

ALASKA STATE LEGISLATURE
HOUSE JUDICIARY STANDING COMMITTEE

January 23, 2004

1:03 p.m.

MEMBERS PRESENT

Representative Lesil McGuire, Chair
Representative Tom Anderson, Vice Chair
Representative Dan Ogg
Representative Ralph Samuels
Representative Les Gara
Representative Max Gruenberg

MEMBERS ABSENT

Representative Jim Holm

COMMITTEE CALENDAR

HOUSE JOINT RESOLUTION NO. 9

Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit and a spending limit.

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HJR 9

SHORT TITLE: CONST AM: APPROPRIATION/SPENDING LIMIT

REPRESENTATIVE(S): STOLTZE

01/31/03	(H)	READ THE FIRST TIME - REFERRALS
01/31/03	(H)	STA, JUD, FIN
02/11/03	(H)	STA AT 8:00 AM CAPITOL 102
02/11/03	(H)	Heard & Held
02/11/03	(H)	MINUTE(STA)
04/04/03	(H)	W&M REFERRAL ADDED BEFORE STA
04/09/03	(H)	W&M AT 7:00 AM HOUSE FINANCE 519
04/09/03	(H)	Heard & Held
04/09/03	(H)	MINUTE(W&M)
04/17/03	(H)	W&M AT 7:00 AM HOUSE FINANCE 519
04/17/03	(H)	Heard & Held
04/17/03	(H)	MINUTE(W&M)
04/24/03	(H)	W&M AT 7:00 AM HOUSE FINANCE 519
04/24/03	(H)	Heard & Held
04/24/03	(H)	MINUTE(W&M)

04/29/03 (H) W&M AT 7:00 AM HOUSE FINANCE 519
04/29/03 (H) Heard & Held
04/29/03 (H) MINUTE(W&M)
04/30/03 (H) W&M AT 8:00 AM HOUSE FINANCE 519
04/30/03 (H) Heard & Held
04/30/03 (H) MINUTE(W&M)
05/02/03 (H) W&M AT 7:00 AM HOUSE FINANCE 519
05/02/03 (H) Moved CSHJR 9(W&M) Out of Committee
05/02/03 (H) MINUTE(W&M)
05/02/03 (H) W&M RPT CS(W&M) NT 3DP 2NR 2AM
05/02/03 (H) DP: HEINZE, WHITAKER, HAWKER;
05/02/03 (H) NR: MOSES, GRUENBERG; AM: KOHRING,
05/02/03 (H) WILSON
05/06/03 (H) STA AT 8:00 AM CAPITOL 102
05/06/03 (H) Scheduled But Not Heard
05/06/03 (H) JUD AT 5:30 PM CAPITOL 120
05/06/03 (H) -- Meeting Canceled --
05/06/03 (H) STA AT 5:30 PM CAPITOL 102
05/06/03 (H) -- Meeting Canceled --
05/07/03 (H) STA AT 8:00 AM CAPITOL 102
05/07/03 (H) Heard & Held
05/07/03 (H) MINUTE(STA)
05/07/03 (H) JUD AT 1:00 PM CAPITOL 120
05/07/03 (H) <Bill Hearing Postponed>
05/08/03 (H) STA AT 8:00 AM CAPITOL 102
05/08/03 (H) Moved CSHJR 9(STA) Out of Committee
05/08/03 (H) MINUTE(STA)
05/08/03 (H) STA RPT CS(STA) NT 3DP 3NR
05/08/03 (H) DP: SEATON, LYNN, DAHLSTROM;
05/08/03 (H) NR: GRUENBERG, HOLM, WEYHRAUCH
05/08/03 (H) JUD AT 3:30 PM CAPITOL 120
05/08/03 (H) <Bill Hearing Postponed>
05/09/03 (H) JUD AT 1:00 PM CAPITOL 120
05/09/03 (H) Heard & Held
05/09/03 (H) MINUTE(JUD)
05/12/03 (H) JUD AT 1:00 PM CAPITOL 120
05/12/03 (H) <Bill Hearing Postponed to Wed.
5/14/03>
05/14/03 (H) JUD AT 1:00 PM CAPITOL 120
05/14/03 (H) Heard & Held
05/14/03 (H) MINUTE(JUD)
05/15/03 (H) JUD AT 8:30 AM CAPITOL 120
05/15/03 (H) -- Meeting Canceled --
10/29/03 (H) JUD AT 5:00 PM Anch LIO Conf Rm
10/29/03 (H) Heard & Held
10/29/03 (H) MINUTE(JUD)
01/23/04 (H) JUD AT 1:00 PM CAPITOL 120

WITNESS REGISTER

REPRESENTATIVE BILL STOLTZE
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Sponsor of HJR 9.

KELLY HUBER, Staff
to Representative Bill Stoltze
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Assisted with the presentation of HJR 9.

CHERYL FRASCA, Director
Office of Management & Budget (OMB)
Office of the Governor
Juneau, Alaska
POSITION STATEMENT: Discussed the administration's proposal in relation to HJR 9, and responded to questions.

ACTION NARRATIVE

TAPE 04-2, SIDE A
Number 0001

CHAIR LESIL MCGUIRE called the House Judiciary Standing Committee meeting to order at 1:03 p.m. Representatives McGuire, Anderson, Ogg, Samuels, and Gara were present at the call to order. Representative Gruenberg arrived as the meeting was in progress.

HJR 9 - CONST AM: APPROPRIATION/SPENDING LIMIT

Number 0014

CHAIR MCGUIRE announced that the only order of business would be HOUSE JOINT RESOLUTION NO. 9, Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit and a spending limit. [Before the committee was CSHJR 9(STA).]

CHAIR MCGUIRE noted that in members packets was a proposed committee substitute (CS) for HJR 9, Version 23-LS0435\X, Cook, 1/22/04.

Number 0085

REPRESENTATIVE SAMUELS moved to adopt the proposed CS for HJR 9, Version 23-LS0435\X, Cook, 1/22/04, as the work draft. There being no objection, Version X was before the committee.

Number 0111

REPRESENTATIVE BILL STOLTZE, Alaska State Legislature, sponsor of HJR 9, commented on the governor's recent press conference, in which attention was turned to a spending limit, and listed the resolution's past hearings. He relayed that the governor, through his Office of Management & Budget (OMB) staff, has offered some good suggestions regarding the issues of controlling spending and associated economic factors. He noted that one of the complaints he hears from those in his district is, "I'm suffering economically; government sure doesn't feel the pinch." He remarked:

It certainly brings a connectivity that a lot of us can identify with. There's a lot of things that we're going to have to consider in the process; it's a long process of getting 27 and 14 votes, and bringing something that the public can support - that they're going to believe is going to be a meaningful spending document. This committee has certainly had a meaningful role in that process.

Number 0306

KELLY HUBER, Staff to Representative Bill Stoltze, Alaska State Legislature, sponsor, relayed that Version X uses the base year that was in the original resolution, "which is two years preceding." She added that the governor's proposal was based on the prior year - one year preceding. In addition, Version X applies, to the base year, the following "economic/limiting factors": 50 percent of the average annual percent change over the last three of four years in personal income plus the average percent change in population over the last three of four calendar years. She noted that those economic/limiting factors were in the governor's proposal as well.

MS. HUBER pointed out that appropriations exempted in Version X no longer include the appropriations pertaining to the Alaska Railroad Corporation (ARRC), but do include the Constitutional Budget Reserve (CBR).

REPRESENTATIVE STOLTZE indicated that he'd never been convinced that the ARRC ought to have been included in the exemption list to begin with, and so had no problem with having it removed in Version X.

CHAIR McGUIRE surmised that if sufficient argument is made in favor of including, in the exemptions list, appropriations pertaining to the ARRC, then those appropriations could be added to the exemption list later [in the process].

REPRESENTATIVE STOLTZE relayed that he might have previously testified, perhaps erroneously, that he thought that the ARRC had been included for the purpose of allowing it to participate in the gas [pipeline] bond proposal, but has since realized that such a possibility is provided for through other mechanisms in the [resolution].

REPRESENTATIVE GARA opined that the legislature would certainly like to have the option of allowing the ARRC to participate in the financing of a [gas] pipeline, and asked for clarification on how such is provided for in Version X.

Number 0499

REPRESENTATIVE STOLTZE offered that the mechanism for such is provided for via the language - located in Section 1 of the resolution, that which pertains to altering Article IX, specifically proposed Section 16(b)(5), of the Alaska State Constitution - regarding revenue bonds.

CHAIR McGUIRE, in response to a question, offered her belief that the language in proposed Section 16(b)(5) would apply to a "railroad-financed bond."

MS. HUBER went on to relay that Version X requires a three-quarter override vote in both houses of the legislature in order to obtain up to an additional 2 percent increase in spending; in contrast, the governor's proposal required a two-thirds majority vote of the legislature in joint session. She mentioned that Version X contains a provision regarding voter reauthorization every six years, with the first reauthorization vote scheduled for 2010. She concluded by noting that Version X includes provisions from both the governor's proposal as well as from prior versions of HJR 9.

REPRESENTATIVE OGG asked how the override provision would work.

REPRESENTATIVE STOLTZE offered that it would work in the same fashion as the current [three-quarter vote] requirement pertaining to the CBR, but would be for the purpose of approving additional spending beyond any increase [provided for via proposed Section 16(a)].

CHAIR MCGUIRE, in response to further questions, indicated that the override provision in Version X is not related to overriding the governor's vetoes; instead, it pertains solely to authorizing additional spending beyond the proposed spending cap.

REPRESENTATIVE GARA said he wanted to make sure that the language in Version X would allow for the financing of an unexpected expenditure such as a gas pipeline. He asked whether the funds required to pay back bonds have to fit within the spending cap.

REPRESENTATIVE STOLTZE indicated that such funds would have to fall within the cap.

REPRESENTATIVE GARA surmised, then, that any such debt would have to be funded at the expense of not funding something else.

Number 0887

REPRESENTATIVE STOLTZE offered that absent using the three-quarter override provision in HJR 9, in such a situation the legislature would have to prioritize where those funds would come from. In response to a proffered hypothetical calculation of such a situation, he surmised that any funds used to finance a gas pipeline would then become part of a new base [calculation], adding that the decision of whether to and how to finance such a project would have to be made by the legislature at that time.

CHAIR MCGUIRE noted that the "gas [pipeline] argument" is one that continues to crop up during discussions of a spending cap. She noted that being able to fund an unanticipated disaster is now accounted for in Version X as one of the exemptions, and asked Representative Stoltze whether he and his staff have given thought to [including] a similar exemption regarding the financing of a gas pipeline or other "positive infrastructure investments." She pointed out that if such were included, the override provision would not have to be used for that purpose.

REPRESENTATIVE STOLTZE replied that he has given a lot of thought to the pros and cons regarding the necessity of restraining funding. "Any time you make one choice it affects another, and it's a considerable balancing act [and] an imperfect process," he added, remarking that he is not sure what the exact mechanism would be for allowing such spending without blowing a hole in a spending cap.

CHAIR MCGUIRE offered her belief that it is critical for any spending cap to include a provision for going beyond that limit, and predicted that there would probably be sufficient bipartisan support for using the proposed override provision to finance something like a gas pipeline.

REPRESENTATIVE SAMUELS turned attention to proposed Section 16(b)(6), located on page 2, and surmised - contrary to Representative Stoltze's indication that the paying back of bonds would have to fall within the spending cap - that that language exempts the appropriations required to pay general obligation (GO) bonds.

MS. HUBER said that is correct.

Number 1110

REPRESENTATIVE SAMUELS noted that Version X, unlike the governor's proposal, does not explicitly state where excess revenues will go. He asked whether this means that any excess revenues will go into the general fund (GF) and thereby be inaccessible without a three-quarter vote.

REPRESENTATIVE STOLTZE offered his belief that the absence of any express provision regarding excess revenues means that each individual legislature would determine where such revenues would go. Thus the status quo would be maintained in that regard.

REPRESENTATIVE SAMUELS surmised, then, that any such excess funds would not automatically be locked up in the CBR.

CHAIR MCGUIRE offered her belief that that is correct.

MS. HUBER added that they'd predicted that the question of where excess revenues would go would be an issue for discussion.

REPRESENTATIVE GARA noted that [proposed Section 16(a)] determines how much spending can be increased over "last year's amount," and that [proposed Section 16(c)] allows spending to go

beyond that cap should the legislature make that choice via a three-quarter vote. He offered the point that "(c) is smaller than [(a)] in many years."

[Following was some discussion wherein it was clarified that proposed Section 16(b) is simply a list of those appropriations that would be exempted from the calculations provided for in proposed Sections 16(a).]

REPRESENTATIVE GARA indicated that according to his understanding of the language currently in proposed Section 16(c), it appears that using the three-quarter vote to increase spending would then preclude using the increase provided for in proposed Section 16(a).

CHAIR McGUIRE said that that is not how she reads proposed Section 16(c).

REPRESENTATIVE OGG turned attention to the language on page 2, lines 20-22, which says, "(c) An appropriation that exceeds the limit under (a) of this section may be made for any public purpose upon affirmative vote of at least three-fourths of the members of each house of the legislature." He opined that such language is pretty straightforward.

CHAIR McGUIRE agreed.

REPRESENTATIVE GARA offered, however, that it is the remainder of the language in proposed Section 16(c) which causes him the concern that the increase provided for in Section 16(a) will be precluded. That remaining language says in part, "The total amount of appropriations under this subsection made for a fiscal year may not exceed two percent of the amount appropriated for the fiscal year two years preceding the fiscal year for which the appropriations are made".

Number 1455

REPRESENTATIVE SAMUELS offered his understanding that the increase provided for via proposed Section 16(c) would be in addition to - or on top of - the spending increase allowed via proposed Section 16(a).

REPRESENTATIVE STOLTZE indicated that Representative Samuels's interpretation is correct.

REPRESENTATIVE GARA opined that although such an interpretation may reflect the sponsor's intention, the language currently in proposed Section 16(c) does not do so; rather, he reiterated, the current language in proposed Section 16(c) will preclude the increase provided for in proposed Section 16(a).

REPRESENTATIVE OGG offered his understanding that the language, "this subsection" clarifies that the increase provided for in proposed Section 16(c) will be in addition to the increase provided for in proposed Section 16(a).

CHAIR McGUIRE remarked that the language [in proposed Section 16(c)] could be drafted better. Noting that the current language becomes clear if read over and over again, she added that perhaps the language could be redrafted for further clarity.

REPRESENTATIVE SAMUELS indicated agreement with Representative Ogg's summation.

CHAIR McGUIRE offered, however, that it is the reference to proposed Section 16(a) that creates confusion regarding whether the limit applies to both (a) and (c).

REPRESENTATIVE STOLTZE remarked that concerns regarding the clarity of the language are probably well founded, given how the [Alaska] Supreme Court has interpreted the CBR and spending limits [in the past].

REPRESENTATIVE GARA relayed that that is why he would prefer the language to be clearer.

CHAIR McGUIRE agreed, and asked Representative Gara to assist in drafting clearer language.

REPRESENTATIVE GARA acknowledged that Representatives Ogg and Samuels are correct and have the better interpretation of proposed Section 16(c).

Number 1705

REPRESENTATIVE GRUENBERG offered that according to his interpretation of proposed Section 16(c), it refers to an amount that exceeds the limit provided for in proposed Section 16(a). Therefore, a clarifying change could be to simply say, "The total amount of appropriations that exceeds the limit under (a) of this section". On the issue of the resolution, he relayed

that his concern revolves around the fact that the [spending cap] is going to involve all appropriations by the legislature for a year and therefore "one person in the legislature could hold the whole state hostage," adding, "somebody who has a pet project could absolutely hold the state government to a very unreasonable position, and I simply raise that as a horrible hypothetical without having an answer to it." He said that this point troubles him constitutionally.

REPRESENTATIVE SAMUELS calculated that under proposed Section 16(c), the legislature could vote to spend roughly an extra \$50 million.

REPRESENTATIVE OGG asked whether, if additional funds are appropriated via use of proposed Section 16(c), those funds will then be included in a future base year's calculations.

REPRESENTATIVE STOLTZE said he recalled that there had been discussion of that issue in prior committees, but could not recall what the answer was.

REPRESENTATIVE OGG suggested that that issue should be clarified.

REPRESENTATIVE GRUENBERG offered his belief that those additional funds would change a base year's calculations because they would then be included in the amount appropriated for that year.

CHAIR McGUIRE agreed with Representative Gruenberg because the limit would be based on the two years immediately preceding the [current] fiscal year (FY). She pointed out that the original concept from the governor used FY 04 [as the base year], whereas the proposal by Representative Stoltze specifies that it would be two years prior.

REPRESENTATIVE STOLTZE clarified that the two-year requirement was because [the legislature] doesn't know what the actual budget is [for any particular year] until [two years] have elapsed. It's necessary to have a clear picture of the budget as a starting point. He pointed out that the original version of HJR 9 was more of a flat budget, but that was changed in a prior committee.

Number 2057

REPRESENTATIVE GARA relayed his belief that [the legislature] has done poorly with the school budget over the last few years. In fact, if one were to measure school funding in real dollars, he added, one would find that it has been decreased by over 7 percent in the last six years, with the result being teacher layoffs and increasing class sizes. He asked how that trend could be reversed under this resolution. Turning to proposed Section 16(a), he said that spending has to decrease on a per person basis every year from now on, and highlighted that Anchorage has already laid off over 100 teachers in anticipation of this year's budget.

REPRESENTATIVE STOLTZE answered that the passage of this resolution will force the legislature to prioritize and thus there may areas in the budget that may not continue to be funded. He recalled the mid to late 1980s, what he characterized as one of the most extreme [fiscal] times for the state, when oil prices were down to single-digit and low double-digit prices. The aforementioned, he remarked, was one of the last times he recalled that education was fully funded. He relayed his belief that last year more money was put in the education budget, and that he believes education will be a priority for the legislature.

REPRESENTATIVE GARA distributed a Legislative Research report, which he said specifies that less was spent on schools last year than the year prior. Furthermore, this reports specifies that approximately 7 percent less has been spent on schools over the past five years and, thus, he disagrees with the argument that the legislature has being doing it right.

REPRESENTATIVE GRUENBERG suggested that to really see how this resolution would work it would be necessary to produce a computer model that uses various rates of inflation and other variables. For any spending cap to work, it requires model language and various factual hypothetical scenarios. He posited that for something to work in the constitution, it must work [well] under as many scenarios as possible.

CHAIR McGUIRE said Representative Gruenberg's suggestion is a good one.

REPRESENTATIVE STOLTZE remarked that that process has been started.

The committee took an at-ease from 1:37 p.m. to 1:38 p.m.

CHERYL FRASCA, Director, Office of Management & Budget (OMB), Office of the Governor, thanked Representative Stoltze for his work on this issue. Ms. Frasca relayed [the administration's] view that HJR 9 is a way to control the growth of government regardless of the fund source, and is therefore "not just a general fund limit." She noted that any time an exemption from the limit is established, there is an incentive to categorize or define spending. However, regardless of what the limit is, there still needs to be revenues to match that level of spending.

TAPE 04-2, SIDE B

MS. FRASCA pointed out that revenue bonds and revenue proceeds would be excluded from the limit because something external would pay those. Furthermore, proposed or suggested general obligation (GO) bond proceeds would be excluded, although GO debt wasn't excluded because it has to be paid.

REPRESENTATIVE SAMUELS relayed his understanding that under the governor's proposal, the proposed Section 16(b)(6) was not included and, thus, the appropriations required to pay the obligations under GO bonds were not excluded from the governor's proposed spending limit calculation.

MS. FRASCA agreed and reiterated, "except for revenue bonds ... and also certificates of participation [COPs]." She explained that the administration doesn't want to establish a system that encourages the state to incur debt rather than pay cash when in a position to do so. Ms. Frasca informed the committee that the administration had discussed excluding trust funds because those are monies that won't be used to pay for something else. Furthermore, there are some constitutionally dedicated fund sources [that the administration would suggest excluding].

REPRESENTATIVE GRUENBERG turned attention to page 2, line 11. He recalled Ms. Frasca's indication that the legislature could float a series of GO bonds and the monies to pay those back in subsequent years would be totally outside the proposed spending limit calculation. However, GO bonds are capital bonds and thus a lot of the capital budget would be thrown out. Therefore, he suggested that there would be two different systems under this language [on page 2, line 11]. One system would be for the operating budget, which would be under the cap, while the other system would be for bonded capital expenditures, which are

outside the cap. He then turned attention to page 2, line 13, and pointed out that when the federal funds are no longer available, the [system] will be "out of whack" because the program in place is dependent upon federal funds. Therefore, it will automatically be over the cap because the large chunk [of funds] for the existing program is now under the cap.

MS. FRASCA agreed, but explained that it meant that [the legislature] would have to prioritize [spending].

REPRESENTATIVE GRUENBERG said that Ms. Frasca's answer is one that could be given to any question and doesn't address how the legislature is going to run state government.

Number 2186

MS. FRASCA moved on to the three-fourths vote requirement. She informed the committee that 29 states have an appropriation or spending limit. Twelve of those states have a two-thirds requirement to override the limit, two states have a three-fifth requirement, seven states have a majority requirement, and six states have no provision to waive. No state has a three-fourths requirement.

REPRESENTATIVE GARA indicated his understanding that those 29 states had a tax cap rather than a spending cap.

MS. FRASCA agreed that some of those appropriation limits apply to revenues. As an example she pointed out that Anchorage's cap is related to how much taxes can increase from one year to the next.

REPRESENTATIVE GARA asked for confirmation that in those 29 states, the caps are related to how much people can be taxed.

MS. FRASCA answered, "Not all of them." She pointed out that some of the caps in those 29 states do touch on revenue sources while others touch on spending regardless of revenue sources. She explained that those states had caps of some sort, and reviewed how those states could exceed that limit.

REPRESENTATIVE GARA asked which of the 29 states were tax cap states and which were spending cap states.

MS. FRASCA said she didn't know, but offered to share with the committee the report from which she took the information. She then informed the committee that the ARRC isn't subject to the

Executive Budget Act, and that the governor had at one time proposed tying enactment [of a spending limit] to passage of the "POMV legislation" but he is no longer promoting such a provision. She went on to explain that when using the calculation in proposed Section 16(a), one takes 50 percent of the personal income growth and population, which would result in approximately a 3.15 percent increase; this exceeds the rate of inflation, which has been 1-2 percent since 1993.

Number 2048

CHAIR McGUIRE asked about any increase in spending that has occurred in the past.

MS. FRASCA answered that "it" has been going in the opposite direction in the last two [years]. Although the state hasn't been in a position to come close to this proposed spending limit, the administration's approach is, should there be an influx of revenues, regardless of the source, Alaskans will be assured that [state government] won't go on a spending spree.

REPRESENTATIVE GARA commented that it seems that under a responsible budget, the spending would increase based on population growth and inflation. He asked why spending should go along with personal income growth as opposed to inflation.

MS. FRASCA responded that she wasn't convinced that all spending has to automatically increase because of inflation or population increases. She pointed out that sometimes there are economies of scale that can be gained in terms of the management of programs. Furthermore, competition in the marketplace drives costs down. She highlighted that one of the challenges is that revenues don't increase with regard to population and inflation. The reason the administration used personal income growth is because it includes an element reflecting inflation; as salaries increase, personal income increases and thus state spending can increase. In contrast, if a situation arises in which the economy isn't doing well and personal income is decreasing, the administration doesn't believe state [spending] should increase.

REPRESENTATIVE GARA asked Ms. Frasca if she had a long-term average of the difference between inflation and income growth.

MS. FRASCA said she could provide the committee with that data. In further response to Representative Gara, she said she didn't know the difference between inflation and income growth over the last 20 years, but could find out.

REPRESENTATIVE GARA asked if his understanding is correct that the state is spending less now, when adjusted for inflation and population growth, than it was before the pipeline boom.

MS. FRASCA offered to provide that information. She informed the committee that the state is spending \$6,600 per capita, including general funds and other state funds, and that many of the analyses put forward for comparison purposes merely include general funds.

Number 1833

MS. FRASCA turned to the 1982 constitutional spending limit and pointed out that if it were actually being followed, the state could spend \$6.6 billion [in general funds]. The aforementioned occurred because the limit kept increasing rather than returning to what was actually spent.

REPRESENTATIVE GARA questioned whether that was because spending has fallen behind population growth and inflation.

MS. FRASCA replied that it was an artificial [number] each time.

REPRESENTATIVE OGG noted that the university has receipt authority, which he imagined would be covered under federal funds. He asked what would happen to tuition, which is independent and which has increased 10 percent each of the past two years.

MS. FRASCA clarified that under Version X, tuition would be included in the [spending] limit. Just as with the Division of Occupational Licensing, if one obtains a license, it would be included in the limit. The university is a governmental institution and the administration's philosophy is that a student at the university would want to recognize that there is a limit on how much the university can grow each year. Therefore, the university would be subject to the [spending] limit.

Number 1765

REPRESENTATIVE OGG turned to the language in Version X pertaining to income and population growth. How does Version X deal with boom and hyperinflation situations, he asked.

MS. FRASCA answered that one way would be to exceed the limits. However, under Version X there is a 2 percent limit after an upward adjustment. The administration didn't have a limit as to how much it could be exceeded. She emphasized that hyperinflation doesn't mean that revenues are also inflated; hence there will be added spending pressures, which will lead to [prioritization]. She reiterated that there isn't more money just because the cost for something increases. This is faced at all levels, from individuals to municipalities.

REPRESENTATIVE OGG agreed that such will result in tough choices. However, [the state] has a fairly large reserve and some of the [state's] assets have been turned into liquidity. [The state] has the ability to provide the same services regardless of inflation, except for the fact that Version X won't allow such. Therefore, this may not be a path which [the state] may want to go. "You're tying your ability to respond to issues, and the timeline to correct that would be at least two years out because you'd have to correct the constitution," he pointed out.

CHAIR MCGUIRE asked if any of the 29 states that Ms. Frasca spoke of earlier restricted spending by specifying a certain percentage such as that in Version X.

MS. FRASCA replied that some of those states did have some maximums, while others went to the voters for approval of exceeding the limit.

CHAIR MCGUIRE said she believes that Representatives Ogg, Gara, and Gruenberg all touch on a good point. Even for those who want a spending limit, there is a real concern that there may be something to which [the legislature] can't effectively respond.

CHAIR MCGUIRE announced that her staff would work on a committee substitute, and therefore those with ideas or suggestions should approach the committee staff with those.

REPRESENTATIVE OGG asked that the university tuition issue be reviewed.

MS. FRASCA suggested that the [committee substitute] be very specific because she would expect that there would be all kinds of things referred to as university receipts. "If you really mean tuition, say tuition," she said.

Number 1488

REPRESENTATIVE SAMUELS turned to excess revenues and noted that his knee-jerk reaction would be to leave it in the GF, even with the three-fourth vote, because that excess revenue may be necessary just to match last year's limit. He asked why the administration's proposal places excess revenue in the CBR.

MS. FRASCA responded that the administration wanted to create an incentive to save money by placing it in the permanent fund or the CBR.

REPRESENTATIVE SAMUELS turned attention to proposed Section 16(b)(3) and asked about the definition of a "state of disaster." He asked whether the governor could call hyperinflation a disaster and whether funds for such would have to go to a three-quarter vote of the legislature.

MS. FRASCA answered that there are statutory definitions that must be followed in order to declare a natural disaster.

Number 1399

REPRESENTATIVE GARA pointed out that this year in Anchorage over 100 teachers are being lost and the governor has proposed a budget similar to last year's education budget. He asked whether the administration has a view with regard to whether class sizes should be reduced in certain areas of the state and whether that could be done under [Version X].

MS. FRASCA pointed out that the spending limit suggests an increase each year if the revenues are there to support it. Therefore, a legislature or governor would have the choice of adding funding to education. However, she pointed out that last year the legislature passed a statute that prescribed how much money the state would give to school districts, which is what was followed when the administration introduced its education budget. She highlighted that there was a decrease in the number of students in Anchorage as well as throughout the state, and therefore there was less of a requirement to provide that level of funding to the school districts.

MS. FRASCA noted that some communities have self-imposed limitations, which is the case in Anchorage where there is tax cap that limits how much the municipality is willing to pay for schools. A couple of years ago, legislation was passed which specified that when communities with a property tax, such as Anchorage, experience an increase in the assessed valuation,

local school districts are supposed to increase to "4 mils." However, what has happened in recent years in Anchorage is that it pays "3.5 mils" and the state provides the additional ".5 mils." Therefore, some of the local level decisions may want to be revisited in order to determine whether additional dollars could be added to schools. She highlighted that this year, there will be the burden of the PERS [Public Employees' Retirement System] and TRS [Teachers' Retirement System] increase, which is something that the state, school districts, and local governments will have to bear the costs of.

MS. FRASCA reiterated that this is a challenging time during which everyone has to balance many competing demands. She emphasized that education is a priority for the governor.

Number 1245

CHAIR McGUIRE mentioned the workers' compensation situation and questioned how one could have predicted that as a result of major companies going bankrupt, the state would be put in the position of picking up the pieces. Sometimes the [state] bears costs that are the result of someone else's fiscal mistakes.

CHAIR McGUIRE, upon polling the committee with regard to its wishes, announced that HJR 9 would be held over.

ADJOURNMENT

Number 1177

There being no further business before the committee, the House Judiciary Standing Committee meeting was adjourned at 2:20 p.m.