

**ALASKA STATE LEGISLATURE  
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

April 17, 2003

7:12 a.m.

**MEMBERS PRESENT**

Representative Mike Hawker, Co-Chair  
Representative Jim Whitaker, Co-Chair  
Representative Bruce Weyhrauch  
Representative Peggy Wilson  
Representative Max Gruenberg

**MEMBERS ABSENT**

Representative Cheryll Heinze  
Representative Vic Kohring  
Representative Norman Rokeberg  
Representative Carl Moses

**OTHER LEGISLATORS PRESENT**

Representative Ralph Samuels  
Representative Dan Ogg  
Representative Paul Seaton  
Representative Les Gara

**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
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

**WITNESS REGISTER**

REPRESENTATIVE BILL STOLTZE

Alaska State Legislature  
Juneau, Alaska,

POSITION STATEMENT: As sponsor, commented on changes in Version D of the proposed committee substitute to HJR 9.

GINGER BLAISDELL, Staff  
to Representative Bill Stoltze  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Answered questions about HJR 9.

**ACTION NARRATIVE**

**TAPE 03-9, SIDE A**

Number 0001

**CO-CHAIR JIM WHITAKER** called the House Special Committee on Ways and Means meeting to order at 7:12 a.m. Representatives Hawker, Whitaker, Weyhrauch, Wilson, and Gruenberg were present at the call to order. Representatives Samuels, Ogg, Seaton, and Gara were also present.

HJR 9-CONST AM: APPROPRIATION/SPENDING LIMIT

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.

Number 0138

CO-CHAIR HAWKER moved to adopt committee substitute (CS) for HJR 9, Version 23-LS0435\D, Cook, 4/16/03, as the working document. There being no objection, Version D was before the committee.

CO-CHAIR HAWKER explained that the proposed CS is substantially identical to the original HJR 9. Section 1(a), establishing an appropriation limit, has not changed. There are changes on page 2, lines 10-21, in subsections (b) and (c). In the original resolution, subsection (b) allowed an additional 2 percent appropriation from the base year on an affirmative vote of three-quarters of the members of each house. In the same resolution, subsection (c) stated that if appropriations for a year exceed the amount allowed for appropriations, then the governor should reduce expenses by the executive branch for its operation and administration.

CO-CHAIR HAWKER continued that under the proposed CS, subsection (b) allows the 2 percent increase of the base level by the affirmative vote of two-thirds rather than three-quarters of the members of each house. Subsection (c) in the CS allows a second 2 percent increment in addition to those from subsections (a) and (b) but that second 2 percent increment requires the three-quarter affirmative vote of both houses. Essentially, this CS merges the language from SJR 23 in a prior year and the language from this year's HJR 9.

Number 0426

REPRESENTATIVE GRUENBERG said a natural disaster would require more of an expenditure. He urged the committee to consider other escape clauses that would allow additional expenditures in extraordinary situations. He said, "The only thing I've learned in this business is that we can't think of everything."

Number 0502

REPRESENTATIVE BILL STOLTZE, Alaska State Legislature, sponsor of HJR 9, directed Representative Gruenberg to page 1, lines 12-13, an exemption from the spending limit ["to meet a state of disaster declared by the governor"]. He noted that HJR 9 is his first effort [at a constitutional spending limit] and thanked the committee for its work. He said nothing in the resolution is inviolate, but he would like to create as true a spending limit as possible.

Number 0637

REPRESENTATIVE WEYHRAUCH asked if it's possible to have a sunset [provision] in a constitutional amendment.

REPRESENTATIVE STOLTZE replied that there's a sunset clause on page 2, lines 27-31, in Section 30. He said he's been told it is constitutional, but he could not predict how the supreme court would rule on it.

REPRESENTATIVE GRUENBERG said that a constitutional sunset would depend on the provision, but in most cases, it would stand [a court challenge].

CO-CHAIR HAWKER said he was confident that the sunset provision in the prior session's SJR 23 was constitutional. He said the resolution passed both houses, and he has faith in the attorneys that crafted the sunset provision.

Number 0902

REPRESENTATIVE SEATON noted the exemption to the spending cap is included for emergency situations. He questioned whether this emergency funding would eventually become the base year for the subsequent two years.

REPRESENTATIVE STOLTZE said it's problematic not to know what the total budget figure is for a year.

REPRESENTATIVE SEATON explained that in a sequence of years in the future, the legislature would appropriate more money to deal with an earthquake or a fire. Then in future years, the base year would be increased by the large escalator based on an emergency [appropriation].

REPRESENTATIVE STOLTZE explained that the exemptions are by their nature one-time expenditures. For example, emergency expenditures or receipt of federal money are not continuing and should not be part of an escalator base.

REPRESENTATIVE WEYHRAUCH asked why HJR 9 is good public policy.

Number 1135

REPRESENTATIVE STOLTZE said that the public lacks confidence in the legislature to control spending, even the most conservative legislatures and governor. Legislatures see how difficult it is [to contain or cut spending]. Alaska is facing declining revenues and will have alternative revenue sources in the future, if the public accepts them. Conservative Alaskans who will have to swallow the new revenues have to know there's a cap, that the new revenues won't be used to fuel an increase in

government. He said for him and for some of his colleagues on both sides of the political spectrum, a spending limit is an absolute necessity before they will even talk about new revenues.

CO-CHAIR WHITAKER said the committee is considering HJR 9 because it has to deal with the political reality in order to develop a fiscal regime that deals with the economic reality.

Number 1322

REPRESENTATIVE WEYHRAUCH reiterated that HJR 9 would give the public a sense of comfort that spending is going to be controlled by a cap except for extraordinary reasons. He asked Representative Stoltze if he favors additional revenue-generating measures with this kind of mechanism in place.

REPRESENTATIVE STOLTZE said he did not. He said there are other [legislators who are] advocates for increased revenues. He said [new revenues] are not a discussion point for him until there's some type of protection [against excessive government spending]. He said HJR 9 is not part of his package to accompany new taxes; that's not part of his agenda. He said he expects that others will put forward taxes, and this resolution is his defensive measure.

Number 1639

REPRESENTATIVE GRUENBERG identified a question in HJR 9 that is common to a number of pieces of legislation - the issue of who decides. He said that a constitutional spending limit is a rigid framework because it's difficult to change. The legislature cannot change [the budget cap] except in a narrow way, 2 percent, year by year. That may not provide for all the unseen problems the state could have, for example, inflation on a national or international level. Another example is growth in the economy, for example, ANWR, a gas pipeline, or an increased military presence. He said there's no way the government can keep pace to increase the number of teachers, firemen, and police. This resolution doesn't allow this growth to occur, he said. Alaska needs some flexibility in the constitution or the legislature will have to keep amending this provision.

Number 1934

REPRESENTATIVE STOLTZE reminded the committee that he is reluctant to amend the constitution. He said he's really

concerned about indexing because it leads to government growth. This approach forces the legislature to make tough choices in the face of inflation. He said that 4 percent growth, especially considering the state's revenue picture, is generous.

CO-CHAIR HAWKER asked how a limitation on government spending can accommodate economic growth. He said that currently expenses exceed revenue, and he sees no immediate solution and no immediate state growth. But over the course of time, perhaps policymakers can balance the budget, control expenses, and consider alternative revenues. He said somewhere down the road when real growth finally happens, it will be necessary to expand government. The sunset provision is an excellent tool that gives the state six years to get its house in order and balance its budget. After six years, if the public concurs, the legislature gets the green light to go ahead and build the state's infrastructure.

Number 2316

REPRESENTATIVE OGG asked how the spending cap can accommodate the kinds of increases in government's fixed costs such as insurance increases of 100-1,200 percent in the last two years and heating fuel bills of 80 percent in the last year and a half. How does this resolution address these kinds of circumstances, he asked.

REPRESENTATIVE STOLTZE said the legislature can increase the budget annually by up to 4 percent, but the answer is that the [rising costs] force prioritization. He said that meeting fixed costs would be the highest priority; it would probably force local governments to absorb those costs. He said instituting a statewide income tax is not an acceptable answer to him or to the public. Inflation will force legislators to prioritize; the choices won't be pretty, he admitted.

Number 2549

REPRESENTATIVE OGG said that many Alaskans experienced the impact of the Trans-Alaska Pipeline and watched the increase of property values, goods, and the influx of people. This happened in a very short time period. He said he does not see how HJR 9 would allow the state to address that type of positive growth.

REPRESENTATIVE STOLTZE acknowledged that the committee may chose to expand the spending limit. He said he tried to start with a very conservative approach to government expenditures.

Number 2738

REPRESENTATIVE WILSON asked whether the language starting on page 2, line 18, in subsection (b) rules out the next subsection (c).

Number 2802

GINGER BLAISDELL, Staff to Representative Bill Stoltze, Alaska State Legislature, said that subsection (c) covers an appropriation that exceeds the limit under (a) and (b). The initial 2 percent growth requires a two-thirds vote, and an additional 2 percent, for a total of 4 percent growth, would require a three-quarters vote. At most there could be a 4 percent growth, she testified.

REPRESENTATIVE WILSON noted that even though the language restricts the budget to the two fiscal years preceding the fiscal year for which appropriations are made, that's not what HJR 9 does.

REPRESENTATIVE STOLTZE stated that the legislature can raise the budget by 4 percent with a super majority vote.

REPRESENTATIVE WILSON reiterated her understanding that the resolution appears to state something different.

Number 2959

MS. BLAISDELL explained that the resolution uses the previous two fiscal years as the base, so that the legislature knows how much money has been appropriated. The one-year prior budget is usually not complete. For example, the legislature is working on the FY 04 budget now, but the state is currently operating in FY 03. Because there might be some unexpected expenditures or supplementals, the base number for FY 03 is not yet known.

REPRESENTATIVE WILSON said she understands what Ms. Blaisdell is saying. On page 2, line 16, the words "an appropriation that exceeds the limit under (a) and (b)" refers to the first 2 percent [increase] and the legislature is considering another 2 percent increase. But on line page 2, lines 18-21, the resolution reads, "The total amount of appropriations ... may not exceed two percent of the amount appropriated for the last two fiscal years preceding the fiscal year for which the appropriations are made."

Number 3122

CO-CHAIR HAWKER noted that Representative Wilson left out three words [on page 2, line 19], "under this subsection". He said that within this subsection, an incremental 2 percent may be made with the same parameter that is applied in the previous paragraph.

REPRESENTATIVE STOLTZE confirmed that the subcommittee that developed the proposed CS intended two possible 2 percent increases.

REPRESENTATIVE GRUENBERG suggested that the drafters review this section to make sure that it cannot be misinterpreted.

Number 3318

REPRESENTATIVE GARA noted that last year's budget contained proposals to cut school budgets. The Kenai school district would have lost almost 60 teachers; communities in Southeast would have lost 25 percent of their teachers. He cautioned that by imposing a spending cap, the legislature might institutionalize failure and might prevent Alaskans from responding to their greatest needs. He noted that last year the state could not provide foster children with the number of social workers needed for the foster care system to succeed. By imposing a spending cap, he said, the legislature can't go beyond the failure that was institutionalized last year. He asked how a spending cap on last year's budget will allow the state to ever solve those ills.

REPRESENTATIVE STOLTZE replied that the spending cap will force the legislature to set priorities and address how to pay for them.

Number 3552

REPRESENTATIVE WEYHRAUCH confirmed with Representative Stoltze that the intent of placing this cap in the constitution is to discipline the legislature to control its spending and before it increases revenues through taxation, a cap must be in place. He asked if this measure will be necessary when spending and income become the same or when revenues exceed spending.

REPRESENTATIVE STOLTZE said that if the revenues were there and the public was comfortable with the spending level, this

resolution would not be necessary. But he noted that he lives in a different world.

Number 3720

REPRESENTATIVE WEYHRAUCH said the constitution is the underpinning of state government, and a change to it will be long lasting. Aside from the sunset date, would it be possible to [set aside the limit] during times when income is greater than expenses, letting the budget grow more than 4 percent, he asked.

REPRESENTATIVE STOLTZE noted that the sunset provision gives the public the opportunity at six years [to assess the usefulness of the spending cap] and then every six years after that.

REPRESENTATIVE WEYHRAUCH asked for clarification about the sunset provision. He explained his understanding of HJR 9: the public votes on it; if approved, it becomes part of the constitution; when the sunset date comes into play, this provision leaves the constitution; the only way it comes back into the constitution is if the voters approve it again.

Number 3935

REPRESENTATIVE STOLTZE said HJR 9 has a big red button that allows the voters to jettison the whole idea.

REPRESENTATIVE WEYHRAUCH asked if after the sunset, the legislature debates a new resolution [and decides whether] to put it before the voters again.

Number 4001

REPRESENTATIVE STOLTZE said the issue of continuing the cap automatically goes before voters.

REPRESENTATIVE WEYHRAUCH asked if it would be worthwhile to have the legislature debate whether it should go on the ballot again. He asked if it ties the hands of future legislatures by not being able to discuss it before it goes on the ballot again.

REPRESENTATIVE STOLTZE replied that the legislature could repeal this constitutional amendment with another [constitutional amendment].

Number 4055

REPRESENTATIVE WEYHRAUCH asked if the provision is intended to remain in the constitution.

REPRESENTATIVE STOLTZE said that the provision would be repealed if the voters rejected it every six years.

REPRESENTATIVE WEYHRAUCH said this is not a complete sunset; his idea of a sunset is a provision that goes away.

REPRESENTATIVE STOLTZE replied that this is a modified sunset, modeled after the constitutional convention provision.

Number 4157

REPRESENTATIVE WILSON expressed concern because there is a disconnect between the larger and smaller population areas over budget cuts. She mentioned that some communities have a 27 percent cut in teachers this year due to [last year's] budget cuts.

REPRESENTATIVE STOLTZE said he rejects the characterization that these cuts are a result of this year's legislature; there are also local factors that have caused those reductions. The public does enough blaming the legislature, he said.

Number 4316

REPRESENTATIVE WILSON noted that Wrangell has a sales tax, a property tax, and it pays for the school system up to the state cap in most years. If she applied that same percent to Anchorage, it would have to lay off 971 teachers, and that might put these cuts in perspective, she said. She said she is very uncomfortable with a modified sunset provision. Some small communities carry their weight as well as larger communities. She said the committee needs to think about what this provision really means.

REPRESENTATIVE SEATON stated that the cap on the appropriation does not apply to the exemptions, for example, the Alaska Railroad. If the state appropriates \$700 million one year to the Alaska Railroad or money to cover a state disaster, he confirmed that those expenditures do not become part of the base budget two years later.

**TAPE 03-9, SIDE B**

Number 4644

REPRESENTATIVE SEATON noted that exemption (10) excludes both of the 2 percent increases made under subsections (b) or (c). He said some of the committee's budget projections show a 2 percent growth or some growth but those are specifically excluded from being considered in the base year. He said the increased appropriations under (b) and (c) do not count as increases in the previous years' budgets. He noted a spending limit that is totally flat related to any of these 10 [exemptions]. Under HJR 9, the budget cannot grow; he asked for clarification on this point.

REPRESENTATIVE STOLTZE said Representative Seaton has characterized HJR 9 accurately. He explained that his intent was a flat government budget. He said some people may say he is not taking a conservative enough approach to the spending limit.

Number 4451

REPRESENTATIVE SEATON noted, that given Representative Stoltze's clarification, the graphs [handed out to the committee] are incorrect because they include 2 percent budget increases.

MS. BLAISDELL replied that Legislative Legal and Research Services helped draft the [proposed CS]. Their interpretation was that this one statement [about a 2 percent increase] was required [in the graphs]. She said she will ask why it was required. The language in subsection (b) of the original draft is slightly different from subsection (b) in the proposed CS. On page 2, line 15, of the CS, the resolution reads, "appropriations are made." In the original version, on page 2, line 16, the language reads, "excluding appropriations listed in (a)(1)-(10) of this section." That double exclusion may put the growth factor back in [the base], she stated.

Number 4302

CO-CHAIR WHITAKER stated that this point needs to be clarified.

CO-CHAIR HAWKER said that he concurs with [Representative Stoltze's] understanding of the intent of the language. He suggested clarifying the language for paragraph (10) [on page 2, line 9], so it eliminates the ambiguity.

REPRESENTATIVE STOLTZE apologized for not being able to answer questions about the detail of HJR 9 with more clarity and certainty.

Number 4204

REPRESENTATIVE GARA observed that the general fund is just a portion of budget; he said he believes the reason why the deficit is not bigger is the amount of federal money in the budget. Per capita, Alaskans draw more money than people from any other state, he said, but Alaska will be receiving less money from the federal government. He said Alaska now receives \$3 billion in federal money, which is bigger than the state's general fund expenditures. One example of decreasing federal money is the \$20 million reduction to education, he said. Representative Gara asked if it would it be appropriate to consider [an amendment to the resolution] that would make up for losses in federal money in order to keep services flat.

REPRESENTATIVE STOLTZE replied that such an allowance could be added, but asked where the legislature would get the money [to replace the lost federal funds]. He asked rhetorically how great an income tax would have to be implemented to make up for the \$20 million loss in revenue.

REPRESENTATIVE GARA admitted that if there were a one-third reduction in [federal funds], the state could never make up the difference; however, he asked about a provision that would allow legislators to make up a reasonable amount.

Number 3929

REPRESENTATIVE STOLTZE said these are all valid discussion points. He acknowledged that the resolution is in the hands of the committee, and he is commenting on suggestions.

REPRESENTATIVE OGG explained how the Alutiiq, [the Native people] of Kodiak, went through times of beneficial growth and times of "dis-growth." February was the longest month of their year, he related. One anthropologist said they called it the month of dried fish; they also called it the month of lesser or greater want. Transferring that to Alaska today, the state is in a period of greater want, he said. The resolution tries to correct a [constitutional provision] that was put in place 20 years ago in a time of lesser want. He said it is odd that in a period of greater want, the legislature is trying to cut the budget in order to live within its means. He said now, in a time of greater want, its difficult to correct an action made during a period of lesser want. He said the resolution needs a provision that addresses fixed cost increases that nobody has

control over. He said everyone would like to see spring come again and the economy grow rapidly. He said these two issues need to be addressed so that when Alaska moves into a period of lesser want, government doesn't blossom unrealistically as it did in the 1980s.

Number 3700

REPRESENTATIVE STOLTZE admitted that passing a constitutional amendment is appropriately an arduous task. He pointed out that there are three more committees to go and another body [before it goes to the voters].

[HJR 9 was held over.]

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 8:10 a.m.