

**ALASKA STATE LEGISLATURE**  
**SENATE STATE AFFAIRS STANDING COMMITTEE**

March 6, 2018

3:30 p.m.

**MEMBERS PRESENT**

Senator Kevin Meyer, Chair  
Senator David Wilson  
Senator Cathy Giessel  
Senator John Coghill  
Senator Dennis Egan

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Senator Mike Shower

**COMMITTEE CALENDAR**

SENATE BILL NO. 196

"An Act relating to an appropriation limit; and providing for an effective date."

- MOVED SB 196 OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: SB 196

SHORT TITLE: APPROPRIATION LIMIT

SPONSOR(S): FINANCE

02/19/18	(S)	READ THE FIRST TIME - REFERRALS
02/19/18	(S)	FIN
02/28/18	(S)	STA REFERRAL ADDED BEFORE FIN
03/06/18	(S)	STA AT 3:30 PM BUTROVICH 205

**WITNESS REGISTER**

SENATOR PETER MICCICHE  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Sponsor of SB 196, provided an overview.

JEREMY PRICE, Alaska State Director  
Americans for Prosperity  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of SB 196.

MIKE ALEXANDER, representing self  
Palmer, Alaska

**POSITION STATEMENT:** Testified in support of SB 196.

GARVIN BUCARIA, representing self  
Wasilla, Alaska

**POSITION STATEMENT:** Testified in support of SB 196.

MIKE COONS, representing self  
Palmer, Alaska

**POSITION STATEMENT:** Testified in support of SB 196.

BETH FREAD, representing self  
Palmer, Alaska

**POSITION STATEMENT:** Testified in support of SB 196.

KATHY WILLIAMS, representing self  
Chugiak, Alaska

**POSITION STATEMENT:** Testified in support of SB 196.

MICHELLE SHOWER, representing self  
Wasilla, Alaska

**POSITION STATEMENT:** Testified in support of SB 196.

## **ACTION NARRATIVE**

[3:30:25 PM](#)

**CHAIR KEVIN MEYER** 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, Coghill, Egan, and Chair Meyer.

### **SB 196-APPROPRIATION LIMIT**

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**CHAIR MEYER** announced the consideration of Senate Bill 196 (SB 196).

[3:32:08 PM](#)

SENATOR PETER MICCICHE, Alaska State Legislature, Juneau, Alaska, sponsor of SB 196, referenced the sponsor statement as follows:

The State of Alaska relies on a single commodity to fund more than 85 percent of our government services. Today, with declining production and lower prices, Alaska continues to face a significant budget deficit. The Legislature has cut the operating and capital budgets by over \$3 billion in the last four fiscal years but has continued to draw from our savings accounts to fill the gap between revenue and expenditures.

Senate Bill 196 sets a \$4.1 billion statutory limit on how much the Legislature can appropriate every year with regard to agency operating budget expenses. The limit would be adjusted annually for inflation. The appropriation limit does not apply to appropriations for the payment of permanent fund dividends, capital projects, state debt obligations, and receipt supported services such as receipts of the Alaska Marine Highway System.

Alaska must control its spending in order to refill our savings accounts and sustain the programs Alaskans rely on in their everyday lives. Senate Bill 196 is the needed framework to help guide the governor and the Legislature through the budget making process.

Now is the time to pass an effective statutory appropriation limit.

[3:33:54 PM](#)

He addressed previous legislative spending and referenced a chart, "SB 196 Appropriation Limit vs. Appropriations" and detailed as follows:

The Legislature did a fine job on significant savings but when revenues were very high, we spent a dollar or two as well. You have a chart provided from Legislative Finance and there are two lines on that chart: the blue line is the [Unrestricted General Fund] (UGF) appropriation limit backing out, deflating the value of \$4.1 billion that we are spending today down to FY1999 levels. The green line is starting at the actual FY1999 spend and inflating with the

Anchorage [Consumer Price Index] (CPI). What we are demonstrating there is had we had an appropriation limit in place we would have spent approximately \$15 billion less dollars which would mean we would still have a [Constitutional Budget Reserve] (CBR) in place, we would not be talking about reducing dividends, we would be at a much more sustainable place in history than we are today.

Why are we doing this now? We are doing this now because as you can see the top spend was FY2013, we have brought that down to levels that are closer to the FY2008, FY2009 spending; however, if we don't set an appropriation limit moving forward, we are going to find ourselves in the same position.

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CHAIR MEYER asked Senator Micciche to explain what the green line represents in the appropriation-limit chart.

SENATOR MICCICHE explained as follows:

The blue and the green line are Anchorage CPI overlaid on the spend. The blue line is deflating from current spend at \$4.1 billion down to what it would have been in FY1999. The green line is inflating from what we actually spent in FY1999 to where we would be today had we had this in place in FY1999. Today, we would be spending about \$3.2 billion or \$3 billion as opposed to the \$4.1 billion we are spending if we would have retained that discipline through that period of time. So, it's just two ways to look at it, either way we would have avoided those high spending years between FY2007 and FY2015 when we started reducing, and that number between the blue line and the red line would be in savings right now had we observed an appropriation limit.

He summarized that the "Appropriation Limit versus Appropriations" chart shows how the Legislature could have avoided the high spending years between FY2007 and FY2015 with an appropriations limit. He noted that the area on the chart between the red and blue lines would currently be the amount in savings had the Legislature observed an appropriation limit.

CHAIR MEYER asked Senator Micciche how he arrived at the \$4.1 billion number as the starting point.

SENATOR MICCICHE replied that \$4.1 billion was the previous year's Unrestricted General Fund (UGF) spend.

CHAIR MEYER asked how emergencies will be dealt with.

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SENATOR MICCICHE replied that emergencies are excluded and will be addressed in his sectional analysis for SB 196 as follows:

- Section 1: Removes the reference to the current statutory appropriation limit.
- Section 2: Statutory Appropriation limit:
  - Unrestricted General Fund appropriations may not exceed \$4.1 billion.
  - Adjusts for inflation using known inflation data.
  - Inflation adjustment is based on the Consumer Price Index for Anchorage prepared by the United States Bureau of Labor Statistics.
  - Appropriation Limit excludes appropriations:
    - To the Alaska Permanent Fund;
    - For Permanent Fund Dividend payments;
    - For payment of Debt obligations of the state (e.g. - General Obligation Bonds and Certificates of Participation);
    - Capital projects.
  - Defines:
    - Capital project;
    - Program Receipts;
    - Unrestricted general fund.
- Section 3: Repeals current statutory appropriation limit language.
- Section 4: Effective date of July 1, 2018.

He noted that the current statutory appropriation limit has never been triggered and has not been effective.

CHAIR MEYER asked Senator Micciche to address how emergencies will be dealt with.

SENATOR MICCICHE replied that there are going to be occasional supplemental issues that traditionally have been dealt with by the Legislature. He said the hope is the Legislature will consider the previous year's supplemental when defining the following year's spend to remain within the spending limit. He asserted that the goal is to "keep the pressure on" in the

upcoming years for a balanced budget with growth that is lower than the governor's 2.25 percent inflation rate that is based upon the Anchorage CPI. He noted that the actual inflation is generally below the 2.25 CPI rate. He summarized that the rate is appropriately adjusted annually on cost changes in the state's largest city rather than, "Just plugging in an inflation rate that is static out of the air."

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CHAIR MEYER responded that he is concerned with the possibility of the supplemental getting so large that it is used to get around the spending cap.

SENATOR MICCICHE replied that a growing supplemental budget is one of the reasons to instill discipline on future spend. He said an appropriation limit will highlight the Legislature's need to contain costs; for example, Medicaid and other health and social service programs that are growing exponentially well above the inflation rate.

CHAIR MEYER recognized Senator Shower for being in attendance.

SENATOR WILSON noted that the committee has heard different spending limit legislation, one constitutional and one statutory. He pointed out that there are bills in the other body with appropriation limits ranging from \$4.1 billion to \$4.5 billion. He asked Senator Micciche how he arrived at his \$4.1 billion appropriation limit.

SENATOR MICCICHE explained that the appropriation limit is based on the previous year's budget. He said the proposed appropriation limit is a starting point and the committee's job is to determine if the rate is the best starting point. He emphasized that the most important issue is controlling the growth rate versus the exact starting point. He summarized that his goal is for an appropriation that is realistic and as low as possible.

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CHAIR MEYER pointed out that Senator Wilson was referring to SJR 2, a constitutional amendment with a \$4.3 billion appropriation limit. He remarked that he likes Senator Micciche's bill better because the appropriation limit is almost a \$500 million reduction from where the budget is now. He noted that the governor proposed \$4.6 billion.

SENATOR MICCICHE answered that Chair Meyer was correct. He said he was uncomfortable with the current level of UGF spend, excluding dividends. He asserted that the Legislature's job, particularly during the state's difficult times, is to ensure that costs are realistically covered at a starting point as low as possible. He noted that SB 196 is a committee bill that is supported by the Senate Finance Committee with the hope that the legislation gets through the system this year.

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CHAIR MEYER opened public testimony.

[3:44:24 PM](#)

JEREMY PRICE, Alaska State Director, Americans for Prosperity, Anchorage, Alaska, testified in support of SB 196. He said SB 196 is dovetail-legislation that will act as a brake on spending increases. He disclosed that Americans for Prosperity has a history with spending limitations in Anchorage and noted a successful ballot initiative that restored a tax-cap in 2016. He addressed similar statewide spending-limit initiatives that showed similar 3:2 voting approval as the Anchorage ballot initiative. He noted that a recent statewide poll showed that 60 percent of Alaskans support a state-spending cap. He summarized that a clear majority of Alaskans support limitations on spending.

CHAIR MEYER concurred with Mr. Price that he hoped the constitutional amendment bill makes it as well. He noted that the approval-hurdle is much higher for a constitutional amendment versus a statutory bill.

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MIKE ALEXANDER, representing self, Palmer, Alaska, testified in support of SB 196. He opined that the spending cap should be lower than \$4.1 billion.

[3:48:58 PM](#)

GARVIN BUCARIA, representing self, Wasilla, Alaska, testified in support of SB 196. He suggested that the Senate not pass the 2019 budget unless the other body and the governor reduce their spending.

[3:50:46 PM](#)

MIKE COONS, representing self, Palmer, Alaska, testified in support of SB 196. He suggested that the state stop spending and start paying off its debt.

[3:53:24 PM](#)

BETH FREAD, representing self, Palmer, Alaska, testified in support of SB 196. She opined that the state spends more than its population represents.

[3:55:42 PM](#)

KATHY WILLIAMS, representing self, Chugiak, Alaska, testified in support of SB 196. She said the legislation is the responsible thing to do.

[3:57:03 PM](#)

MICHELLE SHOWER, representing self, Wasilla, Alaska, testified in support of SB 196.

[3:58:28 PM](#)

CHAIR MEYER closed public testimony.

SENATOR COGHILL referenced page 2 in the bill and referenced AS 37.05.545(c)(3) as follows:

"Unrestricted general fund" means money deposited in the state treasury that has not been dedicated or designated for use by the Constitution of the State of Alaska or by law; "unrestricted general fund" does not include program receipts or reappropriations.

He asked if the restrictions for the UGF will make for a "big hole in the wall."

SENATOR MICCICHE explained that the intent is to make sure money that is truly UGF is not encumbered for some other "constitutional" or "other use" and is the reason for the separation from where the spending cap does not apply. He said money that is encumbered could be a past appropriation or some other use that the Legislature is not foreseeing. He emphasized that he does not see a work-around scenario and summarized, "UGF is UGF in agency operations and I think that is a fairly clear delineation."

SENATOR COGHILL explained that he is suspicious of "designated funds" that are not designated. He noted that the Legislature designates a fund to do a purpose; however, the Legislature always says in its appropriations that the fund is not a dedicated fund. He pointed out that the appropriated money could go to things other than what the money was intended for. He explained as follows:

I was trying to get the hospitals to ramp up their 9-1-1 readiness and improve their trauma rating; we took some money and we put it into a fund dedicated to that issue, but it was a non-dedicated fund, it had to be dedicated to that issue, but general fund had to be appropriated on an annual basis.

Under this language I just wondered if that would create all of these funds to get a free run at appropriations. So, you might want to put that under your hat and think about it a little bit.

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SENATOR MICCICHE conceded that "games have been played" but explained that the intent is to eliminate the potential to shove things off as a Designated General Fund (DGF) for items dedicated by the constitution. He explained as follows:

The example we use on DGF is the university. We don't want to discourage them if they try to cover their cost by increasing student cost which is a direct-user fee, but it is DGF. We want them to have the flexibility to do that, but that is not included in this appropriation. Even in the case that you gave about creating a fund for emergency response on an annual basis, that happens to be UGF and that will be a part of this spending limit.

He said the Legislature is always going to have to remain diligent for tricks in the budgeting process. He conceded that more time will have to be spent to make sure no one is trying to create a work-around on an appropriation limit.

[4:04:46 PM](#)

CHAIR MEYER noted a testifier's comments on bringing down the appropriation limit. He asked Senator Micciche is he wanted to stay at \$4.1 billion.

SENATOR MICCICHE replied that he agreed with the testifiers that would like to bring the appropriation limit down as low as possible. He asserted that passing SB 196 would be like planting a seed and said, "You are never going to have a tree without planting a seed or sapling."

He referenced the appropriation-limit chart and reiterated that exercising the discipline in an appropriation limit in FY1999

would have resulted in the CBR having \$10 billion or more. He summarized as follows:

The more important aspect of passing this, if we try to negotiate the budget within this bill, I feel there's no chance of getting it across the finish line and that's our first priority. We may not get to the number we want this year, but it will provide the discipline to remain on target in the future.

[4:06:27 PM](#)

SENATOR COGHILL recalled a statute that addressed a "spending triage priority" for prioritizing spending and recommend that the statute be referenced with a spending limit.

SENATOR MICCICHE agreed with Senator Coghill and commented as follows:

We have to start somewhere and the only problem we are having with getting out on 90 days and having both sides shake hands in absolute agreement is something called priority differences. We are attempting to address priorities that are constitutional at the lowest cost possible and others have perhaps a different view on those priorities and we are hoping to agree in the statutory 90 days that we have in front of us, but that is always a challenge.

I think the first approach is a statutory spending limit. Perhaps we are successful in a constitutional spending limit, and then we will take that priority battle back here next year on what we can do in that very situation and I don't know that's a possibility that we don't run into. If we run into another significant reduction in oil prices, if for some reason we are challenged on production in the future, there are many issues, returns to the Permanent Fund, there are many reasons why we are going to have to look at that prioritization.

I hope that we do move into that direction and I hope that we can find some agreement between the various side majority-minority, House-Senate, and arrive at some sort of consensus in the future.

[4:09:28 PM](#)

CHAIR MEYER said he saw no reason to hold up SB 196 anymore. He noted that Senator Coghill has additional information to pass on to the Senate Finance Committee for making the appropriate adjustments.

SENATOR COGHILL remarked that he is always glad to be good counsel to the Senate Finance Committee.

CHAIR MEYER disclosed that a lot of e-mail testimony was received from constituents on SB 196. He noted that the fiscal note for the bill is zero.

[4:10:31 PM](#)

SENATOR GIESSEL moved to report SB 196, version: 30-LS1022\J from committee with individual recommendations and attached zero fiscal note.

[4:10:44 PM](#)

CHAIR MEYER announced that there being no objection, the motion carried.

[4:10:59 PM](#)

At ease.

[4:12:59 PM](#)

CHAIR MEYER called the committee back to order.

[4:13:36 PM](#)

There being no further business to come before the committee, Chair Meyer adjourned the Senate State Affairs Standing Committee at 4:13 p.m.