

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

February 14, 2017

3:30 p.m.

MEMBERS PRESENT

Senator Mike Dunleavy, Chair
Senator David Wilson
Senator Cathy Giessel
Senator John Coghill
Senator Dennis Egan

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 48

"An Act creating a fund in the Department of Public Safety; providing for payment of certain medical insurance premiums for surviving dependents of certain police officers or firefighters who die in the line of duty; and providing for an effective date."

- HEARD & HELD

SENATE JOINT RESOLUTION NO. 2

Proposing an amendment to the Constitution of the State of Alaska relating to an appropriation limit.

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 48

SHORT TITLE: INS. FOR DEPENDS. OF DECEASED FIRE/POLICE

SPONSOR(S): SENATOR(S) COGHILL

02/03/17	(S)	READ THE FIRST TIME - REFERRALS
02/03/17	(S)	STA, FIN
02/14/17	(S)	STA AT 3:30 PM BUTROVICH 205

BILL: SJR 2

SHORT TITLE: CONST AM: APPROPRIATION LIMIT
SPONSOR(s): STATE AFFAIRS

01/27/17 (S) READ THE FIRST TIME - REFERRALS
01/27/17 (S) STA, JUD, FIN
02/14/17 (S) STA AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

SENATOR JOHN COGHILL
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of SB 48.

JORDAN SHILLING, Staff
Senator John Coghill
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided a sectional analysis of SB 48, Version J.

JOAN WILKERSON, Assistant Attorney General
Civil Division
Labor and State Affairs Section
Alaska Department of Law
Juneau, Alaska

POSITION STATEMENT: Addressed SB 48 regarding survivor health benefits.

DANIEL GEORGE, Staff
Senator Mike Dunleavy
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided an overview of SJR 2.

JEREMY PRICE, State Director
Americans for Prosperity
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SJR 2.

BOB WILLIAMS, State Budget Solutions Representative
American Legislative Exchange Council
Gig Harbor, Washington

POSITION STATEMENT: Testified in support of SJR 2.

ACTION NARRATIVE

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CHAIR MIKE DUNLEAVY called the Senate State Affairs Standing Committee meeting to order at 3:30 p.m. Present at the call to order were Senators Wilson, Giessel, Egan, Coghill, and Chair Dunleavy.

SB 48-INSURANCE FOR DEPENDENTS OF DECEASED FIRE/POLICE

[3:31:22 PM](#)

CHAIR DUNLEAVY announced the consideration of SB 48.

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SENATOR JOHN COGHILL, Alaska State Legislature, Juneau, Alaska, sponsor of SB 48, provided an overview of SB 48 as follows:

SB 48 is an answer to a problem that has been in the building for some time and that is how to get insurance benefits for survivors of police officers and firefighters. Hearing those horrible times when through no fault of their own, somebody is killed in the line of action; there was a couple of different ways to look at it, what we chose to do was to follow the lead of the administration and try to figure out a way to establish a fund that could be used by the Department of Public Safety to take care of state employees through that funding process.

So you will see in here the rules how that fund would work and what the qualifications are. Currently the surviving [beneficiaries lose services] immediately; well, that's just not acceptable. Not only do you have a devastating loss in your life, but also you find yourself in this real awkward spot of asking for something that you should be a natural matter of course.

So this legislation has been a topic of some conversation for the last year and certainly I felt the pressure for it, the need for it, and the politics of it quite frankly during the campaign season; but, I made a commitment that if there's an answer we should find it and this is the answer, the solution that we've come up with that would continue medical insurance coverage for the spouse and dependents, and it gives some of the qualification timelines for that.

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JORDAN SHILLING, Staff, Senator John Coghill, Alaska State Legislature, Juneau, Alaska, provided a sectional analysis of SB 48, Version J, as follows:

Section 1

Sec. 39.60.010 - Police officer and firefighter survivors' fund established:

The police officer and firefighter survivors' fund is established for the purpose of paying medical insurance premiums for an eligible surviving spouse or dependent child of a police officer or firefighter.

The Department of Public Safety shall create two separate accounts within the fund: a state employee account and a municipal employee account. The accounts can consist of legislative appropriations, private donations, and municipal contributions.

Sec. 39.60.020 - Powers and duties of the commissioner:

Annually, the Commissioner of the Department of Public Safety shall determine the amount of money necessary to pay premiums to eligible surviving dependents.

Sec. 39.60.030 - Payment authorized:

The Commissioner of the Department of Public Safety may use money in the fund to pay medical insurance premiums for eligible surviving dependents.

Sec. 39.60.040 - Eligibility of surviving dependents of police officers and firefighters for medical insurance premiums:

A surviving dependent may apply to the commissioner for payment of medical insurance premiums. The commissioner will make a determination of eligibility within 30 days of receiving the application.

A surviving dependent is eligible if:

- At the time of death, the police officer or firefighter was a year-round, permanent full-time employee of the state or municipality that has opted into this fund;
- At the time of death, the surviving dependent was receiving employer-sponsored medical insurance benefits;
- The proximate cause of the employee's death is a bodily injury sustained or a hazard undergone while in the performance and within the scope of the employee's duties; and
- The injury or hazard is not the proximate result of willful negligence by the employee.

A surviving spouse becomes ineligible upon becoming eligible to receive major medical insurance coverage by other means, or reaches 65 years of age - whichever comes first.

A surviving dependent child becomes ineligible upon becoming eligible to receive major medical insurance coverage by other means, or reaches 26 years of age - whichever comes first.

The commissioner shall pay the premium for the level of medical insurance coverage existing at the time of death, beginning the first month following the date the dependent applied to the fund. Payment of premiums will be made directly to the medical insurance provider.

Sec. 39.60.050 - Municipal election to participate in police officer and firefighter survivors' fund:

A municipality may elect to participate in the fund. The commissioner shall determine the amount and frequency of the municipality's required contributions to the fund, based on the anticipated cost. A surviving dependent is not eligible for payments unless the municipality opts into the fund.

Sec. 39.60.060 - Eligibility of municipal police officers and firefighters:

A surviving dependent of a police officer or firefighter who was employed by a municipality may be eligible for payment if immediately after the time of death the municipality elects to participate in the fund, and, at the time of death, the police officer or firefighter was receiving employer-sponsored medical insurance.

Sec. 39.60.070 - Terms of agreement by municipality to participate in fund:

An agreement between the commissioner and a municipality must include a requirement that the municipality contribute to the fund as needed, be current with contributions, and comply with all other rules and regulations.

Sec. 39.60.190 - Definitions:

Definitions for "child", "commissioner", "department", "dependent", "firefighter", "fund", "police officer", and "surviving spouse".

Section 2

AS 44.41.020 - Powers and duties of department (new subsection):

The Department of Public Safety shall manage and administer the fund in cooperation with the Department of Administration.

Section 3

Uncodified law:

The commissioner of public safety may adopt regulations necessary to implement secs. 1 and 2 of this Act. The regulations take effect under the Administrative Procedure Act, but not before the effective date of sections 1 and 2.

Section 4

Effective date:

Section 3 takes effect immediately.

Section 5

Effective date:

Sections 1 and 2 take effect July 1, 2017.

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SENATOR WILSON addressed volunteer firefighters and asked if municipalities will be able to contribute into the proposed fund.

MR. SHILLING replied as follows:

When you look at the definition of "firefighter" and "police officer," under the bill as written now if the individual that you are referring to is an employee of the state or is an employee of a municipality that has chosen to opt in and they are eligible under the other provisions in the bill then yes, my guess is they would be eligible for a benefit.

SENATOR WILSON noted page 4, line 15 in the bill as follows:

At the time of death, the police officer or firefighter was eligible for and receiving employer-sponsored medical insurance.

He opined that since the firefighters are volunteers they would not receive the benefit.

MR. SHILLING asked Senator Wilson if the volunteers that he is referencing are employees of a municipality.

SENATOR WILSON explained that the individuals are volunteers and do not receive the full benefits of their fulltime counterparts.

MR. SHILLING explained that the bill as designed is for state and municipal employees that are fulltime, permanent, and work year-round.

SENATOR WILSON commented that volunteer firefighters risk their lives just as much as a fulltime employee.

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SENATOR COGHILL stated that his office will find out what is currently available to volunteers and the possibilities for coverage under the proposed fund.

CHAIR DUNLEAVY opined that volunteer firemen would not qualify under the bill as currently written if the volunteers are not employees or employed by a municipality.

MR. SHILLING answered correct.

CHAIR DUNLEAVY asked what the practice has been since statehood when a police officer or firefighters dies in the line of service. He inquired if something has happened where benefits have been diminished.

MR. SHILLING stated that there is currently a benefit provided, but not for medical insurance premiums which is what SB 48 envisions. He opined that recent deaths may be the reason why the issue has been brought forward. He recommended that the Department of Law also address Chair Dunleavy's question.

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JOAN WILKERSON, Assistant Attorney General, Alaska Department of Law, Juneau, Alaska, responded that the survivor-health benefits has been afforded before. She noted that the benefit is exclusively available to families of Tier I employees.

CHAIR DUNLEAVY asked Ms. Wilkerson to address the recent issue for the survivors' health benefits.

MS. WILKERSON stated that there is a void that needs to be filled.

CHAIR DUNLEAVY asked Mr. Shilling to address how the fund is funded.

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MR. SHILLING specified that on page 2, line 1, two separate accounts are created where one is for the purpose of paying benefits to state-employee survivors and the other is to pay benefits to municipal-employee survivors. He detailed that appropriations can be made into both accounts by the Legislature as well as donations. He pointed out that the unique one is under the municipal employee-survivor account where municipalities, if opted in, can contribute money into the account for the purposes of paying the benefit to eligible dependents.

CHAIR DUNLEAVY noted that the language says the state or municipality "may appropriate" and interpreted the wording as meaning the state or municipality does not have to appropriate.

MR. SHILLING answered correct. He said the use of the word "may" is pervasive throughout the bill and that is to ensure that nothing is being done that creates a dedicated fund. He pointed out that the money can be reappropriated by a future legislature.

CHAIR DUNLEAVY asked what the estimated amount is to start the fund.

MR. SHILLING replied that \$70,000 is currently required for 3-dependent families.

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At ease.

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CHAIR DUNLEAVY called the committee back to order. He asked Mr. Shilling to readdress the fund's initial budget amount.

MR. SHILLING specified that the \$70,116 fiscal note is split among 3-dependent surviving families.

CHAIR DUNLEAVY asked if new funding would have to be appropriated for future survivor-health benefits.

SENATOR COGHILL detailed that the commissioner will have to make an assessment on an annual basis to make an adjustment for an appropriation. He noted that Chair Dunleavy's question hit upon one of the reasons why the bill is going with a fund approach rather than an actuarial approach.

MR. SHILLING added that the Legislature could put in additional money that was necessary for a fiscal year to front-load the fund in order to accommodate for an untimely death.

CHAIR DUNLEAVY asked how the fund will be managed out of the commissioner's office or the Department of Revenue.

MR. SHILLING replied that the bill has the Department of Public Safety's commissioner managing the fund, but doing so in cooperation with the Department of Administration.

SENATOR WILSON asked if consideration has been given to manage the fund with a bit more oversight than just one individual.

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MR. SHILLING answered that the sponsor's office has talked about what Senator Wilson addressed. He noted that the Senate State Affairs Committee can add more oversight.

SENATOR WILSON addressed the "police" definition in the bill and asked if Village Safety Police Officers (VPSOs) are also covered.

MR. SHILLING answered no. He detailed that VPSOs are not employees of the state. He added that VPSOs are not covered under the state's Public Employees' Retirement System (PERS). He noted that VPSOs have not been covered under previous iterations of the bill as well.

CHAIR DUNLEAVY asked Mr. Shilling why the bill's approach is the way to go. He noted that other ways are possible, including a life-insurance policy approach.

MR. SHILLING disclosed that the approach originated from one of the administration's working groups over the interim. He pointed out that there were some issues with past approaches that amended the PERS program. He set forth that the case-by-case approach in the bill allows for more flexibility, allows the Legislature to have more control, and provides more flexibility to the municipalities who have the option of opting in.

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SENATOR COGHILL added that the approach in the bill is a premium-payment method. He said the intent is not to be the insurer, but to quickly get the survivors insurance. He set forth that the flexibility provides for as immediate action as possible. He admitted that one of the saddest things that his office found out from the recent tragedies was that the insurance stopped as soon as the deaths were certified and that is why flexibility is needed at the commissioner's office to get the premium in as soon as practical. He summarized that the methodology in the bill is more nimble, but an annual appropriation will be required.

CHAIR DUNLEAVY asked if the annual appropriation can vary depending upon the unfortunate situation of having families in need of insurance. He added that the appropriation could rise or fall based on the number of dependents in a family as well.

MR. SHILLING answered yes.

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At ease.

[3:58:43 PM](#)

CHAIR DUNLEAVY called the committee back to order. He announced that SB 48 will be set aside with notice for public testimony for the committee's next meeting.

SENATOR COGHILL added that testimony from the Department of Public Safety will be included in the next meeting as well. He said he noticed a couple of places in the bill where changes could be made to make the legislation better.

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CHAIR DUNLEAVY announced he would hold SB 48 in committee for future consideration.

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At ease.

SJR 2-CONST AM: APPROPRIATION LIMIT

[4:01:58 PM](#)

CHAIR DUNLEAVY called the committee back to order and announced the consideration of Senate Joint Resolution 2, (SJR 2). He explained that SJR 2 is a constitutional amendment appropriation limit sponsored by the Senate State Affairs Committee. He provided an overview of SJR 2 based upon his sponsor's statement as follows:

In 1982, Alaska's voters enacted a constitutional appropriation limit which can be found in Article IX, Section 16. It has applied to every budget since FY84. However, in practice the spending cap has grown too high to matter during the budget process. For example, the constitutionally calculated spending limit for this year is \$10.1 billion, while applicable state spending is roughly \$5.2 billion. Simply put, we could double the budget today before bumping into the cap. Unless we act to "reset" the spending limit, it will remain powerless to curb future government spending growth.

SJR 2 lowers the constitutional appropriation limit amount, to bring it in line with the state's current fiscal reality, and to respect the intent of voters who chose to restrict the size of their government. It ties the cap going forward to a percentage of the annual change in population and inflation, to allow for changing conditions in the state.

SJR 2 draws on the wisdom from experience since 1982, and aims to close loopholes which allow for spending to bypass the limit. It attempts to simplify the limit so that it can be easily understood by budget and policy makers, as well as ordinary citizens.

Alaskans are prepared to help get us through this short-term fiscal situation, but do not want to give government an open checkbook. One of the simplest and most impactful ways we can structurally reduce and cap government growth is through repairing the constitutional appropriation limit to ensure it functions, as the voters of Alaska intended when they enshrined it in the Constitution not once, but twice.

The state's fiscal situation calls upon Alaskans to make sacrifices and the people want assurances that the size, spend, and growth of government will be kept in check. SJR 2 may be the most crucial piece of legislation that helps in accomplishing this goal.

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DANIEL GEORGE, Staff, Senator Mike Dunleavy, Alaska State Legislature, Juneau, Alaska, provided an overview of SJR 2 as follows:

SJR 2 is a timely conversation, it addresses a clause in our constitution that for some time has not been relevant to the discussion; but, given our current predicament, it is an option to help us deal with our fiscal situation as well as guide the state going forward, and it's an opportunity to respect the intent of the voters who enshrined this in the constitution not once, but twice.

The way SJR 2 functions is it takes all state spending and places it within a dollar-cap limit and that is the way the existing Article IX, Section 16 reads, and

then it names and lists out the items that are outside that limit.

MR. GEORGE disclosed that former legislators and staff from former governors were contacted for input as well. He divulged that former governor Hammond's staff members were contacted and noted that the appropriation cap was originally Governor Hammond's bill.

MR. GEORGE reiterated that SJR 2 takes all state spending and places it within a limit and then lists each item that is exempt from the limit. He noted that as Senator Dunleavy pointed out, the legislation would be on the ballot in November of 2018.

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He presented to the committee an overview, "SJR 2, Constitutional Appropriation Limit-Revision," and detailed as follows:

- Article IX, Section 16 of Alaska's Constitution.
- In Alaska: An annual cap on appropriations which can be enacted, which grows yearly by the increase in population and inflation, and held binding by the constitution. Some categories of appropriations are exempted.
- According to Alaska's OMB, "appropriation" is defined as, "Statutory authorization to spend a specific amount of money for a state purpose. Appropriations are often subdivided into allocation in the appropriations bill. Funds may not be spent without an appropriation made by law."

He addressed page 3, "How Many States Have Limits?" as follows:

- Appropriation limits are part of a broader category of Tax and Expenditure Limits (TEL).
- According to the National Conference of State Legislatures (NCSL), as of 2010:
 - 30 states operate under a tax or expenditure limit.
 - 23 states have spending limits.
 - 3 states have tax limits.
 - 4 states have both spending and tax limits.
- Roughly half of these limits are constitutional, the other half are statutory.

He noted that Alaska's appropriation limit is a state appropriation limit that does not apply to municipalities or local governments.

CHAIR DUNLEAVY pointed out that many municipalities have opted for certain caps; for example, Anchorage has a tax cap and other municipalities have to get a vote of the people to raise a tax. He noted that the term "appropriation" is used in the same breathe as "revenue limit;" the two terms are slightly different, but the effects are they are trying to have the same effect and that is to limit the growth and size of government.

MR. GEORGE continued on page 3 and addressed the 23 states that have spending limits as follows:

Of the states that have tax expenditure limits, roughly half are constitutional in nature and the other half are statutory; Alaska has both as you may know. The constitutional limit in 1982 and then the statutory limit was enacted by the Legislature in 1986, the same year that the constitutional limit was up for a revisit. When the bill passed the Legislature and went to the voters, it was known that they would revisit the limit in four year; so they know it would be on the ballot again in four years and have a chance to look at it and see how it was doing and see if they liked it or not. The Legislature passed the statutory limit knowing full well that the constitutional limit may or may not exist later on, but the statutory limit would exist regardless.

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CHAIR DUNLEAVY emphasized that SJR 2 is not something new to the people of Alaska, and they had a say on an appropriation limit decades ago. He acknowledged that Alaskans did want to constrain the Legislature and the size of government.

MR. GEORGE addressed page 4, "How Did We Get Our Appropriation Limit?" and detailed as follows:

Historical Context:

- Trans-Alaska Pipeline System (TAPS) completed, first oil flowed June 20, 1976.
- Alaska Permanent Fund established by voters November 2, 1976.

- From FY79 to FY82, Alaska's total budget tripled, going from \$1.08 billion to \$3.21 billion. For reference, the FY06 budget was \$3.29 billion.
- Alaska was facing a challenge of plenty at the time and there was a robust dialog about the need for an appropriation limit that took place in the early 80s.

MR. GEORGE pointed out that Alaska's budgets have grown in quick bursts over the years.

SENATOR COGHILL noted that in the constitution there is reference to the inflation rate. He asked if dollar amounts addressed by Mr. George are in real dollars or in inflated dollars.

MR. GEORGE replied as follows:

The "Unrestricted General Revenue/Budget History" graph referenced on page 4 is in nominal dollars that are not adjusted. If you were to turn this into real dollars, you see that blip around the early 80s, it would look nearly as high as the top of the chart on the right hand side of the 2000s. So what they were facing was, and if you were to look at it in real terms per capita, it's very significant. There's a whole presentation that Legislative Finance has put together on this.

SENATOR COGHILL commented on nominal dollars versus adjusted dollars and specified as follows:

This is just a context we need to kind of keep in front of us because we are going to be asking them to think about how it would look in the adjusted dollars along the way and yet it just shows that stark reality of the huge volume of dollars that have come and gone.

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MR. GEORGE addressed page 5, "How Did We Get Our Limit?" as follows:

Timeline:

- July 15, 1981: Legislature passed Governor Hammond's SJR 4 in a special session.

- November 2, 1982: Voters enshrined the amendment limiting appropriation increases in the Alaska constitution, passing Ballot Measure 4 with a 61 percent to 39 percent tally.
- November 4, 1986: Voters reaffirmed the amendment in a planned revisit, passing 71 percent to 29 percent.

Later Fiscal Measures:

- 1986: Statutory Appropriation Limit.
- 1991: Statutory Budget Reserve Fund.
- 1991: Constitutional Budget Reserve Fund.

MR. GEORGE noted that Governor Hammond in 1981 addressed the larger budget and called a special session for a fiscal guarantee regarding the state's future for by asking for an appropriation limit, via SJR 4, to go before the Legislature.

CHAIR DUNLEAVY pointed out that the chart that Mr. George referenced shows that each time the people of Alaska had an opportunity to vote on an appropriation limit they reaffirmed it and did so by larger numbers. He opined that a baseline "spend" that was actually more constrained with less of an incline would have resulted in billions of more dollars in savings accounts and the budget issue that the Legislature has been grappling with for the last two or three years would not be as large as it is today. He set forth that SJR 2 draws on the past and present to chart the course for the future that is much more fiscally sustainable for Alaskans.

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MR. GEORGE addressed page 6, "Why SJR 2 Was Brought Forward," as follows:

- The appropriation limit in Article IX, Section 16 is in need of repair; it has soared out of reach and failed to impact any spending since its enactment:
 - FY17 budget was \$5.2 billion, while the limit was \$10 billion.
- The limit may never come into play again unless it is reset.
- The intent of the voters should be respected and there should be a meaningful appropriation limit.

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At ease.

[4:18:52 PM](#)

CHAIR DUNLEAVY called the committee back to order.

MR. GEORGE addressed page 7, "Why SJR 2 Was Brought Forward, Continued," as follows:

- During the 2016 interim, Senator Dunleavy asked Legislative Finance Division (LFD) to review the existing Statutory and Constitutional Appropriation Limits.
- LFD responded with analysis and also provided a look at problems associated with the state's spending limits, and recommendations for ways to assist in developing a workable loophole-proof as much as possible with a spending limit that would:
 - Suppress the growth of government ring revenue surpluses,
 - Address rapid burning of reserves during revenue shortfalls.
- Staff worked with LFD, Legal Services Division, and individuals involved in the creation of the existing appropriation limit, to craft a revised appropriation limit for Alaska.

He addressed page 8, "Key Elements of SJR's Revision to the Constitutional Appropriation Limit," as follows:

- Simplicity in presentation:
 - Voters must be able to clearly understand the limit; it must not be so complex or wonky that it cannot be easily explained.
 - SJR 2 was designed to simplify the existing limit.
- Sophisticated in function:
 - Borrows from lessons learned following implementation of the 1982 limit.
 - OMB's Division of Strategic Planning wrote a paper in 1986 which characterized the 1982 limits as, "Complex, because it has be. Like all legislation, it was designed to strike a balance between accomplishing something in a particular way, yet simultaneously preserving the flexibility to respond to unforeseen events and changing circumstances."

He addressed page 9, "Basics of SJR 2" as follows:

- Would need to pass during the 30th Legislature, prior to the November 2018 General Election:
 - Constitutional Amendments and Conventions: AS 15.50.030, placing proposition on ballot. The lieutenant governor shall direct the director to place the ballot title and proposition on the ballot for the next statewide general election held after the amendment proposed by the Legislature or held 120 days after the amendment proposed by a constitutional convention. If there is insufficient time to permit the proposition to be placed on the regular ballot by the director, the lieutenant governor shall direct the director to prepare a separate ballot for the proposition.
- Effective Date: Under AS 15.50.060, would become effective 30 days after certification; this means SJR 2 would be effective for the FY2020 budget, contemplated in early 2019.

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CHAIR DUNLEAVY commented as follows:

Once again, we are going through a time where we may be asking the people of Alaska for the first time in decades to contemplate a tax, contemplate some reconfiguration of the permanent fund, and the feedback I've been getting from constituents is they want to pull together and get Alaska to get through this period of time; but, the very concern about once we get through this period of time is it's going to be an "open checkbook" and is it going to be their checkbook that's open for any future increases in taxes, any future reconfigurations of the permanent fund. The feedback that I'm getting from constituents is they want to keep government constrained and as small as possible so that they can keep as much money in their pockets. I had a discussion with many constituents that believe we should be sure that we have adequate public safety, good roads, good schools, their concerns are some of the other things that may have spent our money on in the past, they would like us not to go back to that spending where when we get money, we spend it for the most part, we save a little bit, but we spend it for the most part; they want to be assured as we move forward they are going to be

able to retain as money in their pockets and the state will have adequate funds to deliver basic services.

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MR. GEORGE addressed page 10, "Basics of SJR 2, Continued," regarding spending exempt "outside" the limit appropriations made as follows:

- The Alaska Permanent Fund;
- Payment of Permanent Fund Dividends;
- Meet a state of disaster declared by the governor as prescribed by law, AS 26.23.020;
- State general obligation or revenue bond proceeds;
- Obligations under State general obligation bonds and revenue bonds;
- Money received from the federal government;
- Reappropriation of a previous unobligated appropriation;
- Expenditure by a state agency to provide internal services, or to provide services to another agency, and another state agency has also received an appropriation of the same money.
- Money held in trust by the state for a particular purpose;
- Money receive by the state from a source other than the state or federal government that is restricted to a specific use by the terms of a gift, grant, bequest, or contract;
- Revenue of a public enterprise or public corporation that issues revenue bonds;
- Money deposited into the Constitutional Budget Reserve (CBR), back to the funds and accounts from which the money came, "reverse sweep;"
- State savings account or fund as prescribed by law;
- Dedicated funds.

CHAIR DUNLEAVY addressed general obligation bonds and revenue bonds. He noted that revenue bonds have revenue attached to service those bonds.

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MR. GEORGE addressed page 11, "What Is Inside and Outside the Limit?" as follows:

- Permanent Fund Dividends:
 - Existing limit: outside;
 - New limit: outside.

- General Obligation Bond Proceeds (State):
 - Existing limit: inside, unless in Capital Budget and approved by voters;
 - New limit: outside, universally.
- General Obligation Bond Principal Repayment (State):
 - Existing limit: outside;
 - New limit: outside.
- General Obligation Bond Interest Repayment (State):
 - Existing limit: outside;
 - New limit: outside.
- Municipal Debt Service:
 - Existing limit: outside;
 - New limit: inside.
- Revenue Bond Proceeds:
 - Existing limit: outside;
 - New limit: outside.
- Revenue Bond Debt Service:
 - Existing limit: inside;
 - New limit: outside.
- Money held in trust by the State for a particular purpose:
 - Existing limit: outside;
 - New limit: outside.
- Revenues of public enterprise or public corporation of the State that issues revenue bonds:
 - Existing limit: outside
 - New limit: outside.
- Federal receipts:
 - Existing limit: outside;
 - New limit: outside.
- Reappropriations:
 - Existing limit: outside, per attorney general opinion;
 - New limit: outside, explicitly.
- I/A Services and Duplicate Appropriations:
 - Existing limit: implied outside;
 - New limit: outside, specified.
- Gift, grant, bequest, or contract, restrict money from neither Feds or State for a specific use:
 - Existing limit: implied outside;
 - New limit: outside, specified.
- CBR reverse-sweep:
 - Existing limit: not contemplated;
 - New limit: outside.
- To a state savings account, as prescribed by law (designated in the statutory bill), which require further

appropriation in order to spend. (Statutory Budget Reserve (SBR), CBR):

- Existing limit: implied outside;
- New limit: outside, specified.
- Dedicated funds (per Constitutional definition):
 - Existing limit: outside, with exceptions;
 - New limit: outside.
- Appropriations from other than the Treasury:
 - Existing limit: outside;
 - New limit: inside.
- Appropriations into the Permanent Fund:
 - Existing limit: outside;
 - New limit: outside.
- State Capital Budget:
 - Existing limit: inside, unless valid and approved by voters as prescribed by law;
 - New limit: inside, generally.
- Disaster (when declared by governor, as provided by law):
 - Existing limit: outside;
 - New limit: outside.

MR. GEORGE noted that one significant item which was not spelled out in the original limit was municipal debt service that includes: transportation, infrastructure, bonds that are on the local level, and school debt reimbursement; those are approved on a municipal-wide basis. He explained that the state, under a statute that dates back to 1971, has made an annual appropriation in most years to offset or pay the municipalities for those costs. He said as a policy call, the way SJR 2 works is it takes all state spending, except for the items in the exclusions, and puts them on equal footing with one another so that they compete for scarce resources under equal footing. He detailed that SJR 2 would take municipal-debt reimbursement and place it within a limit; that doesn't mean it wouldn't be paid, it's just that it would have to compete with other items.

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He addressed page 12, "The Built-In Growth Formula" as follows:

- The mechanism which adjust the appropriation cap annually is a critically important element.
- The existing limit's formula adjusts the spending cap by 100 percent of the cumulative change in population and inflation; this led to a trajectory for the limit which quickly became unattainable.

- If the formula in 1982 had been set at 50 percent of the cumulative change in population and inflation, the limit would have cutoff the mountain of spending for FY06 to FY15.

CHAIR DUNLEAVY concurred with Mr. George that if SJR 2 was in place, the appropriation spikes from FY06 and beyond would not have occurred. He asserted that billions of dollars would have been put into savings that the state would have today; that's one of the major points of trying to revise the appropriation limit. He set forth that the state will come into more revenue over time and noted recent oil discoveries occurring on the North Slope as well as an oil-price rebound. He said being prepared for the future will allow the state to save more of the added revenue.

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MR. GEORGE addressed page 13, "Further Policy Considerations" as follows:

- Flagged spending items for further examination:
 - Revenue bond debt service; specifically, whether this exemption should be limited to bonds that generate sufficient revenue, or anticipated reductions, to cover debt service.
 - Unrestricted federal funds, approximately \$7.4 million in FY18.
 - Reappropriations and scope changes.
 - University receipts, Designated General Funds (DGF) or other.
 - Appropriations to a state savings account, as designated by law; statutory clarification needed, CBR or SBR.
 - Dedicated fund; example, Fish and Game Fund currently inside the limit, the introduced bill would place all dedicated funds outside the limit. Note: dedicated fund are not the same as designated funds.
 - Capital budget; this is an obvious loophole if placed outside the limit.
- Pressure-relief valve:
 - A method to exceed the appropriation limit, whether it be through referral to voters, legislative super-majority, or otherwise.

He addressed the pressure-relief valve and noted its use in emergency situations. He disclosed that states have abused the

pressure-relief valve by annually declaring an emergency as a way to get around their appropriation limit, or to declare a particular appropriation is outside the limit.

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CHAIR DUNLEAVY commented as follows:

This is a bill that we are going to really take our time and do it right because once again, changing something in the bill or adding something really needs to be scrutinized and evaluated to see if it stays within our parameters of being simple and effective. What we don't want to do is end up where the folks in 1982 ended up and that was they wanted a spending limit, it went through the process, we know how the process can be with bills with amendments and changes, and what came out the other end was a spending limit, and if the trajectory of "spend" was kept at that trajectory, that baseline, it probably would have constrained us, but the reality was we would have to spend about \$10 billion.

He noted that even if SJR 2 passed during the current year, a vote would not occur for another year. He asked Mr. George to verify the ballot date.

MR. GEORGE replied November 2018.

CHAIR DUNLEAVY welcomed invited testimony on SJR 2.

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JEREMY PRICE, State Director, Americans for Prosperity, Anchorage, Alaska, testified in support of SJR 2. He said the existing cap, established at \$2.5 billion in 1982, would be over \$10 billion after inflation and population growth adjustments. He noted Alaska has come close to exceeding the appropriation limit in FY09 and FY13. He pointed out that spending increased dramatically from \$3 billion in FY04 to \$8.7 billion in FY13. He asserted that spending increases dramatically when government revenue is high. He said the challenge to keeping spending under control is when times are good.

MR. PRICE opined that the majority of Alaskans have not changed their opinion since the early 1980s on limiting state spending. He asserted that now is the perfect time to enact the limit on appropriations because state spending has been declining for the last few years. He referenced the Municipality of Anchorage and

the state of Colorado as examples of governing bodies with taxing and spending caps. He noted that Anchorage recently spent excess taxes, but Colorado issued refunds to taxpayers. He disclosed that Colorado has refunded \$2 billion to taxpayers since 1992.

He set forth that the lessons learned in Anchorage and Colorado can be applied to Alaska by:

1. Not allowing an appropriations cap to be suspended.
2. Making language of the spending cap "water tight" so future legislators will not be able to "poke holes" in it.

He opined that the majority of Alaskans are largely supportive on limits to keep government from growing excessively.

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BOB WILLIAMS, State Budget Solutions Representative, American Legislative Exchange Council, Gig Harbor, Washington, disclosed his background and noted that he served five terms in the Washington State Legislature where he worked on tax and spending limits.

He set forth that the purpose of spending limits is to provide the fiscal discipline necessary during strong periods of revenue growth. He concurred that a budget is overextended when a strong limit is not set during revenue growth.

He said the main benefits from SJR 2 are as follows:

- Makes government more accountable;
- Forces discipline over budget and tax practices;
- Makes government more efficient;
- Makes government think of creative ways to generate revenues;
- Controls the growth of government;
- Forces government to evaluate programs and prioritize services;
- Raises questions about the advisability of some functions provided by government.
- Helps citizens feel empowered and results in more taxpayer satisfaction.
- Helps diffuse the power of special interests.

MR. WILLIAMS concurred with Mr. Price that a tax and spending cap must stay "watertight." He noted that some states without

watertight caps have put in exceptions to get around caps. He suggested that consideration also be given to budget reform where the process is changed to an outcome-performance-based budgeting.

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CHAIR DUNLEAVY. He said he believed SJR 2 is one of the most important pieces of legislation and tool that all Alaskans are going to be looking at moving forward. He asserted that legislators work for the people of Alaska and have to remember that. He opined that Alaskans were fortunate enough for decades to have a large amount of oil revenue and the paradigm has changed. He set forth that the people legislators represent are owed their say prior to the Legislature making decisions on taxation or changes in the permanent fund or other revenue enhancements and tell legislators what they are looking at in terms of size of government.

CHAIR DUNLEAVY announced he would hold SJR 2 in committee for future consideration

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There being no further business to come before the committee, Chair Dunleavy adjourned the State Affairs Standing Committee at 4:48 p.m.