the market rate – let's say 7% – on these savings, while it's earning 200% on what it invests into critical State services and infrastructure. This is not to discredit the choices we've made about savings at all, nor is this a judgement on the Permanent Fund. It's simply to say that saving today has a different impact than spending today, and there are reasons we make one vs. the other that should be guided by policy, prioritization, and responsiveness to the needs of Alaskans.

These bills make choices about saving and spending. It has been argued that whatever we didn't spend today, limited by the spending cap to avoid "booms," we would spend in future years. There is nothing in the bill that guarantees this, nor could there be. This Legislature could not bind future bodies – it could very well be that "busts" remain just that, negatively impacting Alaska schools, communities, and other partners, and further diminishing the ability of the State to provide services. The bill then provides the potential ability to either fund base spending in years where there's a deficit or fund larger PFDs, depending on which savings account high years earnings are placed and whether the Legislature has the votes necessary to fill the gap or makes different choices.

It's worthing thinking of years of high spending as the corrective to years of low, and our history shows that, where we've made longer-term investments during years when more revenue is available. Periods of flat or depressed spending are managed through increased spending when revenues are available. This is a real problem for things like capital budgets, which exacerbate the business cycle. The perceptions of booms and busts are simply the experience Alaska has had with revenue fluctuations (due to the volatility of its revenue sources) and the real needs that legislators attempt to address when they can. Other states manage these swings through broad-based revenues that are more predictable.

The appropriation limits as currently proposed limit the State's ability to be responsive to the needs of Alaskans. There are four areas that draw special consideration:

1. Base agency operations – the basic footprint of State government – are unlikely to change except with modest growth consistent with inflation. The majority of the cap will apply to a budget that is unlikely to change anyways. At the same time, it is hard to argue that today's budget is sufficient, when many agencies are simply doing less with less, and overwhelmed with little capacity.
2. Where there has been variability over the last two decades has been the capital budget and PFD. Having the PFD outside the spending cap means a sizeable portion (the largest) of the overall budget to which the spending cap doesn't apply. That won't reduce State spending, only types of State funding and not its largest expenditure at all. In effect, it may mean prioritizing spending on the PFD over all other types of spending.
3. Traditionally, the area of reductions the State has sought when there have been revenue shortfalls has been felt by local governments, school districts, and service organizations, all of which fall under broad category of grants and intergovernmental transfers. These are usually the first to go, as has been the general experience of the State's partners.
4. Finally, the capital budget feels the most direct pressure, leaving a version that only provides match to federal programs and calling into question even that. A diminished capital budget has resulted in only 11% of school construction and major maintenance funded, and billions needed for deferred maintenance. Agencies may also feel pressure not to pursue projects that would require match or additional funding, limiting infrastructure improvements that might otherwise be necessary.

Ultimately, there should be concern that a spending cap inhibits the ability of the State and its political subdivisions to fulfill their Constitutional and statutory obligations. There is nothing in the current legislation that prioritizes this spending over any other or ensures it at all. It is hard to know how well the State will be able to meet those obligations. At the same time, it might mean that local governments have to turn to increased taxes to meet any decline in State spending. A spending cap without broad-based revenues simply shifts tax collection to other levels of government.

It's important to note the role that government spending has on the GDP of any state, and how linked the two are. One of the biggest levers the state has to influence the economy is spending, and as far as countercyclical fiscal policy we would actually want spending to increase when GDP declines. Economic policy at the federal level is also not made according to the Alaska business cycle. Limited public spending is a self-fulfilling prophecy, which decreases overall economic activity over time. In fact, a spending cap takes away the ability for the Legislature and Governor to tackle hard issues, like affordable energy, housing, child care, water and sewer, school construction and major maintenance, opioids crisis, and so on. A spending cap does not place Alaska on a path to prosperity, and effectively establishes barriers along the way.