

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

April 9, 2003

7:05 a.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair
Representative Jim Whitaker, Co-Chair
Representative Cheryll Heinze
Representative Peggy Wilson
Representative Max Gruenberg
Representative Carl Moses

MEMBERS ABSENT

Representative Vic Kohring
Representative Norman Rokeberg
Representative Bruce Weyhrauch

OTHER LEGISLATORS PRESENT

Representative Paul Seaton
Representative Dan Ogg

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 ACTION

BILL: HJR 9

SHORT TITLE: CONST AM: APPROPRIATION/SPENDING LIMIT

SPONSOR(S): REPRESENTATIVE(S) STOLTZE

Jrn-Date	Jrn-Page		Action
01/31/03	0102	(H)	READ THE FIRST TIME - REFERRALS
01/31/03	0102	(H)	STA, JUD, FIN
02/11/03		(H)	STA AT 8:00 AM CAPITOL 102
02/11/03		(H)	Heard & Held MINUTE(STA)
03/28/03	0687	(H)	COSPONSOR(S): ROKEBERG

04/04/03 0797 (H) W&M REFERRAL ADDED BEFORE STA
04/09/03 (H) W&M AT 7:00 AM HOUSE FINANCE
519

WITNESS REGISTER

REPRESENTATIVE BILL STOLTZE
Alaska State Legislature
Juneau, Alaska,
POSITION STATEMENT: As sponsor, presented HJR 9.

VIRGINIA BLAISDELL, Staff
to Representative Stoltze
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Answered questions about HJR 9.

JAY HOGAN, Deputy Director
Office of Management & Budget
Office of the Governor
Juneau, Alaska
POSITION STATEMENT: During consideration of HJR 9, answered
questions about previous attempts to limit state spending in the
constitution.

ACTION NARRATIVE

TAPE 03-2, SIDE A

Number 0001

CO-CHAIR JIM WHITAKER called the House Special Committee on Ways
and Means meeting to order at 7:05 a.m. Representatives
Whitaker, Heinze, Wilson, Gruenberg, and Moses were present at
the call to order. Representative Hawker arrived as the meeting
was in progress. Representatives Seaton and Ogg were also
present.

HJR 9-CONST AM: APPROPRIATION/SPENDING LIMIT

Number 0014

CO-CHAIR WHITAKER 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.

CO-CHAIR WHITAKER commented that since this committee is charged with finding the ways and the means to pay for the state's operations, it is appropriate to consider a spending cap approved by the voters as a component to that task. The resolution will be heard three times, giving an opportunity for the sponsor to make a presentation, for the committee to raise questions and concerns, and for members to hear from the administration and the public. He said the co-chairs intend that a constitutional spending limit be a part of a sustainable fiscal policy.

Number 0229

REPRESENTATIVE BILL STOLTZE, Alaska State Legislature, sponsor of HJR 9, described this proposed constitutional amendment as an absolute first step to have in place before considering other revenue measures. The voters passed a constitutional spending limit in 1982, which the state is observing at just under \$6 billion; the voters also attempted to limit state spending by creating the Constitutional Budget Reserve (CBR) fund [in 1991]. Representative Stoltze said HJR 9 proposes a conservative spending limit with flat spending and fiscal discipline. It allows the state to receive federal revenues and exempts other foreseeable general fund revenues; there's a laundry list of exemptions. The bill has a sunset clause; if the constitutional amendment is not working, voters can vote it out in six years.

Number 0609

REPRESENTATIVE GRUENBERG said it is important to have a "repealer" in this resolution, because the current [constitutional spending limit] doesn't work. He said Alaska is unique in having an item in the state constitution [on whether to convene a constitutional convention] that comes before the voters every 10 years. He asked Representative Stoltze if he was aware of any other state that has a spending limit with an automatic referendum. He clarified that he was referring to [the sunset provision in the resolution].

REPRESENTATIVE STOLTZE explained that he'd tightened up the resolution and specifically avoided any automatic escalators because of the resulting loss on control over spending. Legislators should do a year-by-year analysis of their spending, he said. He pointed to the federal examples of Medicaid and social security that spiral upward. He wants to keep a tighter control, he said, and recognizes that contradiction [in limiting the legislature's power to increase spending].

Number 0944

REPRESENTATIVE WILSON expressed concern about the ability of different departments to function competently. State [programs] are not currently keeping up with inflation, she said; agencies and schools have no control over fuel, insurance, and other expenses. She warned that if the state freezes spending at a point where it's not taking care of [citizens'] needs, it's going backwards. She cautioned against putting the lid on too tight but said she realizes a spending cap is needed if there are no new revenues coming in.

REPRESENTATIVE STOLTZE said it's even more important [to have a spending cap] if more revenues are coming in. He said the public has to support any new revenue measures and have assurances that the revenues are not just going to fuel more and excessive government. This constitutional spending limit really forces the legislature to identify its highest priorities and find reductions in areas that aren't appropriate for government, he said. The legislature has to make the choices. He said he is uncomfortable with this measure, which says he as a legislator cannot be trusted to [hold down spending]; however, he is more resolved to offer this resolution after sitting in a caucus of 28 and a body of 40 [House members]. Legislators' interests and views on essential funding are too diverse to collectively come up with the needed reductions, he suggested. He said he was reluctant to offer HJR 9 because the legislature's authority to appropriate is perhaps its most powerful tool.

Number 1358

REPRESENTATIVE HEINZE noted that the state is trying to put out a welcome mat to businesses, to offer more fiscal security and certainty. She asked if he perceived this resolution as a positive lure to new corporations.

REPRESENTATIVE STOLTZE surmised that corporations would see HJR 9 as a mixed bag; major incentives [to relocate in Alaska] would have to fall under the cap. Some companies want stability, while others are drawn to Alaska because they want to tap into its largesse. He opined that most businesses want more stability.

Number 1614

REPRESENTATIVE SEATON noted that in HJR 9, an appropriation for a year can't exceed the average of the previous two years and an appropriation of federal money is exempt. He asked how the state matching money used to attract federal money would be treated under this resolution.

REPRESENTATIVE STOLTZE said the legislature would apply the same discipline as on the capital budget, using general funds as effectively as possible to maximize the amount of federal matching funds. The resolution would force the legislature to prioritize the most effective use of the state's limited dollars to match federal funds.

REPRESENTATIVE SEATON confirmed that the legislature would still be working under the general fund cap; if legislators wanted to leverage federal funds, they would need to find other reductions in the budget.

REPRESENTATIVE STOLTZE agreed, adding that [a constitutional spending limit] forces legislators to make smarter and more thoughtful decisions about other people's money.

Number 1847

REPRESENTATIVE GRUENBERG remarked that HJR 9 is interesting because it addresses the threshold question of who decides [the level of state spending]. The resolution says that the ultimate question of state spending should be decided by the voters and redecided every few years. The issue of holding a constitutional convention comes around every 10 years. The current spending limit in the constitution is not redecided on a regular basis. The legislature will need to decide whether there should be something in the constitution, in statute, or both.

REPRESENTATIVE STOLTZE said then-Governor Sheffield pushed through a statutory spending limit, but the funds were never exhausted. He said Alaska has had a 20-year teacher of the flaws in the attempts to limit spending; it's obvious where the gaping holes are. He suggested Alaska has a better chance of having a meaningful spending limit than 20 years ago because the political circumstances are different.

Number 2255

REPRESENTATIVE WILSON asked why the two-year base doesn't include the current fiscal year.

REPRESENTATIVE STOLTZE answered that the current year is excluded from the calculation because it's important for the legislature to work with completed fiscal years in which the numbers are known.

REPRESENTATIVE WILSON asked what the final budget total was two years ago.

Number 2407

VIRGINIA BLAISDELL, Staff to Representative Stoltze, Alaska State Legislature, said she didn't know the specific number.

REPRESENTATIVE STOLTZE estimated it was \$2.3 billion.

MS. BLAISDELL said HJR 9 includes all state funds, so it's larger than the general fund column, which is typically in the fiscal summary.

REPRESENTATIVE WILSON remarked that she'd appreciate that information so she would know whether legislators have to cut deeper. It's been very hard on legislators to make these decisions, she observed.

MS. BLAISDELL stated that the estimate for fiscal year 2004 (FY 04) is \$3.328 billion, and the estimate for FY 05 is \$3.394 billion.

REPRESENTATIVE WILSON surmised that this number included the capital budget.

Number 2705

REPRESENTATIVE GRUENBERG noted that the legislature "piecemeals" the general fund, mental health, and then the capital budget every year. He pointed out that Congress had established a budget committee to set an overall spending limit for the year that gets to the bottom line, which is the most illusive issue in the Alaska legislature each year. He noted that the role of this committee is limited to the House and finishes at the end of the year. When Congress established the budget committee, the mission was to set an overall spending limit. The number needs to be set by the legislature annually, in a comprehensive manner, early on, he said.

REPRESENTATIVE STOLTZE remarked that he thinks the voters will approve a constitutional amendment, and he said he doesn't want it to cause harm to Alaskans or the economy. He said he wants to avoid unintended consequences.

Number 3121

REPRESENTATIVE OGG asked about the difference between this resolution and the current constitutional spending limit.

REPRESENTATIVE STOLTZE replied that a constitutional spending limit was passed 20 years ago. The current state budget is several billion dollars under the limit, and the capital budget component has been largely ignored by the legislature. Ignoring constitutional provisions creates a dangerous precedent, he cautioned. His version of HJR 9 creates flat funding, setting the two previous years as the limit, so there's a number the legislature can get hold of. If the legislature wants to increase spending 2 percent, it requires a supermajority vote. He added that there are numerous exemptions for receiving federal funds; it exempts state corporations. The resolution is a conservative revision of the current constitutional spending limit, he concluded.

Number 3405

REPRESENTATIVE OGG pointed out that with the current constitutional cap, a majority of legislators could have voted to exceed the spending limit if the governor signed it; if the governor had vetoed it, three-quarters of the body could have overridden the veto. Under HJR 9, the initial passage of increased spending requires a three-quarters vote before it goes to the governor. He asked Representative Stoltze why he chose that change.

REPRESENTATIVE STOLTZE replied that he recognized many legitimate reasons to exceed the budget, for example, population growth. With a supermajority, the legislature can exceed the budget cap. He'd picked three-quarters because that's what it takes to override a governor's veto. He said he wanted the vote to be greater than a simple majority, partly to protect the rights of the minority.

REPRESENTATIVE OGG responded that in the past, the legislature never reached that limit. He asked if the 50-plus-1 vote has caused problems in the past.

REPRESENTATIVE STOLTZE said the majority vote hasn't caused a problem; it probably has increased the budget in the past few years. The three-quarters vote has probably raised the spending as much as anything, he surmised.

Number 3744

REPRESENTATIVE SEATON asked about tying the budget to the previously completed single year, which may be subject to large variations. He asked if it would make more sense to tie the budget cap to the two previously completed years in order to level out the average.

REPRESENTATIVE STOLTZE replied that it's certainly an option. He expressed willingness to look at any potential improvements in HJR 9. However, he doesn't want a resolution with lots of holes in it; he said he doesn't want to replace one broken constitutional spending cap with another broken one.

REPRESENTATIVE SEATON asked about the two exemptions, starting on page 1, line 16, "(5) an appropriation of State general obligation and revenue bond proceeds; (6) an appropriation required to pay obligations under general obligation bonds, revenue bonds, and certificates of participation issued by the State". He asked if the resolution is setting up an alternative financing system that would be used by a simple majority of the legislature.

Number 3925

REPRESENTATIVE STOLTZE said it's a possibility, but he said it must be approved by the voters, who can recognize a scam; if it's a worthy, overdue project, they'll endorse it. He said he has confidence in the voters to help determine the best policy.

Number 3952

REPRESENTATIVE WILSON asked Representative Stoltze to explain his earlier statements about the existing constitutional caps on the operating and capital budgets.

REPRESENTATIVE STOLTZE said the capital budget is limited to one-third of the total budget. It is a constitutional provision that hasn't been followed, which fosters disrespect for the constitution, he said. It's not a maximum; it's a required amount.

CO-CHAIR WHITAKER remarked that one-third of state budget expenditures must be capital; however, he said that was trumped by an attorney general's opinion.

Number 4110

REPRESENTATIVE WILSON noted that the state has one billion dollars in deferred maintenance. She said she can see a spending limit on operating expenses, but it would be nice to catch up on deferred maintenance.

REPRESENTATIVE STOLTZE said he understands the major maintenance needs of the state. He also said he thinks both he and the public are concerned that if there is a windfall, the legislature will revert to spending patterns that aren't sustainable. He added that if the legislature has a lot of extra money, it is more popular to build new things than to do deferred maintenance.

Number 4408

JAY HOGAN, Deputy Director, Office of Management & Budget, Office of the Governor, testified that the governor has no position on HJR 9. He said the governor's approach has been to work within the existing system by attempting to lower expenses and finding new revenue sources. He commented on the two prior attempts at spending limits. There is a statutory spending limit, he said, but no one has paid attention to it in recent years. He explained how important the legislative circumstances are [when a constitutional spending cap is created]. Setting a provision like this in the constitution is [a means of] dealing with a particular situation in time. But circumstances change, he cautioned. The spending limit of 1982 came on the heels of near-billion-dollar increases in recurring revenue every year in 1979, 1980, and 1981 - a billion dollars of new money in the treasury every year.

TAPE 03-2, SIDE B

Number 4721

MR. HOGAN said the concern was to control the growth of the operating budget; that's why the one-third for capital projects came into play. There was great concern about rate of growth in the state's operating budget, he recalled. Almost immediately, revenue growth tapered off, so the limit was never effective from the first year of implementation. The one-third requirement was found to be ineffective by the attorney general

because the state budget did not reach the limit. This limit has escalated mathematically into fiscal outer space and has played no part [in actual budget decisions].

MR. HOGAN explained that the CBR was a different set of circumstances. Policymakers were greatly concerned that this windfall would be dissipated over the years, so the CBR was established originally to set these funds aside for some emergency future use. There was an attempt to sweep balances at end of year. There is a provision requiring the reimbursement of the CBR. Currently, the general fund is \$4 billion in debt to the CBR. The legislature has spent from the reserve but has never [made repayments to the CBR]. The sweeps from agencies were immediately reappropriated back. He said these are two examples from the state's own history that indicate how difficult it is to prescribe something in the constitution because [its success] depends on the good faith of the governor and the legislature to implement it.

Number 4252

REPRESENTATIVE GRUENBERG related his hope that the committee would have the opportunity to hear more from the Office of Management & Budget, Mr. Hogan, and others who have such valuable historical perspective and knowledge. He said he thinks the first step in the process is education of the committee members.

CO-CHAIR WHITAKER stated that any committee member's request will be dealt with in an ethical and thorough manner. He noted, however, the urgency to act after careful consideration.

REPRESENTATIVE WILSON asked Mr. Hogan to explain who was supposed to be policing the mandate to sweep the leftovers back into the CBR and to repay the money withdrawn from the CBR. She asked what the likelihood is that the legislature will pay attention to a new set of requirements.

Number 3844

MR. HOGAN said that is the heart of the problem: the state doesn't have an exemplary record of living within its means. He recommended that the state should try again with the knowledge of what went wrong with [the earlier effort]. Precision in language is terribly important, but it's no substitute for the desire by the governor and the legislature to make it work, he said.

REPRESENTATIVE WILSON asked how to put teeth into a spending limit that would have a real effect.

Number 3750

MR. HOGAN suggested this committee might look at a balanced-budget amendment whereby the original words in the constitution are strengthened. He said the constitution is simple and extremely readable, but it has left a few openings in the budget paragraph. The legislature could strengthen the constitution so that the governor is clearly required to submit a budget for all state expenditures and a revenue package for all proposed state expenditures. And the legislature would be directed by the constitution to keep those same rules in mind; then the legislature would have the flexibility to look for additional revenue sources to support additional proposed expenditures. The state would then set its own limits, year by year, but according to the revenues raised. He suggested this in addition to a spending cap limit.

REPRESENTATIVE WILSON reiterated the suggestion to strengthen the language in the constitution. She asked if the governor's role would be to police it.

MR. HOGAN answered that he would defer to legislative and executive branch attorneys to answer that, but said the responsibility should be clearly delineated for both the governor and the legislature.

REPRESENTATIVE GRUENBERG asked Mr. Hogan if he'd be willing to flesh out his suggestion.

MR. HOGAN replied that he would check with the governor's office and would be delighted to help if the committee so wished.

Number 3522

REPRESENTATIVE GRUENBERG said Mr. Hogan's suggestion [of a balanced budget] intuitively makes sense and that he wants to see follow-through.

CO-CHAIR WHITAKER remarked that Representative Gruenberg's request raises the obvious questions: "Why aren't we doing it? Why do we not have a budget that is proposed that is in balance [with both] expenditures and revenues?"

Number 3344

MR. HOGAN replied that Governor Murkowski had approached a balanced budget on a more gradual basis, starting with budget reductions and suggesting revenue increases; he envisions doing the same thing next year. There would be great social and economic dislocation if the governor were to try to make up for 10 years of problems in one year, he suggested.

CO-CHAIR WHITAKER asked the same question over a broader timeframe, not specific to this governor.

MR. HOGAN replied that he did not have a good answer.

REPRESENTATIVE HEINZE asked how close the governor's proposed budget is to balancing.

Number 3152

MR. HOGAN answered that this budget is not too far from balancing, but it's not as neat and tidy as it would have to be under such a constitutional prohibition. The budget requirement in the constitution assumes a balanced budget, but it does not clearly and definitively state it. He opined that when the constitution was drafted, the writers didn't envision the extreme amounts of income in the late 1970s and the 1980s - how the government would grow and then be faced with this situation.

CO-CHAIR WHITAKER noted the additional factor of extreme fluctuations up and down. The state is having difficulty adjusting to that downward trend, he suggested.

MR. HOGAN said the [language in the constitution] would have to be more clearly and definitively laid out to require a true balanced budget.

Number 3017

REPRESENTATIVE GRUENBERG said this discussion is at the core of what this committee and the legislature are doing. He reiterated his interest in continuing this discussion with Mr. Hogan and others and his desire to follow up with draft language.

CO-CHAIR WHITAKER announced that between now and the next hearing of this bill, he will meet and discuss this issue with Representative Stoltze, staff, and any interested committee

members. He expressed concern that the committee not get so broadly focused that it fails to take meaningful action.

Number 2754

REPRESENTATIVE HEINZE commented that the committee has been tasked with producing [new sources of revenue] in a short window of time. She said she would like to establish goals, and then members could learn additional information on their own time.

CO-CHAIR WHITAKER told members that at the next meeting, he and Co-Chair Hawker would present a more crystallized vision of the committee's mission. He highlighted the resolution that created this special committee with a purview that isn't broad. Among the free-ranging discussions, he said, there is urgency relative to the committee's specific tasks. [HJR 9 was held over.]

ADJOURNMENT

Number 2547

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 8:15 a.m.