

HOUSE FINANCE COMMITTEE  
April 25, 2019  
1:31 p.m.

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CALL TO ORDER

Co-Chair Wilson called the House Finance Committee meeting to order at 1:31 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Tammie Wilson, Co-Chair  
Representative Jennifer Johnston, Vice-Chair  
Representative Dan Ortiz, Vice-Chair  
Representative Ben Carpenter  
Representative Andy Josephson  
Representative Gary Knopp  
Representative Bart LeBon  
Representative Kelly Merrick  
Representative Colleen Sullivan-Leonard  
Representative Cathy Tilton

MEMBERS ABSENT

None

ALSO PRESENT

Representative Dan Ortiz, Sponsor; Bruce Tangeman, Commissioner, Department of Revenue; Caroline Schultz, Staff, Senator Natasha von Imhof.

SUMMARY

HB 41 SHELLFISH ENHANCE. PROJECTS; HATCHERIES

CSHB 41(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new indeterminate note from the Department of Fish and Game; one new zero note from the House Finance Committee for the Department of Revenue; and one previously published zero note: FN1 (DFG).

HB 131      APPROPRIATION LIMIT

HB 131 was HEARD and HELD in committee for further consideration.

#hb41

HOUSE BILL NO. 41

"An Act relating to management of enhanced stocks of shellfish; authorizing certain nonprofit organizations to engage in shellfish enhancement projects; relating to application fees for salmon hatchery permits; and providing for an effective date."

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Co-Chair Wilson discussed the bill status. She reported that the change made by the bill would enable the program to become self-sustainable and grow. She noted there was an updated fiscal note.

REPRESENTATIVE DAN ORTIZ, SPONSOR, supported the bill and believed it offered much potential for the development and growth of the state's fishing industry.

Co-Chair Wilson reported she had been discussing with the Department of Revenue (DOR) whether it needed to update its system; there had been a \$50,000 fiscal note. She had reached out to the Department of Fish and Game (DFG) to understand why it would take time before the state would see any revenue. She read from an email explanation from Sam Rabung [director of the Division of Commercial Fisheries] (copy not on file):

ADF&G will implement the regulations, accept applications, process the application through the public process and ultimately issue a permit. The earliest a permit could possibly be issued under this statute if the bill was to pass this year, would be the fall of 2020. Further, once a permit is issued, the project would have to be developed, which would include building the necessary infrastructure, collecting broodstock, producing juveniles, culturing those juveniles to the point they could be released, and allowing them to grow in the wild to a harvestable size. I would anticipate this to take, depending on the species and infrastructure needs, approximately

five years or more. In a best case scenario, this takes it out to about 2025. Couple this with ADF&G practice of utilizing a precautionary approach to permitting new enhancement projects, in which a project is first permitted at a small scale in order to evaluate it for unanticipated consequences prior to increasing production to a level that could support a targeted commercial, common property fishery that could have a cost recovery assessment applied. In best case scenario, this would likely take us out to approximately 2030.

Co-Chair Wilson referenced the idea of changing a system in DOR, when one may not be needed. She thought a zero fiscal note better anticipated what was taking place. Additionally, it was her understanding that the cost recovery assessment was merely one option a fishery could take, but not a requirement. She believed there were other options a fishery could choose that would not impact DOR. She communicated it was not her intent to require any agencies to take on any more costs than they already had.

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Co-Chair Wilson offered DOR the opportunity to speak to the fiscal note [OMB Component Number 2476]. She lauded the department for its work and reported that she did not want DOR to have to do work that was not necessary.

BRUCE TANGEMAN, COMMISSIONER, DEPARTMENT OF REVENUE, believed he understood what the chair was saying, but he did not agree with the approach in the fiscal note. He pointed to the following language in the second to last paragraph on page 2 of the note: "These costs will be absorbed by the Tax Division." He believed the language set bad precedent when there was a new tax form and regardless of what the implementation timeframe may be, the bill had an immediate effective date. He communicated it was imperative that the department update the revenue management system to be prepared for taxes to come online regardless of how they would be implemented. There had been talk about interagency receipts or receipt authority, but he did not see that included in the fiscal note. He suggested including something to help in that way for preparation. He reported that DOR could not absorb upgrades to the revenue management system.

Co-Chair Wilson thought he was misunderstanding the fiscal note. She pointed to language specifying it was the committee's intent that any DOR programming costs be absorbed by the requesting entity. She stated it would not be DOR, but the fishery requesting the update.

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Commissioner Tangeman stated that if that was the intent, it would be better for the information to be reflected in the fiscal note. He noted the change in revenue shown in the fiscal note was zero.

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AT EASE

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Co-Chair Wilson explained that the fiscal note would still reflect zero, but the language would be updated to specify that all costs would be charged to the fishery entity requesting the update. She asked if it worked for DOR.

Commissioner Tangeman replied, "I believe so."

Co-Chair Wilson specified the intent to move the bill from committee with a Department of Fish and Game fiscal note [two DFG fiscal notes] and a forthcoming note from the Department of Revenue.

Vice-Chair Johnston MOVED to REPORT CSHB 41(FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSHB 41(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new indeterminate note from the Department of Fish and Game; one new zero note from the House Finance Committee for the Department of Revenue; and one previously published zero note: FN1 (DFG).

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#hb131

HOUSE BILL NO. 131

"An Act relating to an appropriation limit; relating to the budget responsibilities of the governor; and providing for an effective date."

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Co-Chair Wilson noted that the committee did not have the constitutional amendment before it. The bill would be a statute change. She stated that HB 131 was a committee bill and she hoped all committee members would participate. She provided a PowerPoint presentation titled "Spending Cap," dated April 25, 2019 (copy on file). She read from prepared remarks:

Why a spending cap? Two reasons. First, a spending cap limits how much spending can increase from one year to the next. Meaning we don't want the budget to grow too big too quickly. Particularly, we want to avoid overspending when we have surplus revenue.

Since Alaska has a history of large swings in revenue, this brings me to my next point. A second reason a spending cap is important is to force us to save. My research shows that other states, which we will see, with successful spending caps also have savings mechanisms in place in order to bridge the periods of time when there have been revenue downturns.

A 2010 report from the National Conference of the State Legislatures describes how Colorado's Taxpayer's Bill of Rights initially allowed excess revenue collected above the cap to be refunded to voters; however, after the severe economic downturn in 2001 and 2002, when Colorado experienced significant revenue shortfalls, there was no savings account to provide a buffer and a pretty tough economic recession followed. As a result, voters approved a legislative referendum in 2005 to forego the projected mandatory tax refunds and instead keep surpluses in a savings account to provide a fiscal buffer when revenues shrink.

Alaska has the Constitutional Budget Reserve. We need to keep it and we need to fund it during the years when we have excess revenue.

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Co-Chair Wilson moved to slide 2 and continued with prepared remarks:

There are five decision points when talking about a spending cap:

1. starting point
2. growth rate
3. what is included under the cap
4. what is excluded outside the cap
5. what do we do with excess revenue

The goal today is to understand the pros and cons for each decision point. To think about how different options might sense under a wide variety of circumstances and to understand the pros and cons of a spending cap in statute versus in the constitution. As you will see in the next slide there is a mix within the states that do have tax and expenditure limits in place.

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Co-Chair Wilson moved to slide 3 titled "What are other states doing?" and read from prepared remarks:

As of 2015, 28 states had a state tax and expenditure limit. These are the blue, pink, and yellow. The black square states do not have a spending cap. Of the colored states on this map, 17 are in the constitution, 11 are in statute. Why does statute versus constitution make a difference? They have found its just a level of flexibility over time. What I don't know at this point is how many of them started in statute and then became part of the constitution and were able to prove themselves out before they took care of the flexibility of it.

Co-Chair Wilson turned to a chart on slide 4 to illustrate what happened over time:

This is a historical slide since 1980, roughly when our current constitutional spending cap started, and oil became a major contributor to our state revenue. Here the orange line is the unrestricted general funds spending with the Permanent Fund Dividend and the green line is the unrestricted general fund revenue with the Permanent Fund Dividend. The story goes for about 25 years. Revenue and spending did not fluctuate much. But then starting in 2005 we went on Mr. Toad's wild ride and revenue and spending experienced wild swings. We had 13 years of chaos: revenues spiked really high and our spending jumped up accordingly. Then, starting in 2012, our revenue went on a freefall for about 6 years and it took awhile for spending to decrease as well.

During that time, we spent over \$13 billion out of our Constitutional Budget Reserve account to help offset the budget deficits. During most of the years you would see this swing of a roller coaster ride where we would build up the Constitutional Budget Reserve and then we would go into some tough times and we would go back down and about the time we hit bottom it would go right back up. We're not seeing that now, we're at a steady portion, not just related to how much oil is coming down, but the price of oil as well.

As you can see, there was a big jump in revenue from FY 19. That is when we passed with the percent of market value, the structured draw on the Permanent Fund Earnings Reserve Account of 5.25 percent. Calculations show that if we have an effectual spending cap in place, we would have saved more during the high revenue years and spent less out of the Constitutional Budget Reserve during the low revenue years - to the tune of about \$15 billion extra dollars we would have still had in our Constitutional Budget Reserve.

So, what are the lessons learned? It's important to have a savings account to provide a buffer as well as an effectual spending cap.

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Co-Chair Wilson directed attention to slide 5 and pointed to the gray line reflecting the current spending cap. She

noted that fortunately spending had not gone up that high or the state would likely be in much worse shape than at present. She continued reading from prepared remarks:

Here's what we have now. Again, the orange line is the total unrestricted general fund spending with the Permanent Fund Dividends, capital statewide items like debt, retirement, and oil and tax credits. The light orange line shows just agency operations. The green line is the unrestricted general fund revenue with the Permanent Fund Dividend. The gray line on top is the current spending cap. According to this rate, our unrestricted general fund spending should be around \$10 billion in 2020. The rate is too high. It combines both CPI and population. Population is the dark gray line on the bottom: its been steady growth except for the last couple of years. The dark blue line is this bill's spending limit. In this graph, we modeled the blue line both backwards and forwards to see what an effectual spending cap might have looked like had we had it in place. This growth rate is the last five years trailing the CPI average at about 2 percent.

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Vice-Chair Johnston looked at the green line on slide 5 labeled UGF revenue plus the PFD. She thought the line actually reflected UGF and the structured draw (not the dividend).

Co-Chair Wilson agreed and thanked Vice-Chair Johnston for the clarification.

Co-Chair Wilson continued reviewing slide 5:

The green dotted line is estimated revenues published in the spring Revenue Source Book. As you can see it appears that revenues are estimated to remain steady for the next five years.

Co-Chair Wilson believed the chart illustrated that during years the state was flush with money she had seen the budget increase during session with the hopes that oil would go up. She recalled that many times oil had increased. She stated that unfortunately instead of holding to the budget it had been increased. She thought it showed that in addition to a spending cap, the legislature may

want to consider the possibility of a two-year budget versus going through the process annually, especially as the legislature was looking for ways to be smarter about spending. She continued reading from prepared remarks pertaining to slide 5:

The current spending cap illustrates why long-term growth rates left untouched can become very large in magnitude. Why? First, what the rate is matters. If you just consider the dark blue line, which when you look backwards, the simple rate of five-year average as the CPI, seems more in line with our revenues and reasonable expenditures.

Co-Chair Wilson remarked that Alaska was primarily dependent on oil revenue and its revenue was not as diversified as many other states.

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Co-Chair Wilson moved to slide 6:

However, the second point, regardless of whatever rate we choose, we have to contain with something called compound annual growth rate (CAGR). You start with \$5 billion growth, grow it by 2 percent inflation, then next year you begin with \$5.1 billion, then you add 2 percent on that and so it goes. Over time, the compounding effect yields a spending magnitude that may or may not be in line with revenue. Why? Revenues and expenditures are not based on the same things. For revenue, oil prices are not based on inflation, they are based on supply and demand, technology, shell fracking, and global politics. Market value of the Permanent Fund is based on the value of stocks, bonds, and real estate. Also based on supply and demand, consumer confidence, and global market forces.

Co-Chair Wilson returned to slide 5:

For expenditures, the light green line is just agency operations and the dark green line is everything UGF. Remember, that includes any general funds to attract federal matching as well. An effectual spending cap would have been extremely helpful between 2005 and 2018, assuming that we had the political will to follow it.

Co-Chair Wilson believed it was where the debate came in between the difference of having a cap in statute versus in the constitution. She continued reading from prepared remarks:

But beware, compound annual growth rate is a mathematical calculation that has economic consequences when its inside a spending cap. I would recommend periodic reevaluation of any spending cap we put in place and make sure it continues to make sense for Alaska.

Co-Chair Wilson noted typically the concern over putting something in the constitution was about making sure all of the levers were exactly where they should be before solidifying them in the constitution. She added there were numerous other debates on the subject as well.

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Co-Chair Wilson moved back to slide 6 and read from remarks:

This is based on revenues, this is unrestricted general funds, money we can use to spend on all agency funding, capital, retirement, and the dividend. I took these revenue numbers directly from the 2019 spring revenue forecast and the Permanent Fund financial statements for the percent of market value. I have a blue percent of market value for FY 17 and FY 18. We did not pass the POMV until 2019, but wanted to show an example of how the revenue would have been for analysis purposes. In this bill, we have excluded debt, so this is why I subtracted debt from the revenue to get the total amount of money that we have left to spend, which is green. Then, as for expenses, here's what we have spent.

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Co-Chair Wilson advanced to expenses as a comparison on slide 7. She read from remarks:

Here's what we spent in the last few years from unrestricted general funds. FY 18 and FY 19 exceeded the hypothetical spending cap, which is in blue, and

all of the last three years exceeded the actual revenues and required us to pull money from the Constitutional Budget Reserve, which is the red amount. I excluded debt from this slide as well so that we could have the same side by side [comparison]. The draw on the CBR includes the debt.

Co-Chair Wilson noted that things had gotten better as the budget had been decreased; however, the budget had not been decreased to where the state was spending within its own means.

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Co-Chair Wilson turned to slide 8:

Anything with UGF included:

- Agency spending
- Retirement
- Capital for matching
- Permanent Fund Dividend

Excluded from cap:

- Permanent Fund principal (Corpus)
- Debt payments
- Disaster funding
- Deposits into savings

Co-Chair Wilson summarized that the presentation highlighted what a spending cap could look like. She highlighted various levers that could be manipulated. She had used a starting point of \$5 billion, which was similar to the state's current budget. She highlighted the growth rate lever and noted it could be the CPI or other. She noted that if an arbitrary growth rate was selected it would be necessary to review whether the state would be able to spend within those means.

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Representative Sullivan-Leonard asked for a comparison between the current spending limit and the bill proposal.

Co-Chair Wilson replied that would present a chart showing the information at the next meeting.

Representative Sullivan-Leonard looked at the gray line on slide 5 that showed a continual increase across the years. She considered that it did not reflect a plateau, but an increase. She asked what it was determined by.

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CAROLINE SCHULTZ, STAFF, SENATOR NATASHA VON IMHOF, shared that the Senate Finance Committee had heard a close to identical bill a couple of weeks earlier. She asked Representative Sullivan-Leonard to repeat her question.

Representative Sullivan-Leonard asked what was causing the increase in the current spending cap over time. She wondered why for example, it was not a plateau of \$10 billion over time.

Ms. Schultz replied that the future forecast of the current constitutional spending limit represented by the gray line [on slide 5] was based on a 2 percent inflation assumption as well as the Department of Labor and Workforce Development's (DLWD) official population projections. The constitutional spending limit was adjusted for inflation and population, which was the reason it showed a growth rate that appeared to be quite a bit higher than the bill's proposed spending limit and population. She pointed to the dotted gray line that represented DLWD's official population projection.

Representative Sullivan-Leonard asked if the chart reflected the average CPI for Anchorage.

Ms. Schultz replied in the affirmative.

Representative Knopp considered exclusions. He observed there were no federal dollars factored in. He assumed any capital money would come from under the cap. He wondered about a provision for additional capital projects. He thought the spending cap should relate to agency operations, debt, general government operations, and so on.

Co-Chair Wilson answered that the cap would apply to UGF and UGF matching funds. She clarified that federal funds would not be included in the cap.

Representative Carpenter asked if the cap included capital spending on deferred maintenance.

Co-Chair Wilson answered affirmatively. She clarified that all UGF items would be included under the cap.

Representative Carpenter asked for verification that even though deferred maintenance was not in the operations budget, it was still accounted for in the cap.

Co-Chair Wilson agreed. She explained that it would not fall under operating in total UGF because capital was included...

Representative Carpenter interjected, "Agency operations on that line."

Co-Chair Wilson replied in the negative. She stated that the orange line showed capital [on slide 5].

Ms. Schultz confirmed that the darker green UGF spending line included UGF capital and statewide items. The lighter orange line represented UGF agency operations.

Representative Carpenter asked for verification that the dark orange line [on slide 5] included capital spending.

Ms. Schultz responded affirmatively.

Representative Carpenter remarked that state revenue was not generated by population in Alaska. He did not believe it was a good gauge of where the state spending level should be. He thought it was better to consider what size economy the state had to sustain spending for the desired type of government. He suggested it would be better to use GDP - to have some capacity to measure the amount of money generated in the economy, which was ultimately what funded government. He explained that the number of people did not fund the government - Alaska did not have an income tax. He understood some people wanted an income tax, but that was not the current scenario.

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Ms. Schultz replied that Senator von Imhof's office had looked at using GDP as one of the inputs to the spending cap calculation. Based on Alaska's historic economic growth rate as well as the considerable impact that oil price and production had on Alaska's GDP calculations, they had

discovered that GDP resulted in a growth rate that was too high and volatile. She elaborated the topic was certainly worthy of discussion, but their modeling had shown a growth rate that was too high. Their office had considered that Alaska was a relatively young and developing state that historically over the past 40 years had higher growth rates than the rest of the country. She explained it was difficult to say what the state's GDP growth rate would be going forward. She added that given Alaska's commodity based economy, it was normal to expect quite a bit of volatility in the GDP calculation. She offered to provide the graphs from Senator von Imhof's office.

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Co-Chair Wilson added that the bill was intended to start the conversation. She relayed there was no intent to add any tax. She stated it was necessary to begin at the beginning to determine the starting point and the various options. She wanted to bring the bill forward because of the gray line [on slide 5 representing the current spending cap]. She believed that individuals who had implemented the current cap had likely thought it would keep state spending in check and that it would prevent the state from facing situations like the current one. She stated it had not proven to be effective.

Representative Carpenter looked at a spike in the green line [representing UGF revenue plus the PFD] in FY 05/FY 06 to present. He observed the spike represented a 30 percent increase in inflation and 10 percent increase in population. He stated that if the model was used to project inflation growth in the future, the increase would be drastic. He stated there was no way to get around it.

Co-Chair Wilson thought it was the reason to vet everything out at present to determine what would work for Alaska to avoid spikes that had historically occurred. She continued that the state had always been dependent on where the oil prices were at the end of the year for its budget versus considering whether the budget was the size it needed to be (and not necessarily how much money the state had available to spend).

Representative Carpenter agreed. He had seen some documents that broke out the state's non-oil revenue versus oil revenue. He detailed that the part of the revenue that

would spike wildly was the oil revenue portion, while the non-oil revenue was likely fairly static. He stated it was a measure of the non-oil ability to produce revenue within the state. He was interested in something that took that into account. He suggested that perhaps the discussion should be about where things would start from the cap. He thought it would be something that looked more like FY 05/FY 06 or an average of the last 25 years than it was at any point on the spiked portion of the green line [slide 5] where the state had been on a joy ride flush with revenue.

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Co-Chair Wilson remarked that the governor had repeatedly discussed the importance of making the lines steadier. She spoke to a misalignment between revenues and expenditures and explained that companies investing in the state (e.g. in technology or resource development) wanted a stable tax system. She stated that a spending cap was one of the ways to bring stability.

Vice-Chair Johnston reported that she had voted for the constitutional budget cap. She looked at slide 8 and observed the bill would include retirement in the spending cap but would exclude debt payments. She asked if retirement included the unfunded retirement liability.

Ms. Schultz answered it was her understanding that the state on-behalf payment for the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) unfunded liability would be included in the cap.

Vice-Chair Johnston asked if the debt payment would be for any state bonding.

Ms. Schultz agreed and noted debt payment would fall outside the cap [under the bill].

Co-Chair Wilson stated it was a developing bill that would take collaboration from the entire committee. The idea was to reach a sustainable budget.

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Vice-Chair Johnston reported that she had come from a municipal background where there was a functional spending cap. She reasoned that a government that was closer to the

people was different than one with degrees of separation. The Municipality of Anchorage's cap was based on CPI and population; and any maintenance and operations for capital were bonded. She shared that the cap had worked pretty effectively. She noted that occasionally when people had tried to remove things out from under the cap it had not worked as well. She reported that the basic cap worked quite well.

Vice-Chair Johnston disagreed on Representative Carpenter's point about population. She believed population growth had an impact on the cost of government, because government (especially local government) was the last stop. The need of government for a larger population could be larger. She noted there could be a cost savings due to the size, but there was an increased need for government as population grew. She thought the capital budget including highways was the best example - there was a need as population grew to have some sort of transportation to meet the needs, unless the growth was only vertical, but she did not think that was something Alaska was looking for.

Vice-Chair Johnston stated that population had an impact on the cost of government. She highlighted the Department of Environmental Conservation as an example and explained the department protected Alaskans from unsafe drinking water. She elaborated that people would want their children to have a safe place to live and to have a way to reach where they live. She did not think population growth should be discounted. She thought CPI was also a good mechanism.

Vice-Chair Johnston was familiar with what had caused the significant increases in the orange line [slide 5], much of it was the capital budget. She reported that she had been concerned about capital budgets for the past 40 years and she believed the capital budget needed to be included in the spending cap. She believed the state needed a way of financing capital. She highlighted port projects [in Anchorage] that could be quite expensive. She considered whether the projects should not be done or whether they were part of the Alaskan growth. She had always felt the state needed an effective spending cap and fiscal plan. She believed they were onto a good beginning conversation.

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Representative Josephson referenced the administration's position to entice and increase the attractiveness of the state's communities. He pointed out that a number of people including chambers had said the opposite.

Co-Chair Wilson clarified that her statement was not about the budget itself. She explained that if large gaps in the state's budget continued and companies thought the state would use their profits to fill the gap, they would be less likely to come. She explained that her statement had not been about how far down the budget should be. She pointed out that continued gaps would mean companies would not invest in Alaska. She wanted to avoid a discussion about where the budget should be.

Representative Josephson emphasized that if the service levels were at the governor's proposed level, he believed those same companies would be alarmed. He explained it moved the bullseye squarely onto companies when services or sects of the people stated they could not tolerate a given class size or the closure of the University. He looked at slide 5 and asked for verification that the light orange line reflecting agency operations showed a number of approximately \$2.3 billion in FY 05. He asked if the number was adjusted for population and inflation.

Ms. Schultz answered that the numbers were not adjusted for inflation or population. Only the lines reflecting the two spending caps (the existing and proposed caps) were adjusted for inflation and population. She referenced a graph from the Legislative Finance Division showing a similar pattern for revenue expenditures, which were adjusted for inflation and population. She clarified that the dollars were nominal; the FY 05 number did not include inflation or population adjustments.

Representative Josephson thought the committee had seen from LFD that when taking away state expenses and considering only agency operations, the current budget with the adjustments was not that off from FY 05. He looked at the dark orange line on slide 5 that included capital budgets. He thought it would mean modest capital budgets of less than \$200 million. He thought the spending cap hemmed the state in very small capital outlay (historically speaking).

Co-Chair Wilson replied in the affirmative based on the starting point used in the example. She noted it was the beginning of the discussion and considered that perhaps the starting point was somewhat off. She reported that the Fairbanks North Star Borough also had a spending cap, which excluded debt. She explained that sometimes the borough had used a bonding mechanism to stay outside of the cap and avoid making decreases in other places to have the ability to make improvements.

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Representative Josephson discussed that the committee had been told that retirement payments in FY 21 (to remain in the 78 percent viability range) were in the range of \$400 million, which represented a sudden increase. He noted that those items were sensitive and needed to be tracked as well.

Co-Chair Wilson emphasized that her intent was to work through the issues as a committee and determine a starting point. She planned to do more research about states that had spending caps in statute versus in the constitution. She would find it interesting to see whether states had started their caps in statute and after determining success had put the cap in their constitution. She considered whether some of the other states had a steadier income through taxation or other in order to make the adjustment. She believed the volatility of oil made it difficult to know what the price and production would be in five years. She thought Representative Josephson had the perfect point about what the starting point was and how it would lock the state in.

Representative Josephson discussed when oil prices had spiked during the Palin and Parnell Administrations. He noted it was true that the state had spent a huge amount of money, but it was possible because the state had saved an enormous amount of money. There had been a window of time to develop a fiscal plan, but lawmakers had not taken it up. Predecessors had given lawmakers the ability, but they had not exercised it.

Co-Chair Wilson replied it came back to the will of the legislature.

Vice-Chair Ortiz referenced discussion by Vice-Chair Johnston that a spending cap had worked well for the Municipality of Anchorage. It was important to note that tax revenue had increased in Anchorage as its population had grown. However, at the state level an increase in population did not mean more revenue would come in. Additionally, an increase in GDP did not mean more revenue for the most part. He believed it was important to recognize in the discussion going forward. He stated that until there was a revenue source the problem would exist - increasing population brought increase in cost in education, roads, and other, but it would not bring increased revenues. He pointed out that communities had local taxing authority, but the state currently did not.

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Co-Chair Wilson thought it was a good point. She noted that the Fairbanks North Star Borough only had property taxes (North Pole had a sales tax). She detailed that when population grew there was new development outside the cap. She highlighted the construction of a new mall as a hypothetical example when population growth occurred. She stated there had been a cap for a long time and it was the first year the borough had come up against the cap. The borough had not seen substantial new growth in terms of new homes or buildings and the tax base had not grown, but more people had come in utilizing some of the existing infrastructure. She thought it would be a good conversation for the committee to have with LFD on how a state spending cap would differ from municipalities (with different revenues - municipalities did not have the same oil revenue coming in as the state).

Vice-Chair Ortiz referenced the graph [on slide 5] showed that while there was an increase in agency operations from year-to-year (shown in light orange), the largest increases were due to capital spending.

Co-Chair Wilson interjected that both areas had grown.

Vice-Chair Ortiz agreed, but noted that capital spending had grown more than agency spending. He noted that the increase in capital spending had resulted in the growth in private industry (private industry had benefited from capital budget growth in the form of contracts to build roads and other work).

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Representative LeBon looked at the dark green line [on slide 5] and noted the peak of revenue in FY 07 and low in FY 17 was buffered by the CBR draws. He pointed to the dark orange line that crossed the spending line in FY 12, which was the beginning of the CBR draws. The encouraging part was that at present, the dark green and dark orange bars had moved close together. He observed that the state was coming close to matching revenues with expenditures.

Representative Tilton suggested considering a relief valve for capital improvement projects that could be accessed with a three-quarter vote [by the legislature] or other. She stated that the governor's constitutional limit included an additional excess appropriation amount for capital improvements. She explained there were different ways to write the limit to avoid cutting off the ability to have capital projects to help with the economy. She believed it was important to discuss whether relief valves should be considered.

Representative Knopp looked at the spike in revenue shown in green [on slide 5] in FY 10 to FY 12 resulting from high oil prices. He remarked that the state had a history of supporting all of its municipalities and boroughs, which had resulted in expenditure spikes related to capital projects. He noted that the state had given money for everything communities had asked for without significant vetting in the past - some of the projects had been good and others had not. He thought it necessary to consider whether the state was going to finally start telling municipalities there would be a cap if revenues came back and excess revenues occurred; therefore, communities could take on the burden themselves. He noted that the state had saved just under \$27 billion between the CBR and SBR when oil prices had spiked in the past. He wondered if that was part of the big spike or part of savings as well.

Ms. Schultz agreed. The difference between the green line and orange line reflected what had been put into savings at the time.

Representative Knopp believed there were many things to consider associated with the idea of a spending cap. He wondered if a restriction on UGF funds would limit the

state's ability to accept federal dollars. He recognized the importance of determining how to reign in state spending.

[2:28:07 PM](#)

Co-Chair Wilson noted Representative Knopp was correct about the levers; the cap would restrict UGF and it would not matter whether it was total UGF spend or matching federal dollars. It was important to consider all of the levers to determine how to keep the cap tight enough so it would not have to be changed in the future. She thought it would take some pain to get down to the needed amount.

Vice-Chair Johnston agreed with Representative Knopp's point that "some of this was depositing money into savings." Another factor in the dark orange line was when the state paid off \$2 billion to TRS and \$1 billion to Public Employees' Retirement System (PERS). She stated it was necessary to keep in mind that much of the big spike [in revenue] was savings.

Co-Chair Wilson clarified that Vice-Chair Johnston was talking about the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS).

Representative Knopp noted that during that same time period the legislature had invested a lot of additional capital money into the corpus of the Permanent Fund. He believed it should be reflected in the data on the chart [on slide 5].

Representative Carpenter noted that there had been an increase in capital spending. He stated that new capital projects increased maintenance requirements going into the future that were found in the capital budget. He suggested that one way to equalize the conversation about how the state spent its money was to pull the conversation of maintenance into agency operations to compete with every other good idea. He stated taking care of maintenance was mandatory for buildings the state wanted to keep. At present it was a separate conversation from all of the other things.

Representative Carpenter stated that the future would look different related to federal funds. He highlighted the large federal deficit and believed at some point there

would have to be a conversation about what the country would do with spending at the federal level. He assumed it would mean bringing spending in line with revenues at the federal level. He considered what it would mean for states where federal dollars represented one-third of the budget. He thought it would be wise for the state to consider how it could wean itself from federal dollars. He did not want to have to rely on federal funds because when there was a federal fund problem, the state would be insulated.

[2:31:48 PM](#)

Representative Josephson countered that the same would apply to the Eielson Air Force Base. He stated that dollars were dollars. He shared that he had more familiarity with the federal constitution than the state constitution and there was no separation in that respect. He believed it was not incumbent on the 700,000 Alaskans to be especially heroic in that regard because the other 300 million Americans would stare at Alaska in wonderment.

Co-Chair Wilson stated that the challenge was that the bill was the starting point and did not reflect a complete solution. She offered members an opportunity to provide input into the bill. She shared that she would like to see the constitutional issue come before voters, but she recognized time was running out and the bill could be implemented statutorily prior to the end of session. She reasoned passage of the legislation would give the legislature the chance to practice the cap prior to a potential constitutional change.

Co-Chair Wilson considered that \$5 billion may be too high or low and perhaps 2 percent was not the right number. She clarified that the bill was not her project, but the committee's project. She noted that other committee members had looked at their own appropriation limits, which she was amenable to hearing. She believed the bill was long overdue. She agreed that federal dollars made the state dependent. She noted that during some of the peak years there had been substantial federal dollars coming into the state. She noted there were strings attached to federal dollars that she had not fully realized in the past. She highlighted the need to determine the efficacy of existing programs. She asked members to provide ideas to her office.

[2:35:13 PM](#)

Representative Carpenter responded to the federal dollar discussion. He acknowledged there were federal dollars that would continue to come in related to federal troops in Alaska. He stated it was not something he would factor into the budget. He thought federal dollars for education were different and should be considered. He stated that some federal funds impacted the state's economy, but not its budget and others that impacted the budget and how the state operated.

Vice-Chair Johnston followed up on Representative Carpenter's statements and recognized the expense related to maintenance and operations. She thought it was important to consider how the expense fit within UGF and the departments. She discussed spikes in the budget in the past, specifically related to the capital budget. She noted a thorough vetting system for the capital budget had been absent in the past. Additionally, a rush in capital projects had occurred in the past without a workforce or the ability to bring the projects to fruition. She elaborated that the costs of the projects had skyrocketed and many of the projects had been conducted by contractors and workers who did not live in Alaska. She recognized the state had significant need for capital investment, but she thought a tampered down capital budget was needed that could be reflected and addressed by Alaska's population, while continuing to provide growth.

Co-Chair Wilson wanted to ensure they understood the operating costs of capital items.

[2:38:15 PM](#)

Representative LeBon looked at slide 5 and pointed out that from FY 00 to FY 03, the CBR had a rapid growth period that lasted until about FY 12. He asked for verification that the gap between the dark green and dark orange lines reflected CBR growth.

Ms. Schultz agreed.

Representative LeBon asked if it would help visually if the chart had a shaded color in the CBR growth and decline periods.

Ms. Schultz would be happy to add the detail to the graph.

Co-Chair Wilson noted that when the legislature took money from the CBR it was required to replace the funds. She remarked there were certain things the state had fortunately done and been mindful of; although there was significant growth [in expenditures] when the state had money, but a large amount had been put back into the CBR for use during leaner financial times.

Representative Tilton requested a slide showing the differences in the existing constitutional limit versus the information included in the bill.

Co-Chair Wilson agreed. She was counting on the committee to do its part to contribute to the bill. She did not want to set an amendment timeline and wanted members to provide ideas to her office.

Vice-Chair Ortiz asked for clarification about her request. He wondered if Co-Chair Wilson wanted committee members to provide ideas in writing to her office.

Co-Chair Wilson agreed. She stated the goal was to bring ideas back to the committee.

[2:41:43 PM](#)

Representative Knopp remarked his preference for capital budgets over operating budgets. He was concerned about putting capital dollars under a cap. He was also concerned about putting supplemental budgets into a capital budget, especially since supplementals usually went to operational items.

Co-Chair Wilson believed the supplemental would be required to be included in the cap.

Ms. Schultz agreed that the cap in HB 131 and SB 104 pertained to appropriations for a fiscal year rather than in a fiscal year. She believed the bills may specifically state that supplementals were included.

Co-Chair Wilson stated that supplementals came after the budget had been completed. She provided a scenario where the legislature put together a spending cap that it followed in the coming year. She elaborated that under the scenario expenditures provided \$100 million in wiggle room

under the cap. She asked if there was a \$200 million supplemental whether it would be reflected on the year before or the budget for the following fiscal year.

Ms. Schultz answered that the supplemental count for the year the spending cap applied. The bill included a section asking the governor's office to calculate the spending cap and to specify whether the supplemental fell within the cap.

Co-Chair Wilson thought it would make sense. She highlighted concern about creating a budget within the state's appropriate expenditure levels but ending up with a supplemental the following year that ended up exceeding those levels.

HB 131 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[2:44:26 PM](#)

The meeting was adjourned at 2:44 p.m.