

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

Anchorage, Alaska

September 8, 2021

3:06 p.m.

**MEMBERS PRESENT**

Representative Ivy Spohnholz, Chair  
Representative Adam Wool (via teleconference)  
Representative Andy Josephson  
Representative Calvin Schrage  
Representative Andi Story (via teleconference)  
Representative Mike Prax (via teleconference)  
Representative David Eastman (via teleconference)

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Representative Dan Ortiz (via teleconference)

**COMMITTEE CALENDAR**

HOUSE BILL NO. 3001

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

- HEARD & HELD

HOUSE JOINT RESOLUTION NO. 301

Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit; and relating to the budget reserve fund.

- HEARD & HELD

OVERVIEW(S): APPROPRIATION LIMITS

- HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 3001

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

08/16/21 (H) READ THE FIRST TIME - REFERRALS  
08/16/21 (H) W&M, JUD, FIN  
09/08/21 (H) W&M AT 10:00 AM ANCH LIO DENALI Rm  
09/08/21 (H) W&M AT 1:00 PM DAVIS 106

BILL: HJR 301

SHORT TITLE: CONST. AM: APPROP LIMIT  
SPONSOR(s): REPRESENTATIVE(s) KAUFMAN

08/16/21 (H) READ THE FIRST TIME - REFERRALS  
08/16/21 (H) W&M, JUD, FIN  
09/08/21 (H) W&M AT 10:00 AM ANCH LIO DENALI Rm  
09/08/21 (H) W&M AT 1:00 PM DAVIS 106

#### **WITNESS REGISTER**

REPRESENTATIVE JAMES KAUFMAN  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** As prime sponsor, introduced HB 3001 and HJR 301.

MATTHEW HARVEY, Staff  
Representative James Kaufman  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** On behalf of Representative Kaufman, prime sponsor, presented a PowerPoint, titled "HJR 301/HB 3001."

ALEXEI PAINTER, Director  
Legislative Finance Division  
Juneau, Alaska

**POSITION STATEMENT:** Provided information and answered questions during the combined hearing on HB 3001 and HJR 301; gave an overview on appropriation limits.

#### **ACTION NARRATIVE**

[3:06:40 PM](#)

**CHAIR IVY SPOHNHOLZ** called the House Special Committee on Ways and Means meeting to order at [3:06] p.m. Representatives Eastman (via teleconference), Josephson, Schrage, Story (via teleconference), Prax (via teleconference), and Spohnholz were

present at the call to order. Representative Wool arrived (via teleconference) as the meeting was in progress. Representative Ortiz was also in attendance (via teleconference).

**HB 3001-APPROPRIATION LIMIT; GOV BUDGET**  
**HJR 301-CONST. AM: APPROP LIMIT**

[3:08:02 PM](#)

CHAIR SPOHNHOLZ announced that the first order of business would be HOUSE BILL NO. 3001, "An Act relating to an appropriation limit; relating to the budget responsibilities of the governor; and providing for an effective date" and HOUSE JOINT RESOLUTION NO. 301, Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit; and relating to the budget reserve fund.

[3:09:12 PM](#)

REPRESENTATIVE JAMES KAUFMAN, Alaska State Legislature, as prime sponsor, introduced HB 3001. He presented the sponsor statement, which read as follows [original punctuation provided]:

HJR 301 and its companion bill HB 3001 work together to create a constitutional and statutory framework for how we limit appropriations. Spending limit reform is one of very few subject matters in which the Comprehensive Fiscal Plan Working Group unanimously agreed to be necessary. This legislation can meet that need.

Alaska has been operating without an effective appropriation limit for nearly 40 years, resulting in less than meaningful control of our state spending. The current limit was enacted in 1982, when approaching peak oil production. The timing of instituting this cap, plus the population and inflation adjustment, have made the cap so generous that it is longer useful in controlling our appropriations and spending.

Successful appropriation limits have boundaries that meet the needs of the unique way that government operates; the right mix of rigidity where it counts and flexibility when and where it's absolutely needed. Alaska's inflation rate often varies from national

inflation numbers, our tax structure is unique, and our spending per capita is wildly different than most. If Alaska follows suit in using these common factors, we risk failure because we may use a formula that does not meet our unique needs.

Considering what I have outlined above, and all the other things that make our situation unique, I propose a new, functional cap which uses a factor based upon a five-year trailing average of our private sector economic performance. Specifically, Real GDP less government spending, which measures the value produced within our borders.

The government must support policy that will enable the growth of our private sector economy if they would like to spend more. The five-year averaging will moderate the effects of volatility, leading to stability. This proposal would set a spending cap roughly at current levels and would include a constitutional provision allowing flexibility in the case of unforeseen risks.

Our Permanent Fund is a tremendous asset, but it creates a risk that Alaska will be destined to become a "financialized" economy. Instead of maintaining our status as Alaskans that build, add value, and produce, we could become Alaskans that wait and passively watch the market while hoping for the best. A financialized government that is funded increasingly by some portion of the permanent fund will grow to have little to no interest in the private sector. A spending limit tethered to GDP creates a constructive link to our private sector and ensures that government does not outgrow the private sector that it is meant to support.

We need to create strong links between government and our productive economy before it's too late. We have immense opportunity to solve our structural issues and deliver a better future centered around Alaska's productive economy. Let's be productive and take this opportunity.

[3:12:48 PM](#)

MATTHEW HARVEY, Staff, Representative James Kaufman, Alaska State Legislature, on behalf of Representative Kaufman, prime sponsor, presented a PowerPoint, titled "HJR 301/HB 3001." He began on slide 2, which read as follows [original punctuation provided]:

**Current Appropriation Limit**

\$2.5 B plus inflation and population growth since 1982

-Calculation for FY 21 would be about \$10 billion

Current limit applies to all UGF, most statewide items, and some DGF items

Excludes PFDs, bond proceeds, debt service payments, non-State sources of revenue, public corporation revenues, and disaster declarations

At least 1/3 of limit reserved for Capital Projects and Loans

Can break the limit for capital projects, if approved by the voters

MR. HARVEY described a graph of the proposed appropriation limit pictured on slide 3. He reviewed the proposed appropriation limit on slide 4, which read as follows [original punctuation provided]:

**Proposed Appropriation Limit**

Calculated by subtracting government spending from historical State GDP values and adjusting for inflation

Stability is improved by averaging these values over the previous full five fiscal years

Constitutional amendment, as drafted, caps the statutory limit at 14% of the calculated value

Statutory limit, as drafted, caps appropriations at 11.5% of value

-FY22 appropriations were \$15.9 Million below 11.5% of the calculated value

MR. HARVEY highlighted the proposed exemption list changes on slide 5, which read as follows [original punctuation provided]:

Proposed Exemption List Changes

Adds payment of principal and interest on revenue bonds to exceptions list

Adds "appropriations to a state account or fund that requires a subsequent appropriation from that account or fund as prescribed by law" to exceptions list

Removes Capital Project reservation and exemption language

Current limit applies to all UGF, most statewide items, and some DGF items

-Excludes PFDs, bond proceeds, debt service payments, non-State sources of revenue, public corporation revenues, and disaster declarations

CHAIR SPOHNHOLZ inquired about the meaning of "capital project reservation."

MR. HARVEY said it referred to the money reserved for capital projects.

[3:20:00 PM](#)

REPRESENTATIVE JOSEPHSON, referring to slide 3, asked whether moneys put into the constitutional budget reserve (CBR) was reflected in the yellow bars on the graph.

MR. HARVEY was unsure of the answer. He deferred to Mr. Painter.

ALEXEI PAINTER, Director, Legislative Finance Division, stated that the limit excluded appropriations to funds that require further appropriation to spend. He noted that the CBR fell into that category and would be excluded from the limit.

REPRESENTATIVE JOSEPHSON sought to clarify whether the yellow bars on slide 3 (reflecting appropriations subject to the limit) included funds appropriated to the statutory budget reserve (SBR) or CBR.

MR. PAINTER conveyed that the yellow bars did not include appropriations to the CBR or SBR.

[3:22:52 PM](#)

REPRESENTATIVE KAUFMAN, in response to Representative Schrage, explained that the intent of the legislation was to link public spending with the success of the private sector economy. He suggested that the bill would implement a "smoothing mechanism" to tame the volatility in economic performance.

REPRESENTATIVE SCHRAGE pondered whether this proposal offered an appropriate basis for a spending cap.

[3:26:32 PM](#)

REPRESENTATIVE WOOL pointed out that most of Alaska's GDP was in the oil industry; therefore, if oil GDP were to increase, Alaska could theoretically spend more money. However, he noted that oil production on state land was different than oil production on federal land, suggesting that even if the spending limit increased, there wouldn't necessarily be more money to spend. Additionally, if Amazon were to bring in 10,000 employees to Anchorage, GDP would increase thus increasing the spending limit according to this proposal; however, the new Amazon employees would use state services, such as schools and roads, thereby costing the government more money without bringing in additional revenue.

REPRESENTATIVE KAUFMAN pointed out that the Amazon employees would become part of the "economic fabric" of the community by buying houses, purchasing vehicles, paying taxes, eating in restaurants, etcetera; consequently, their presence would feed into the GDP.

REPRESENTATIVE WOOL pointed out that those employees wouldn't pay taxes. He reiterated that although the spending limit would go up due to the increased GDP, there wouldn't be additional revenue to match. He asked if that was correct.

REPRESENTATIVE KAUFMAN maintained his belief that there would be a stimulative effect on the local economy. He discussed inflation targeting.

[3:31:31 PM](#)

REPRESENTATIVE STORY questioned how an increased GDP would increase state revenue without an income tax or sales tax.

REPRESENTATIVE KAUFMAN remarked, "I believe we could find other ways for it to link back in so that what we're spending is in relation to what we're receiving."

[3:32:41 PM](#)

CHAIR SPOHNHOLZ, referring to slide 3, observed eight or nine years where state spending would have surpassed the proposed appropriation limit. She asked Representative Kaufman to explain why he had proposed a spending cap that would be lower than historically low levels of spending.

REPRESENTATIVE KAUFMAN believed that "smoothing" the capital projects would smooth the ensuing maintenance projects.

CHAIR SPOHNHOLZ maintained her belief that the proposed spending cap was too low. She asked the bill sponsor why he chose 14 percent and 11.5 percent as the benchmarks for the appropriation limit.

REPRESENTATIVE KAUFMAN pointed out that the Fiscal Policy Working Group had recommended that the legislature seek reductions in spending. Further, he indicated that this proposal was just a starting point. He deferred to Mr. Harvey.

MR. HARVEY stated that the statutory limit assumed a market price was set at current spending levels, whereas the constitutional limit provided "enough headroom," as well as a level of savings while exhibiting a "contracyclical" effect with GDP.

[3:38:50 PM](#)

REPRESENTATIVE JOSEPHSON sought to confirm that capital expenditures would be subject to the spending cap.

MR. HARVEY answered yes, as long as they're not subject to any other exemptions. For example, federal spend on a capital project would not be subject to the cap.

REPRESENTATIVE JOSEPHSON pointed out that the Republican Party had supported large capital budgets to improve private sector opportunities. He wondered whether a miner or a timber

operator, for example, would oppose putting their share of capital spending under the limit.

MR. HARVEY indicated that it would be a policy call.

[3:41:04 PM](#)

CHAIR SPOHNHOLZ asked how GDP [as the measure of spending] would be impacted by changes in oil development. She considered a scenario in which the population stayed the same while inflation continued to grow, and GDP were to decline.

REPRESENTATIVE KAUFMAN acknowledged that there would be challenges without finding a way to preserve the local economy.

CHAIR SPOHNHOLZ considered a scenario in which oil development was declining while a new Amazon fulfillment center in Alaska brought a surge in new jobs without an effect on the GDP. She asked how the public safety, health, and education for the new workers would be provided for under the proposed legislation.

REPRESENTATIVE KAUFMAN suggested that the statutory limit could be changed. He offered to follow up with a response.

[3:45:21 PM](#)

REPRESENTATIVE JOSEPHSON inquired about the absence of expenditures that exceed the limit.

REPRESENTATIVE KAUFMAN remarked, "There could be mechanisms that address space for capital projects within the limit." Additionally, he suggested that the statutory language could allow for a rapid response. He reiterated the importance of the "smoothing" effect.

[3:49:12 PM](#)

REPRESENTATIVE PRAX shared his understanding that capital spending was included in the limit. If there were a need for capital spending above the limit, he asked whether the option to issue a [general obligation] bond would be available.

REPRESENTATIVE KAUFMAN answered yes.

REPRESENTATIVE PRAX asked whether Wielechowski v. State of Alaska had any legal impact on this proposal.

REPRESENTATIVE KAUFMAN answered no. He noted that there had been some discussion of amendments on that topic in the Senate.

MR. HARVEY explained that a legal interpretation had suggested that the statutory limit in the bill may not be enforceable. He added that the Senate was working on an amendment to address that issue.

CHAIR SPOHNHOLZ asked what language would be used to enforce the statutory limit.

MR. HARVEY said currently, the language "as provided by law" would apply to appropriation bills; therefore, exempting appropriation bills would tighten up the language.

[3:52:22 PM](#)

REPRESENTATIVE KAUFMAN, in response to Representative Eastman, maintained that the purpose of the proposed legislation was to increase stability in state spending, as opposed to direct state spending.

REPRESENTATIVE EASTMAN sought to confirm that the intent was to produce "higher lows and lower highs," as opposed to the current volatility.

REPRESENTATIVE KAUFMAN confirmed.

[3:56:59 PM](#)

CHAIR SPOHNHOLZ reminded listeners that in addition to the constitutional spending cap, a statutory spending cap already existed. Additionally, she pointed out that a committee appropriations cap had been drafted. She announced that HB 3001 and HJR 301 were held over.

**OVERVIEW(S): Appropriation Limits**

[3:57:53 PM](#)

CHAIR SPOHNHOLZ announced that the final order of business would be an overview on appropriation limits by the Director of the Legislative Finance Division (LFD), Alexei Painter.

[3:58:20 PM](#)

ALEXEI PAINTER, Director, LFD, provided a PowerPoint presentation, titled "Appropriation Limits Overview." He reviewed the presentation outline on slide 2. He continued to slide 3, which read as follows [original punctuation provided]:

Current Constitutional Appropriation Limit

- Established in Article IX, §16 of the Alaska Constitution, effective starting in 1982

"Except for appropriations for Alaska permanent fund dividends, appropriations of revenue bond proceeds, appropriations required to pay the principal and interest on general obligation bonds, and appropriations of money received from a non-State source in trust for a specific purpose, including revenues of a public enterprise or public corporation of the State that issues revenue bonds, appropriations from the treasury made for a fiscal year shall not exceed \$2,500,000,000 by more than the cumulative change, derived from federal indices as prescribed by law, in population and inflation since July 1, 1981. Within this limit, at least one-third shall be reserved for capital projects and loan appropriations. The legislature may exceed this limit in bills for appropriations to the Alaska permanent fund and in bills for appropriations for capital projects, whether of bond proceeds or otherwise, if each bill is approved by the governor, or passed by affirmative vote of three-fourths of the membership of the legislature over a veto or item veto, or becomes law without signature, and is also approved by the voters as prescribed by law. Each bill for appropriations for capital projects in excess of the limit shall be confined to capital projects of the same type, and the voters shall, as provided by law, be informed of the cost of operations and maintenance of the capital projects. No other appropriation in excess of this limit may be made except to meet a state of disaster declared by the governor as prescribed by law. The governor shall cause any unexpended and unappropriated balance to be invested so as to yield competitive market rates to the treasury."

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

## Appropriations Subject to Current Constitutional Limit

- Sets out exceptions to the limit as follows:

"Except for appropriations for Alaska permanent fund dividends, appropriations of revenue bond proceeds, appropriations required to pay the principal and interest on general obligation bonds, and appropriations of money received from a non-State source in trust for a specific purpose, including revenues of a public enterprise or public corporation of the State that issues revenue bonds...No other appropriation in excess of this limit may be made except to meet a state of disaster declared by the governor as prescribed by law."

- This creates exclusions of both fund sources (revenue bonds, corporate revenues, funds from a non-State source) and purposes (PFDs, bond interest)
- The clause "appropriations of money received from a non-State source in trust for a specific purpose" captures federal revenue and most fund sources categorized as "Other State Funds"
- The legislature may also exceed the limit for appropriations to the Permanent Fund
- An Attorney General's opinion from 1983 indicates that school debt reimbursement is excluded from the limit

[4:04:57 PM](#)

REPRESENTATIVE PRAX asked why the repayment of revenue bonds was excluded from the current constitutional limit.

MR. PAINTER did not know why it was drafted that way. He noted that the governor's proposal, as well as the other constitutional amendments in front of the legislature, would amend that language to make it so both the proceeds and the repayments from revenue bonds were excluded from the limit, as opposed to just the repayment.

REPRESENTATIVE PRAX asked for the citation on the court case from which school bond debt was excluded from the limit

MR. PAINTER said that case did not reach litigation; however, he offered to follow up with the attorney general opinion that addressed that issue.

[4:06:51 PM](#)

MR. PAINTER, in response to Representative Eastman, explained that if a bill passed without the governor's signature, it could also be enacted by a three-quarter vote, which would override the veto. Alternatively, a [general obligation] bond or an appropriation from the permanent fund would be assigned by the governor and then sent to a vote of the people. He added that the [general obligation] bond would not require a three-quarter vote. He acknowledged that it was a confusing section of the constitution.

MR. PAINTER, in response to Representative Eastman, stated that appropriations for capital projects that are in excess of the limit would have to go to a vote of the people.

REPRESENTATIVE EASTMAN asked whether the Alaska Permanent Fund was included in that.

MR. PAINTER answered no.

[4:09:14 PM](#)

MR. PAINTER, in response to Representative Josephson, clarified that on slide 5, only the purple segment of the pie chart reflected appropriations subject to the constitutional limit. He resumed the presentation on slide 5, which provided a graph of total appropriations made in FY 21 and indicated which were subject to the constitutional limit. He pointed out that roughly \$5.051 billion of appropriations were subject to the limit.

CHAIR SPOHNHOLZ noted that in FY 21, a high number of appropriations came from non-state sources due to COVID-19 funding. She characterized FY 21 as an extraordinary year, adding that it should not be considered a benchmark for a standard year.

MR. PAINTER continued to slide 6, which read as follows [original punctuation provided]:

Starting Point and Growth Rate of Current  
Constitutional Limit

"Appropriations from the treasury made for a fiscal year shall not exceed \$2,500,000,000 by more than the cumulative change, derived from federal indices as prescribed by law, in population and inflation since July 1, 1981."

- This was slightly below the appropriation level when the limit was adopted in FY82. In FY21, the limit is about \$9.8 billion.

[4:14:16 PM](#)

MR. PAINTER, in response to Representative Eastman, clarified that the amount of appropriations subject to the limit were slightly higher than the limit when it was adopted. He explained that the intent of adopting the limit was to force a reduction in expenditures.

[4:15:02 PM](#)

CO-CHAIR SPOHNHOLZ recalled that Mr. Painter had stated that Anchorage's cap and the state's appropriation limit were defined the same but implemented differently, which resulted in a more generous interpretation at the state level. She asked how they were calculated differently.

MR. PAINTER indicated that the state limit was calculated by multiplying the prior year limit by the change in population; then multiplying that number by the change in inflation. In contrast, Anchorage added the sum of the change in population to the sum of the change in inflation. He resumed the presentation on slide 7, which displayed a graph of the current constitutional appropriation limit from FY 83 to FY 21. He noted that the graph used the current understanding of how appropriations should be counted, as opposed to the contemporary understanding.

[4:18:52 PM](#)

MR. PAINTER, in response to Representative Josephson, addressed the structural flaw in the calculation of the constitutional appropriation limit, as the limit could not be calculated until after the fact. He pointed out that the official calculation of the current limit was included in the state's annual comprehensive financial report, which occurred after the fiscal

year closed. Therefore, violations of the limit could not be identified until after the year ends.

[4:20:32 PM](#)

REPRESENTATIVE EASTMAN inquired about the enforcement mechanism for exceeding the limit.

MR. PAINTER did not know, as there were no existing cases that tested that.

[4:21:14 PM](#)

CO-CHAIR SPOHNHOLZ stated her understanding that the issue was around supplemental budgets, as they were sometimes appropriated outside the limit. She asked if that was correct.

MR. PAINTER agreed. Another factor, he said, was the difficulty in estimating the limit, along with all the other estimated items in the budget. He reiterated that for practical purposes, the legislature had not factored the limit into appropriation decisions. He resumed the presentation on slide 8, which read as follows [original punctuation provided]:

Current Statutory Appropriation Limit

- Established in AS 37.05.540 (b), enacted in 1986
- Based on appropriations made in a fiscal year, not for a fiscal year - counts supplementals in the year they are appropriated, not the year they are effective
- Using similar exclusions as the Constitutional limit, limits spending growth to population plus inflation plus 5%
- Since it is in statute, it can be ignored and has been broken repeatedly

MR. PAINTER continued to slide 9, which provided a graph of current statutory appropriation limits from FY 01 to FY 21. He noted that the limit had been violated in FY 05, FY 08, FY 10, FY 11, FY 12, FY 18, and FY 20.

[4:26:48 PM](#)

REPRESENTATIVE EASTMAN inquired about the rationale for ignoring the statute.

MR. PAINTER conveyed that the legislature's constitutional power of appropriation trumped any other statute.

REPRESENTATIVE EASTMAN asked whether the legislature's right to appropriate would change with a constitutional amendment.

MR. PAINTER indicated that the legislature would have to balance competing constitutional responsibilities; however, it would be binding. He expounded that if it came to a point where education, for example, could not be funded adequately without breaking the limit, constitutional responsibilities would be pitted against each other. Nonetheless, he stated that a constitutional limit would be effective and could not be ignored.

REPRESENTATIVE PRAX inquired about declines in the spending limit curve on slide 9. He asked whether that was due to declines in population.

MR. PAINTER clarified that it was due to declines in appropriations.

[4:27:42 PM](#)

MR. PAINTER presented slide 10, which read as follows [original punctuation provided]:

Appropriation Limit Proposals in 32<sup>nd</sup> State Legislature

**Constitutional Amendments**

- SJR 5/HJR 6 (Governor)
- HJR 301/SJR 301 (Rep. Kaufman/Sen. Myers)

**Statutory Amendments**

- SB 75 (Sen. von Imhof)
- HB 141 (Rep. Spohnholz)
- HB 3001 (Rep. Kaufman)

MR. PAINTER moved immediately to slide 11, which showed a graph of the proposed constitutional and statutory limits listed on slide 10.

[4:32:40 PM](#)

MR. PAINTER presented slide 12, which displayed a chart comparing the starting point and growth rate of the current constitutional limit, current statutory limit, and each of the proposed amendments listed on slide 10.

[4:35:40 PM](#)

MR. PAINTER moved on to slide 13, which read as follows [original punctuation provided]:

Comparing Impact of Proposed Limits

- Projecting limits forward is challenging and highly dependent on assumptions. Applying proposed limits historically gives a clearer view of how they may operate
- Appropriations data prior to FY00 is less reliable, so these focus on implementation after that
- We provide three scenarios: implementation in Fiscal Years 2003, 2008, and 2013. This gives a variety of spending levels for a starting point.

MR. PAINTER presented slide 14, "HJR 6 (Governor) if Enacted Historically," which displayed a bar graph showing the actual appropriations subject to limit, a red line showing if the limit had been enacted in FY 03, a green line showing if the limit had been enacted in FY 08, and a purple line showing FY 13 which, he noted, was at the peak of the appropriations.

MR. PAINTER presented slide 15, "CSSJR 5 (Governor/Senate Judiciary) if Enacted Historically," which displayed a similar map showing different values. He said that the appropriations under this amendment would grow more slowly than the governor's proposal.

MR. PAINTER presented slide 16, "HB 141 (Rep. Spohnholz) if Enacted Historically," which displayed a graph showing very similar values to the graph of HJR 6 on slide 14.

MR. PAINTER presented slide 17, "HB 3001 and HJR 301 (Rep. Kaufman) if Enacted Historically," which indicated that the limit would not change if enacted historically because it was not based on prior year appropriations.

[4:41:40 PM](#)

REPRESENTATIVE PRAX asked whether there was a way to speculate on how a spending limit based on GDP could inhibit growth of GDP if it were to grow rapidly.

MR. PAINTER reported that oil was around 10 percent of GDP, whereas in the 1980s, it was a much higher portion. Therefore, he said, it was difficult to go back to the 1980s. He pointed out that whether expenditure reduction was a drag on the economy was a policy question.

REPRESENTATIVE PRAX asked whether permanent fund earnings were included in state GDP.

MR. PAINTER replied, "No."

REPRESENTATIVE PRAX commented that tethering government spending to GDP was attractive but recalled the explosion in GDP in the 1970s and the state spending that would be done [if that were to occur again].

[4:46:04 PM](#)

REPRESENTATIVE EASTMAN noted that Kaufman's proposal was designed to reduce impacts on the broader economy

MR. PAINTER replied that this was historical data and appropriations that were actually made. He presented slide 18, "SB 75 (SENATOR. Von Imhof) adjusted Backwards."

[4:48:53 PM](#)

CO-CHAIR SPOHNHOLZ asked why the scale on this chart was different than the others.

MR. PAINTER said that SB 75 had different exclusions than the others, which affected the scale.

[4:50:26 PM](#)

MR. PAINTER concluded his presentation on slide 19, which read as follows [original punctuation provided]:

Other Considerations

- **Who calculates the limit?**

- Current constitutional limit is calculated in the ACFR after the close of the fiscal year by Division of Finance
- Statutory limit is not formally calculated by any entity (though Legislative Finance does calculate it each year)
- HB 3001, HB 141, and SB 75 require the Governor to calculate it as part of the 10-year plan. SB 75 also requires the Legislative Finance Division to review the limit every three years

**• Should there be special treatment of capital projects?**

- The current constitutional limit sets aside 1/3 of the limit for capital. In practice, this has not been followed. An AG opinion indicated that this provision could be ignored in times of constrained revenue, but even in the oil boom years in the 2000s this was not followed.

[4:52:38 PM](#)

REPRESENTATIVE EASTMAN asked how the limit for capital projects hadn't been followed.

MR. PAINTER explained that the legislature had not appropriated one-third of the limit towards capital projects; additionally, during the years in which the state could have afforded to do so, operating expenditures exceeded the allowable ratio.

[4:53:33 PM](#)

REPRESENTATIVE JOSEPHSON asked whether other states tethered government spending to GDP. He pointed out that Hawaii tethered government spending to personal income growth and asked whether that was the same as GDP.

MR. PAINTER stated that personal income was related to, but not the same as, GDP. He added that he was not aware of any other state that tied GDP to government spending.

REPRESENTATIVE JOSEPHSON said he was not a fan of spending caps because he viewed it as "self-correcting."

CO-CHAIR SPOHNHOLZ referred to slide 7 and sought to confirm that if two-thirds of the spending cap had been applied to operational spending and one-third to capital, the state would

have been overspending in some years between FY 08 and FY 15. She asked if that was accurate.

MR. PAINTER answered yes, when considering the threshold to be two-thirds of the appropriation limit. He noted that according to the attorney general opinion, that guideline did not need to be followed in times of constrained revenue.

CO-CHAIR SPOHNHOLZ pointed out that if the two-thirds guideline had been applied to the FY 21 budget, the limit would have been nearly exceeded again.

[4:59:45 PM](#)

REPRESENTATIVE EASTMAN asked whether any of the proposed legislation included an enforcement mechanism for exceeding the cap.

MR. PAINTER explained that all the proposed spending caps could be calculated in advance and evaluated for constitutional compliance by the governor before signing off on them. If the legislature forwarded appropriations that violated the cap, he said, the governor would have to veto the appropriations down to the cap to avoid violating his oath of office by violating constitutional obligations.

MR. PAINTER, in response to Representative Eastman, said that he hadn't seen any enforcement mechanisms in any of the proposed legislation.

[5:03:28 PM](#)

MR. PAINTER, in response to Representative Story, clarified that the true limit had not been exceeded. The question, he said, was whether the two-thirds guideline had been violated during high revenue years.

[5:04:58 PM](#)

REPRESENTATIVE PRAX asked whether LFD could provide forecasts of the spending caps proposals.

MR. PAINTER said it could be done.

REPRESENTATIVE PRAX speculated that future trends in volatility would not be as great as they had been due to overall growth in GDP.

CO-CHAIR SPOHNHOLZ acknowledged that the present economy was much more diverse than it was in the 1980s.

5:07:50 PM

**ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 5:08 p.m.