

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

April 29, 2021  
11:32 a.m.

**MEMBERS PRESENT**

Representative Ivy Spohnholz, Chair  
Representative Calvin Schrage  
Representative Andi Story  
Representative Mike Prax  
Representative David Eastman

**MEMBERS ABSENT**

Representative Adam Wool, Vice Chair  
Representative Andy Josephson

**COMMITTEE CALENDAR**

HOUSE JOINT RESOLUTION NO. 6  
Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit; and relating to the budget reserve fund.

- HEARD & HELD

HOUSE BILL NO. 141

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

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HJR 6

SHORT TITLE: CONST. AM: APPROP LIMIT; BUDGET RESERVE  
SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

02/18/21	(H)	READ THE FIRST TIME - REFERRALS
02/18/21	(H)	STA, JUD, FIN
03/24/21	(H)	W&M REPLACES STA REFERRAL
03/24/21	(H)	BILL REPRINTED
04/29/21	(H)	W&M AT 11:30 AM DAVIS 106

BILL: HB 141

SHORT TITLE: APPROPRIATION LIMIT; GOV BUDGET  
SPONSOR(s): SPOHNHOLZ

03/20/21 (H) READ THE FIRST TIME - REFERRALS  
03/20/21 (H) W&M, FIN  
04/29/21 (H) W&M AT 11:30 AM DAVIS 106

**WITNESS REGISTER**

NEIL STEININGER, Director  
Office of Management & Budget  
Juneau, Alaska

**POSITION STATEMENT:** Co-provided a PowerPoint presentation, titled "HJR 6: Constitutional Spending Limit," dated 4/29/21.

CAROLINE SHULTZ, Chief Policy Analyst  
Office of Management & Budget  
Juneau, Alaska

**POSITION STATEMENT:** Co-provided a PowerPoint presentation, titled "HJR 6: Constitutional Spending Limit," dated 4/29/21.

WILLIAM "BILL" MILKS, Chief Assistant Attorney General  
Public Corporations and Governmental Services  
Civil Division (Juneau)  
Department of Law  
Juneau, Alaska

**POSITION STATEMENT:** Concurred with a statement made by Mr. Steininger during the hearing on HJR 6.

ROSE FOLEY, Staff  
Representative Ivy Spohnholz  
Juneau, Alaska

**POSITION STATEMENT:** Presented a sectional analysis of HB 141 on behalf of Representative Spohnholz, prime sponsor.

**ACTION NARRATIVE**

[11:32:12 AM](#)

**CHAIR IVY SPOHNHOLZ** called the House Special Committee on Ways and Means meeting to order at 11:32 a.m. Representatives Schrage, Story, Prax, and Spohnholz were present at the call to order. Representative Eastman arrived as the meeting was in progress.

**HJR 6-CONST. AM: APPROP LIMIT; BUDGET RESERVE**

[11:33:13 AM](#)

CHAIR SPOHNHOLZ announced that the first order of business would be HOUSE JOINT RESOLUTION NO. 6, Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit; and relating to the budget reserve fund.

CHAIR SPOHNHOLZ noted that the modeling being presented by the Office of Management & Budget (OMB) today applies to both [HJR 6] and HB 141. She stated that the bills are substantially similar.

[11:33:59 AM](#)

NEIL STEININGER, Director, Office of Management & Budget, (OMB), introduced HJR 6 on behalf of the House Rules Standing Committee, sponsor by request of the governor. He prefaced the presentation by noting that HJR 6 is a constitutional amendment to addresses the spending limit and the constitutional budget reserve (CBR). He directed attention to a PowerPoint presentation, titled "HJR 6: Constitutional Spending Limit" [hard copy included in the committee packet]. He began on slide 2, which displayed the depletion of savings over the last decade, indicating that over \$16 billion in budget reserves had been spent through expenditures in excess of revenue. He stated that the proposed constitutional spending limit seeks to address the ability to run up state spending at an unsustainable rate. He advanced to slide 3 and highlighted the issue with the current constitutional limit (represented by the solid blue line). He pointed out that at its inception in 1982, the spending limit was near UGF spending levels, and has since escalated far greater than spending; consequently, the current constitutional limit per Article IX, Section 16 is too high to effectively control spending. The solid yellow line reflected UGF revenues, whereas the blue dotted line reflected the limit proposed in HJR 6 if it had been enacted in 1982. He noted that the proposed spending limit would have worked differently to effectively constrain spending.

[11:36:58 AM](#)

CAROLINE SHULTZ, Chief Policy Analyst, Office of Management & Budget, provided additional historical context to slide 3. She explained that when the constitutional spending limit was originally ratified by the voters, it contained a provision that obligated a 5-year checkup, at which point the voters would have to approve it a second time. She pointed out that even by the

late 1980s, the spending limit was already well above the level of spending at the time. Despite that, voters still ratified the constitutional limit a second time. She indicated that the concept of a spending limit was very popular with Alaskans and legislators.

[11:37:54 AM](#)

MR. STEININGER continued to slide 4, which read as follows [original punctuation provided]:

HJR 6 amends article 9, section 16 of the Alaska Constitution:

**Fixing the calculation to limit spending**

- May not exceed prior three-year average by more than the greater of inflation or population growth

**Clarifies definition of appropriations subject to cap**

- Includes appropriations of state funds (UGF, DGF)
- Excludes the following appropriations:
  - PFD
  - Bond proceeds and debt service costs
  - Deposits to state savings accounts
  - Disaster response
  - Non-state funds for a specific purpose

MR. STEININGER stated that HJR 6 seeks to amend Article 9, Section 16 of the Alaska Constitution by fixing the current calculation, such that the base by which the spending limit is calculated would not exceed the prior three-year average, compounded by the greater of inflation or population growth. He noted that the current spending limit has a base set in 1982 that has escalated by inflation of population growth compounded. Thus, HJR 6 proposes changing both the escalator of the constitutional spending limit, as well as the base to which that is applied.

[11:39:27 AM](#)

MR. STEININGER advanced to slide 5, which read as follows:

HJR6 amends article 9, section 17 of the Alaska Constitution:

**Amends budget reserve fund (CBR) access provisions**

- Appropriations from CBR may be made by a majority vote if there are inadequate general fund revenues to meet expenditures

**Removes general fund liability to CBR (CBR "sweep")**

[11:40:01 AM](#)

MR. STEININGER turned to slide 6, which provided a comparison between the current spending limit and the proposed constitutional amendment. He noted that the bold text reflects the differences between the two. The current constitutional limit excludes revenues of a public enterprise and certain capital appropriations, which are not excluded in HJR 6; whereas HJR 6 excludes deposits into other state savings accounts, which is not currently excluded. The base in the current spending limit is \$2.5 billion while the base in HJR 6 is an average of the previous three years, which would allow the base to adjust with spending decisions. Finally, the adjustor factors in the current spending limit compounds inflation and population, which creates a high growth rate; alternatively, the adjustor factors in HJR 6 are the greater of inflation or population.

[11:41:57 AM](#)

MS. SCHULTZ continued to slide 7, which modeled the base year, or starting point, for calculating the spending limit. She posited that the three-year average moving base proposed in HJR 6 would be a better and more flexible option, as opposed to a fixed dollar amount. The blue dotted lines on the graph reflected "what if" scenarios if the three-year moving average in HJR 6 had been implemented in different years. She pointed out that the hypothetical spending limit beginning in 2015 (dark blue dotted line) would have been high; however, because it's based on the three-year moving average, it would have adjusted back down to the spending level (red line). She said the three-year average would permit a flexibility to react to real fiscal conditions and prevents the runaway growth that exists with the current constitutional limit (grey dotted line).

[11:44:01 AM](#)

MS. SCHULTZ turned to slide 8, which modeled the same examples from slide 7, but instead of using a three-year average, the graph displayed a fixed base comparison. She indicated that similar to the current constitutional limit, the spending limits grew according to the escalator [the greater of population or

inflation] rather than adjusting down given fiscal realities. Consequently, she reiterated that a moving average would allow for flexibility.

[11:44:50 AM](#)

REPRESENTATIVE SCHRAGE referring to the graph on slide 8, he asked what the different colored lines represented.

[11:45:06 AM](#)

MS. SCHULTZ explained that the solid orange line reflected HJR 6 if it had been implemented in 2000 and accounted for a three-year moving average with a gross escalator based on population and inflation; similarly, the orange dotted line reflected HJR 6 if it had been implemented in 2000, but accounting for FY 99 as the based instead of a three-year moving average. She concluded that the same applied for all the different colored lines: the solid lines reflected a spending limit with a moving average and the dotted lines reflected a fixed base.

[11:46:51 AM](#)

REPRESENTATIVE STORY asked whether past spending was reflected on the graph.

MS. SCHULTZ directed her attention to the light grey line, which represented UGF spending.

[11:47:08 AM](#)

REPRESENTATIVE SCHRAGE inquired about the spending beginning in 2010 (blue lines), noting that the UGF spending went well above what would have been the spending cap had it been implemented. He asked what the predominant driver of the increased spending was and whether necessary expenditures would have been foregone as a result of that spending cap.

MS. SCHULTZ said a major driver of spending increases during that time period were capital expenditures, such as deferred maintenance and necessary construction that had been deferred during low spending years in the late 1990s and early 2000s. Additionally, some of the spending simply occurred because funds were available.

[11:48:04 AM](#)

MS. SCHULTZ reviewed the graph on slide 9, which illustrated the difficulty in forecasting a spending limit that is based on a moving average, as it requires predicting economic conditions in addition to future spending. The red line reflected UGF spending based on OMB's 10-year plan; the light grey dotted line reflected the spending cap as presented in HJR 6 if spending followed OMB's 10-year plan; the black dotted line reflected the maximum potential spending cap under HJR 6 given the CPI assumption of 2.25 and .5 percent population growth assumption.

[11:49:54 AM](#)

REPRESENTATIVE STORY sought to confirm that following OMB's 10-year plan assumed that \$1.2 billion in new revenue was accounted for.

MS. SCHULTZ noted that the spending cap discussion is agnostic on revenue. Nonetheless, she confirmed that OMB's 10-year plan did assume that new revenue was established to meet the deficit.

[11:50:24 AM](#)

CHAIR SPOHNHOLZ speculated that if the state failed to come up with new revenue, spending would drop, and the three-year moving average would drive that spending down further moving forward.

CHAIR SPOHNHOLZ confirmed.

[11:50:41 AM](#)

MS. SCHULTZ resumed the presentation on slide 10, which modeled a comparison of growth adjustors. She reminded the committee that in HJR 6, the growth adjustor is based the greater of population growth or inflation; alternatively, the growth adjustor in the current constitutional spending limit is based on population and inflation compounded. The black dotted line reflected the spending limit in HJR 6 as if it had been implemented in FY 05; the green line reflected HJR 6 if was just based on inflation. She explained that the two were extremely similar because inflation has been higher than population growth during this time period. The blue solid line reflected HJR 6 if it were to track population growth. She continued to the next slide, noting that people often ask why population and inflation are used more commonly for spending cap adjustors. The graph on slide 11 highlighted the volatility of other common economic indicators, which is why they are not used as frequently for spending limit adjustors.

[11:53:21 AM](#)

MS. SCHULTZ continued to slide 12, which modeled projections based on different economic considerations. She concluded that different economic considerations would change the spending limit when based on CPI and population.

CHAIR SPOHNHOLZ asked whether Ms. Schultz was concerned about there the large backlog of deferred maintenance and whether a constitutional spending cap would prevent the ability to address that.

[11:54:44 AM](#)

MR. STEININGER acknowledged that necessary investment into deferred maintenance needs to be considered when looking into capital and operating budgets moving forward. He pointed out that the flexibility allowed by HJR 6 would allow for the use of general obligation bond debt to address immediate, larger needs. He reiterated that HJR 6 would constrain out-of-control gross spending for unnecessary purposes.

[11:55:51 AM](#)

REPRESENTATIVE SCHRAGE questioned how to address deferred maintenance in future years should the price of oil skyrocket. He considered a scenario in which oil prices rose, the state was flush with savings, and the only option to address deferred maintenance was to take out bonds and go into debt. He believed that would create an "awkward" situation.

[11:56:39 AM](#)

MR. STEININER confirmed that the point made by Representative Schrage is an important policy decision when setting a spending limit, as it would inherently constrain the ability to respond to increased revenue to avoid the "boom and bust" cycle.

CHAIR SPOHNHOLZ emphasized the relevancy of Representative Schrage's question. She believed that the decision on whether to address the infrastructure deficit of \$22 billion when the state has available funding would be an important policy consideration.

[11:58:10 AM](#)

REPRESENTATIVE PRAX referred to slide 4 and asked whether HJR 6 would potentially restrict the growth of certain fee-collection programs.

[11:59:31 AM](#)

MR. STEININGER confirmed that it would limit the growth of fees coming in through Designated General Funds (DGF) if it were outside the adjustor factors. He added that whether fees or general tax revenue, they still count as general funds, which is why both UGF and DGF and the distinction between the two were included. He said OMB is looking to constrain the ability to generate new programs when there is addition revenue to avoid the runaway spending enabled under the current spending cap. He reiterated that HJR 6 would effectively limit the creation of a new fee-based program.

[12:00:28 PM](#)

REPRESENTATIVE PRAX commented on the Fairbanks North Star Borough's spending cap, noting that it limits the amount of revenue it can take into property evaluation growth. He explained that the spending cap has not affected the borough, as the borough expanded its property tax base, whereas the city is charging more service fees. He shared his belief that government could be grown on fees rather than taxes, adding that HJR 6 could obstruct that ability.

[12:01:58 PM](#)

REPRESENTATIVE EASTMAN asked how the spending limit would impact the state's legal obligations.

[12:02:24 PM](#)

MR. STEININGER said the exemptions from the spending cap include deposits into state savings accounts, including the pension fund, the PERS fund, and the TERS fund. He added that it would not constrain the ability to meet those specific obligations, nor would it constrain the state's ability to meet such obligations as paying down state debt. He indicated that the goal was to constrain spending on discretionary items and gross of extra government spending without hampering the ability to meet existing constitutional obligations, such as paying for retirement.

[12:03:26 PM](#)

REPRESENTATIVE EASTMAN considered a scenario in which the state put \$3 billion towards pension obligations. He asked whether the \$3 billion would count towards spending that year and whether other appropriations would be limited.

MR. STEININGER conveyed that it would not be subject to the cap as applied by the constitutional limit; however, it would still be counted as a state expenditure in budget reports.

CHAIR SPOHNHOLZ noted that Assistant Attorney General Bill Milks was available to address the question in further detail.

[12:04:26 PM](#)

WILLIAM "BILL" MILKS, Chief Assistant Attorney General, Public Corporations and Governmental Services, Civil Division (Juneau), Department of Law, agreed with Mr. Steininger's response.

[12:04:57 PM](#)

REPRESENTATIVE STORY addressed the state's constitutional obligations pertaining to the funding of education. She reported that when adjusted for cost of living, Alaska's teachers were ranked twentieth in the nation [in terms of pay], which is the primary indicator of student learning. She believed that teachers in Alaska were not being paid sufficiently and asked how HJR 6 would account for increasing the state's constitutional obligations.

[12:06:22 PM](#)

MR. STEININGER said the answer is similar to the one regarding deferred maintenance funding, because education funding and deferred maintenance funding are both subject to fall within the spending cap under HJR 6. He stated that they would all effectively compete for the availability of expenditures and the gross would be constrained to the escalation of the spending limit and its prioritization within that. He added that as the spending limit was reached, priorities would have to be reallocated within that per the statewide budget process.

[12:07:17 PM](#)

REPRESENTATIVE PRAX asked Mr. Steininger to elaborate on bonding and how it would fit into the proposed spending cap. He speculated that deferred maintenance could be addressed with an

issuance of bonds and asked whether there would be a limit on the amount of bonds that could be issued.

[12:07:46 PM](#)

MR. STEININGER clarified that issuing general obligation bond debt and expending the proceeds of a bond cell, as well as paying the debt service, would not be subject to the cap as drafted. He noted that those would go to a vote of people; therefore, Alaskans would have to agree to issue the debt and fund the projects.

[12:08:18 PM](#)

REPRESENTATIVE PRAX sought to confirm that if the voters approved a general obligation bond, the spending cap would be raised appropriately to pay the interest on the bonds.

MR. STEININGER clarified that it wouldn't be part of the spending cap calculation. He said the cap itself wouldn't be raised and that expenditure would not be subject within the cap.

[12:08:56 PM](#)

REPRESENTATIVE SCHRAGE pointed out that the mechanism for increasing the spending cap with the growth of inflation or population had been discussed; however, he proposed a scenario in which the legislature was to set appropriations at a low level and asked how that would impact future legislatures. Further, he questioned whether there would be a remedy for the next class of legislatures to correct that spending level or whether the spending cap would restrain spending to an unreasonable level for future years.

[12:10:03 PM](#)

MR. STEININGER said effectively, with a three-year average, the legislature in that scenario would be driving down the cap to meet spending as it declined. He added that if there were a conscious decision to significantly reduce spending over a time period, it would bring the spending limit down along with it.

REPRESENTATIVE SCHRAGE sought to confirm that the spending cap could be arbitrarily driven down; however, the only mechanism to raise it would be the rate of inflation or population growth.

MR. STEININGER confirmed.

REPRESENTATIVE SCHRAGE believed that when considering something as serious as a constitutional amendment, it's important to map out certain scenarios to ensure that the state doesn't end up in a situation where it is unable to adapt to challenges.

[12:11:09 PM](#)

MR. SCHULTZ conveyed that she had been considering what would happen if there was an influx of available federal funds that could be used to reduce the state budget on paper. She explained that if the spending cap was lowered because the legislature decided to replace \$1 billion of state funding, it would be an immediate issue.

REPRESENTATIVE SCHRAGE considered a scenario in which the federal government wanted to invest in upgrading Alaska's utility infrastructure, which requires a state match. He expressed concern about being unable to appropriate those funds to meet the matching requirement for investments in the state.

[12:12:57 PM](#)

REPRESENTATIVE PRAX, referring to slide 5, asked how amending the CBR fits into the proposed spending cap.

[12:13:24 PM](#)

MR. STEININGER explained that the changes to the CBR proposed in HJR 6 would change the way the CBR is accessed. Rather than requiring a three-quarter vote, appropriations from the CBR could be made by a majority vote if there were inadequate general fund revenues to meet expenditures. He explained that the prior three-year average effectively stops excessive use of the CBR to increase spending. He noted that HJR 6 would also remove the general fund liability to the CBR, also known as the CBR "sweep" provision.

[12:14:26 PM](#)

REPRESENTATIVE PRAX sought to confirm that HJR 6 would not turn the CBR into the SBR.

MR. STEININGER said no, it would not turn it into the SBR, as it would remain a constitutionally protected rainy day fund for situations where general fund revenues are inadequate.

REPRESENTATIVE PRAX asked whether the designated funds that are swept back and forth would continue to exist within the CBR under HJR 6.

MR. STEININGER stated that because HJR 6 would remove the general fund liability and the CBR sweep provisions, those designated general funds would remain managed as sub funds of the general fund.

[12:15:43 PM](#)

REPRESENTATIVE EASTMAN inquired about the distinctions that would exist between the general fund and the CBR if HJR 6 were to pass.

MR. STEININGER acknowledged that in terms of the required vote count, the CBR expenditures would be similar to a general fund expenditure; however, the CBR would be managed separately as a rainy-day fund. Therefore, the first access in the current fiscal year would be general fund and general fund revenues, while the CBR would only be accessed should the general fund revenues be inadequate to fund government purposes. He reiterated that the CBR would be akin to segregating a rainy-day fund rather than "lumping them all into the general fund."

[12:16:53 PM](#)

REPRESENTATIVE EASTMAN inquired about the appropriate CBR balance and how money would be deposited into the CBR if the repaying of previous borrowing is not required.

MR. STEININGER replied that deposits into CBR would be similar to what they are now: settlement income and earnings on the fund itself. Regarding the CBR's balance, he characterized it as a policy call and said it would require a much broader discussion. He pointed out that roughly \$4-5 million dollars would be needed to meet basic cash flow needs; therefore, from OMB's perspective, \$4-5 million would be the absolute minimum balance required. In order to utilize the CBR to address volatilities, the need under the current fiscal structure is "unbounded," he said, because \$16 billion dollars wasn't enough. He explained that until some of the structural issues are resolved, the right amount of money in a rainy-day fund is difficult to state objectively.

CHAIR SPOHNHOLZ opined that the spending cap conversation is interesting; however, the revenue conversation is more important

at this time. She expressed her hope that the administration would come to the table with some constructive revenue measures. She acknowledged that the governor's 10-year plan identifies over \$1 billion in new revenue, but without new revenue, an overdraw of the earnings reserve account (ERA) is likely. She noted that currently, the CBR requires a three-quarter vote to send from. Still, the legislature spent \$16 billion from state savings accounts with that three-quarter vote requirement in place. She emphasized the risk to Alaska's fiscal stability unless the structural deficit is solved. She believed a spending cap could be a part of the solution, but now, all it would do is force the legislature to gut essential services and constitutionally mandated services unless it's paired with new revenue. She believed this was an important area for the governor to take some leadership on moving forward. She thanked Mr. Steininger and Ms. Schultz and invited closing remarks from the presenters.

[12:21:24 PM](#)

MR. STEININGER concluded that this is one piece in the overall ability to address the structural fiscal problems. He agreed that it needs to be considered in concert with other proposals, such as the POMV constitutional amendment and other large structural fixes, as this on its own would not solve the state's problems.

[12:21:56 PM](#)

CHAIR SPOHNHOLZ stated her intent to hold over HJR 6.

[12:22:05 PM](#)

REPRESENTATIVE PRAX remarked:

In Alaska over the last 40 years, government thought has been on revenue limited, rather than on long-term spending trends and that would be the advantage of this because, especially at the state level, our revenue is so volatile. This would ... provide stability over the long term for the base part of our economy and not let government grow to what would be an unsustainable level without lots of other things.

[HJR 6 was held over.]

[12:23:10 PM](#)

The committee took a brief at-ease.

[Chair Spohnholz passed the gavel to Representative Story.]

**HB 141-APPROPRIATION LIMIT; GOV BUDGET**

[12:23:57 PM](#)

REPRESENTATIVE STORY announced that the final order of business would be HOUSE BILL NO. 141, "An Act relating to an appropriation limit; relating to the budget responsibilities of the governor; and providing for an effective date."

[12:24:07 PM](#)

CHAIR SPOHNHOLZ, as prime sponsor, introduced HB 141. She recounted the robust conversation that stemmed from the previous presenters about the value of a spending cap and whether a constitutional spending cap is the right approach as opposed to updating the statutory spending cap. She pointed out that throughout the entire history of Alaska, the current spending cap has never been reached, as it was set in 1982 when oil revenue was high. Further, the constitutional spending cap allowed for changes based both on population and inflation. She noted that she has been a strong advocate for a comprehensive, sustainable fiscal plan for years, revealing that it was the only reason she entered into public service. She shared a personal anecdote about growing up in Alaska, emphasizing that oil would not solve the state's fiscal problem. She added that Alaska continues to have a structural gap that resulted in spending over \$16 billion from savings. The rainy-day fund is essentially drained, she said, as there is only \$1 billion in the CBR. She explained that without spending from the ERA, the state has no other funds left to send from; however, she believed that spending from the ERA would be one of the largest strategic risks to Alaska's future. She reported that for every \$1 billion spent from the ERA, \$50 billion is lost annually in available earnings to spend on both permanent fund dividends (PFDs) and essential government services.

CHAIR SPOHNHOLZ stated that the government made significant progress in 2018, when the legislature passed Senate Bill 26, which allowed for the use of permanent funds to pay for essential government services, such as public education, public safety, road/marine highway maintenance operations, the court system, and dividends. Essentially, Senate Bill 26 established

a cap on the amount of spending from the permanent fund, which helps to preserve the critical asset that now provides about 65 percent of the state's unrestricted revenue. Further, she shared her belief that a critical part of a comprehensive, sustainable fiscal plan is new revenue, as Alaska's constitutional obligations need to be met to provide for the health, education, and public safety of Alaskans, as well as to keep commerce flowing and to continue developing state resources for the benefit of all Alaskans. She assured the committee that revenue bills would be heard soon; however, she pointed out that many of her colleagues have said they would be reticent to vote on new revenue without addressing spending.

[12:30:55 PM](#)

CHAIR SPOHNHOLZ opined that state spending is too low. She noted the infrastructure deficit of \$22 billion, adding that the state's UGF capital budget had averaged \$123 million over the last five years, which is too low to address Alaska's deferred maintenance needs, she said. Additionally, she pointed out that education funding has not been increased in years. She noted that each year education funding is not increased to accommodate inflation, it essentially operates as a cut. She concluded that the state has real needs that must be paid for; however, she argued that when oil prices were high, the state has spent a lot of money on projects that don't always make sense, such as a church in Anchorage, which was developed as a fish processing plant that was paid for by government funds. She opined that when oil was high and cash was flowing through Alaska, the state did not save enough money. The House Special Committee on Ways and Means has passed conservative fiscal policy designed to protect the Alaska Permanent Fund from being overspent, but fiscal policy that increases the amount of funds going to the permanent fund also needs to be advanced, she posited. She shared her belief that a constitutional spending cap should not so tight that it would make it difficult to address Alaska's strategic needs. Accordingly, HB 141 proposes a statutory spending cap.

CHAIR SPOHNHOLZ acknowledged that the proposed legislation still needs work. She pointed out that since introducing the bill, challenges were identified that could be strategically dangerous to the state if the spending cap were passed in its current form, for example, the massive infusion of federal funds. She reminded the committee that the legislature is using \$700 million dollars in American Rescue Plan Act funds to offset general funds in the current operating budget. She conveyed

that if the state were to set the spending cap based only on state spending, a cliff in spending would materialize as a result of offsetting general funds with federal funds. She relayed that as currently drafted, HB 141 would base the statutory spending cap on a three-year average. She recognized that the bill could be made better to allow for more flexibility, adding that she would be proposing changes to the spending cap and encouraged committee members to do the same. She concluded by reiterating that the legislature needs to pass a comprehensive sustainable fiscal plan that allows for adequate funding of essential government services. She stated her belief that advancing a meaningful statutory spending cap is an important element of a broader fiscal plan.

[12:35:22 PM](#)

ROSE FOLEY, Staff, Representative Ivy Spohnholz, on behalf of Representative Spohnholz, prime sponsor, presented a sectional analysis of HB 141 [included in the committee packet], which read as follows [original punctuation provided]:

**Section 1:** This section updates the existing statutory appropriation limit found in AS 37.05.540(b) to: update appropriations subject to this limit; clarify which fiscal year appropriations are attributed to; and provide a three-calendar year average adjuster to the appropriation limit.

This bill includes appropriations for school bond debt and state-declared disasters in the list of items that fall outside of the appropriation limit. This section also changes the calculation of the appropriation limit to include all appropriations made for a fiscal year, rather than in a fiscal year. This change ensures supplemental appropriations are captured as spending in the fiscal year for which they are appropriated, regardless of the timing of the appropriation. Finally, this section allows the limit to be adjusted by the three-year average change in population or inflation to smooth any drastic changes that may occur in a single year. Using a calendar year rather than a fiscal year aligns the appropriation limit with the current data availability on population and inflation figures.

**Section 2:** This section adds the calculation and reporting of the appropriation limit to the responsibilities of the Governor under the Executive Budget Act in AS 37.07.

**Section 3:** This section repeals language related to appropriations from the Budget Reserve Fund for disasters, as this bill in Section 1 excludes spending for declared disasters from the appropriation limit.

**Section 4:** This section notes that sections 1 and 2 of the bill apply to appropriations that are effective in FY23.

**Section:** This section contains transition language clarifying that prior appropriations made for school bond debt reimbursement and state-declared disasters will not be included in the calculation of an appropriation limit for the fiscal years 2023, 2024, and 2025.

**Section 6:** This section establishes an effective date of July 1, 2021.

[12:37:18 PM](#)

MS. FOLEY highlighted differences between HB 141 and the governor's proposed legislation, HJR 6. First, HB 141 proposes a statutory appropriation limit, as opposed to a constitutional spending limit, to ensure that the spending cap works in practice before amending the constitution. Second, HB 141 excludes school bond debt reimbursement from the appropriation limit to treat it similarly to other state debt. Third, HB 141 refers to appropriations made "for" a fiscal year, while the current statutory limit refers to appropriations made "in" a fiscal year.

[12:38:44 PM](#)

REPRESENTATIVE PRAX asked whether it would be possible to put the proposed legislation to an advisory vote of the people.

CHAIR SPOHNHOLZ noted that spending caps are popular. She shared her belief that an updated spending cap would pass an advisory vote. Nonetheless, she opined that it would be an unnecessary effort and expense for the public to vote on a statutory spending cap given that the legislature has the authority to pass one.

[12:40:23 PM](#)

REPRESENTATIVE PRAX sought to confirm that HB 141 proposes to exclude school bond debt.

CHAIR SPOHNHOLZ answered yes. She conveyed that it would be excluded because voters across the state have voted to approve school bond debt; therefore, the state should be required to honor its obligations pertaining to school bond debt to local communities.

[12:41:10 PM](#)

REPRESENTATIVE PRAX questioned whether that would continue for new bonds.

MS. FOLEY noted that currently, there is a moratorium on new school bond debt. Consequently, the exclusion in HB 141 would apply existing school bond debt that was incurred when statute allowed for state reimbursement of that debt.

[12:41:53 PM](#)

REPRESENTATIVE SCHRAGE, in response to Representative Prax's question regarding the advisory vote, emphasized that the public elected legislators to make decisions for the state rather than opine on the issues. He shared his belief that having a spending cap with no function is problematic, as it is so high that it would never limit spending. However, he pointed out that that the statutory dividend formula has been overridden and asked what role a statutory spending cap would play if the legislature could essentially ignore it.

CHAIR SPOHNHOLZ believed that there could be merit in considering a constitutional spending cap in the future; however, putting something so politically popular to a vote of the people before testing it could be risky. Instead, she said she supported updating the statutory spending cap to ensure that it works before amending the constitution in a way that could create unintended consequences. She explained that the current statutory spending cap is largely ignored, as presently, there are no reporting requirements. She noted that HB 141 includes a requirement that the administration report on how their budget meets the proposed spending cap.

[12:46:53 PM](#)

REPRESENTATIVE SCHRAGE acknowledged the merit and flexibility that this proposal offers. He suggested that another solution would be to limit the available revenue. He pointed out that a spending cap utilizes prior spending to dictate current spending rather than looking at available funds. He opined that constitutionalizing the POMV would provide stability to revenues while serving as a spending cap by limiting the revenue available for appropriation. He asked whether a spending cap would be necessary if available revenues were limited.

CHAIR SPOHNHOLZ pointed out that presently, the state has a functional spending cap because the state spent through its savings and lacks enough revenue to offset the budget. She expressed her hope that the legislature would force more revenue into the permanent fund to create a sustainable fiscal plan moving forward. She emphasized that she would not support a spending cap without a broad-based revenue measure, as new revenue could create a risk of unfettered spending on unnecessary projects. Further, she explained that she is agnostic on the three-year moving average, adding her belief that the floor is the problem with the bill in its current form. She opined that without the influx of federal funding, the three-year average would make more sense because adjustors could be changed to allow for more growth. Alternatively, the committee could amend the bill and establish a new floor for the spending cap. Regardless of the policy direction, she advised that the solution should be statutory to allow for the legislature to respond to important issues as they arise.

[12:53:14 PM](#)

REPRESENTATIVE PRAX expressed his support for the idea [of a spending cap] while noting that he preferred it in the form of a constitutional amendment. Nonetheless, he believed a statutory cap would be a step in the right direction.

[12:54:24 PM](#)

REPRESENTATIVE STORY discussed the idea of resetting the floor rather than implementing a three-year average; additionally, she highlighted the needs of Alaskan communities. She asked the bill sponsor how the backlog of deferred maintenance and other exclusions would be addressed.

[12:56:30 PM](#)

MS. FOLEY relayed that in its current form, HB 141 puts all capital spending under the appropriation limit and provides no exclusions for deferred maintenance or extraordinary capital needs. She suggested that a percentage of the cap could be devoted to capital if it were the will of the committee. She concluded that there are plenty of ways to exclude spending that the legislature wishes to prioritize.

CHAIR SPOHNHOLZ said she shared Representative Story's concerns. cited Bill Popp's testimony from a previous hearing about making strategic investments in communities to ensure that Alaska is an attractive place to live, work and play. She shared a personal anecdote. She reiterated that the bill is imperfect in its current form and welcomed specific feedback about ways to amend and improve the legislation to allow for strategic investment in the state.

[1:00:13 PM](#)

REPRESENTATIVE STORY [announced that HB 141 was held over.]

[1:00:29 PM](#)

The committee took a brief at-ease.

[Representative Story returned the Gavel to Chair Spohnholz.]

[1:00:52 PM](#)

CHAIR SPOHNHOLZ provided the committee's upcoming schedule.

[1:01:26 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 1:01 p.m.