

SENATE FINANCE COMMITTEE
THIRD SPECIAL SESSION
September 9, 2021
9:02 a.m.

[9:02:40 AM](#)

CALL TO ORDER

Co-Chair Bishop called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator Donny Olson (via teleconference)
Senator Bill Wielechowski (via teleconference)
Senator David Wilson

MEMBERS ABSENT

Senator Natasha von Imhof

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Caroline Schultz, Policy Analyst, Office of Management and Budget, Office of the Governor.

SUMMARY

SJR 5 CONST. AM: APPROP LIMIT; BUDGET RESERVE

SJR 5 was HEARD and HELD in committee for further consideration.

#sjr5

SENATE JOINT RESOLUTION NO. 5

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

[9:04:22 AM](#)

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced himself.

9:04:28 AM

CAROLINE SCHULTZ, POLICY ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced herself.

9:04:39 AM

Mr. Steininger discussed the presentation, "State of Alaska; Office of Management and Budget; Senate Finance Committee; SJR 5: Constitutional Spending Limit; September 9th, 2021" (copy on file). He addressed slide 2, "Current Limit: Article IX, Section 16," which showed a graph. The graph showed the current constitutional spending limit with a black line. He asserted that the administration proposed an amendment to the constitutional spending limit because the current limit was not effective at controlling expenditures of the state. He pointed out that over the time limit of the graph where there were no periods where state expenditures neared or came close to exceeding the constitutional spending limit.

Mr. Steininger continued to address slide 2. He noted that the green line represented revenues and the orange line represented expenditures. He thought it was clear from the graph that over the time period represented, the amount of revenues available was what had controlled expenditures. He pointed out during times low or flat of revenue, expenditures stayed roughly in line with what was available, while at the same time the spending limit in the constitution continued to escalate, which created a gap. He observed that when revenue started to spike in the early 2000s, expenditures went up at roughly the same rate as the revenues and there was no meaningful limit on the rate of growth. He thought the forward-looking need to constrain a run-up of state expenditures was the reason for the administration's recommendation of an amendment to the constitutional spending limit.

Mr. Steininger pointed out the dotted line, which signified the hypothetical scenario of the proposed limit laid out in SJR 5 applied at the same time as the current constitutional limit. He thought the graph showed that the limit would have applied a lot more constraint on growth of expenditures during the time of the run-up in revenue.

[9:07:22 AM](#)

Co-Chair Stedman remarked that there was a delta between the dotted line that showed a hypothetical look-back and where the state expenditures were. He asked how the state could have reduced from \$4.5 billion in state expenditures down to the \$3 billion under the scenario.

Mr. Steininger replied that the slide presented a "what if" scenario, and if the state implemented SJR 5 today, spending would not be down at the \$3.5 billion level, but would be more responsive to current expenditures. He summarized that the administration was looking to implement a spending limit that would constrain future growth rather than to implement a spending limit that required roughly \$1 billion in reductions immediately. He highlighted that it was easy to add expenditures when there was state revenue available, while it was far more challenging to pull operating costs out of the budget when revenues declined. He thought you could see a significant revenue drop on the graph and then stabilization. He summarized that the graph was to illustrate that the proposed spending limit was more restrictive than the current constitutional spending limit.

[9:09:35 AM](#)

Co-Chair Stedman shared that the subject matter of a spending limit had been before the committee many times, and members had all recognized that the constitutional spending limit was quite a bit above actual expenditures as illustrated by the graph. He recalled that during the tenure of the previous administration there had been discussion about the spending limit with similar multipliers as proposed. He contended that if the legislature had implemented some of the proposed spending caps (including from the governor when he was serving as senator), it would have resulted in significantly higher spending than there was currently. He noted that the state had maintained flat spending over three legislatures. He mentioned proposals by former Senator Dunleavy. He did not see the operating budget of the state advancing, and thought the state had the challenge of trying to meet its obligation. He thought a significant number of legislators did not like being up against a spending cap.

Co-Chair Stedman continued his remarks. He was dubious about the proposal. He questioned whether the new proposal would be more effective than what was currently constraining spending growth. He thought there was very little flexibility with the funds available to do any escalation in growth. He wanted the chart on the slide to have a look-back to the beginning of the Walker Administration or the end of the Parnell Administration. He acknowledged that the current spending cap was dysfunctional. He thought that a new spending cap with additional headroom would garner a great deal of interest from legislators that wanted to spend up to the limit, which he thought was the wrong direction to take. He requested for the slide to be re-modeled with a tighter time frame, starting between 2015 and the present.

Co-Chair Bishop added that there was another former co-chair of Senate Finance sitting as a current member. He mentioned funds that had been banked. He mentioned a great deal of deferred maintenance. He was curious about capital spending outside the spending limit. He cited \$1 billion in deferred maintenance in rural Alaska and \$2 billion in deferred maintenance on state assets. He mentioned schools, water and sewer, and energy infrastructure.

Mr. Steininger stated that there was an upcoming slide that addressed the reframing the spending limit when it was implemented in different time periods.

[9:16:17 AM](#)

Mr. Steininger pointed to slide 3, "Key Aspects of an Effective Appropriation Limit":

- Inhibit excess spending in high revenue years
- Practical considerations for calculation
 - Timely data availability
 - can be calculated in advance of budget deadlines
 - Clearly understood formula
- Responsive to long-term and unanticipated changes
- Avoids unintended consequences or disincentives for short-term savings

[9:21:02 AM](#)

Senator Olson thought there were issues that needed addressing in more detail, such as changes to the constitution.

Co-Chair Stedman wondered if the presentation would look at current status of state operating expenditures. He mentioned a establishing a benchmark spending amount relative to population and inflation. He cautioned against making a benchmark error.

Mr. Steininger pointed to slide 2 to address Co-Chair Stedman's comments. He looked at the dark line that represented the current spending limit, which started roughly in line with UGF spending in the first year on the graph. He qualified that spending during that time was categorized differently and the example was not a perfect representation. He noted that the growth of population and inflation exceeded the growth of expenditures. He added that where the state was now, adjusted for population and inflation, was significantly lower than in the early 1980s. He pondered the appropriate size of the budget for the current fiscal year and thought the decision was embodied in the annual budget process. He asserted that the proposed spending limit was not trying to make judgement calls, but rather trying to set up a framework in which to set a limit on what could be added to current expenditures.

[9:23:49 AM](#)

Co-Chair Stedman recalled that the early 1980s were in the oil boom, but the late 1970s were about on par with current spending adjusted for population and inflation. He discussed historical spending in the previous three administrations. He thought there would always be commentary that expenditures exceeded the ideal, and the legislature should be able to cut the budget. He thought the budget had been horizontal since 2016 through four different legislatures. He mentioned deferred maintenance and cautioned about backlog and the importance of maintaining infrastructure.

Co-Chair Bishop asked Mr. Steininger to go back to slide 2. He pointed out revenue versus the UGF spending from 1982 to 2006. He thought there was pent-up demand for deferred maintenance going back 20 years. He looked at slide 3 and emphasized the last two bullets on the slide. He asked if Mr. Steininger had modelled SJR 5 for outcomes.

Mr. Steininger relayed that the proposed limit would be responsive to inflationary pressure or a large influx in population.

[9:28:34 AM](#)

Ms. Schultz stated that she had looked at projections based on Department of Labor and Workforce Development's high, medium, and low population projections as well as different inflation scenarios based on historical information. She noted that the model looked different using numbers from the 1980s than the current low inflation regime. She offered to share the information with the committee.

Mr. Steininger addressed slide 4, "Policy Considerations for Appropriation Limit Calculations":

There are three critical policy considerations when establishing a spending limit calculation:

What is excluded?

Current Article IX, Section 16 Limit

PFDs, deposits to PF, bond proceeds, GO bond debt service, disaster spending, non-state money received in trust, revenues of a public enterprise, certain capital appropriations

CS SJR 5 (JUD) Proposed

PFDs, deposits to PF or other state savings accounts, retirement unfunded liability payments, bond proceeds, GO & revenue bond debt service, disaster spending, non-state money received in trust, revenues of a public enterprise, certain capital appropriations

What is the base?

Current Article IX, Section 16 Limit

\$2.5 B in 1982 (fixed)

CS SJR 5 (JUD) Proposed

Previous average 3 years (moving)

Mr. Steininger explained that the proposed spending cap's moving average allowed the calculation to respond to

events. He discussed a growth rate that was as closely tied to the real pressures on government spending as possible and mentioned the importance of availability of data.

[9:32:09 AM](#)

Mr. Steininger continued with slide 4:

How does is grow?

Current Article IX, Section 16 Limit
Inflation population (cumulative)

CS SJR 5 (JUD) Proposed
Greater of inflation or population (over
previous two years)

Mr. Steininger discussed changing the growth rate as proposed in SJR 5, which would use the greater of population or inflation over the prior few years. He thought the proposal allowed for the ability to grow and respond to events while not allowing for significant growth above what was necessary to meet the needs and services. He explained that the levers and policy considerations needed to be looked at to ensure that the change would achieve the goals of the legislature and administration in setting a spending limit without any unintended consequences. He mentioned having tools to deal with things like deferred maintenance but without creating incentives for excess spending.

Co-Chair Stedman reiterated that the issue of a spending cap had been before the committee many times, as well as consideration of whether the Permanent Fund Dividend (PFD) should be included or not. He discussed balancing the needs of the state and asked why the PFD would be excluded from the spending cap when it was one of the most significant calls for revenue.

Mr. Steininger stated that the primary reason the PFD was excluded from the proposed spending cap was that SJR 5 was not the only constitutional amendment before the legislature. He detailed that there was another proposed constitutional amendment that would address the PFD and set the payment in the constitution and effectively control the expenditure of the PFD rather than being a discretionary item in the state budget under the purview of a spending limit.

Co-Chair Bishop iterated that the administration was banking on the other constitutional amendment passing the legislature. He pondered what would happen if the bill failed and SJR 5 passed the legislature.

Mr. Steininger explained that the administration did not consider the PFD a discretionary appropriation, but rather something that should be done per the statute. He stated that although the court had ruled that the PFD was a discretionary item that was part of the annual budget process, the administration's perspective was that the PFD would still be rules-based and not a discretionary item that should be considered under the spending cap.

[9:37:11 AM](#)

Co-Chair Stedman thought the statutory formula equated to a PFD of about \$3,300, while the administration's proposed PFD was \$2,300. He asserted that the Supreme Court made the law of the land for all to follow, including the administration. He discussed his concern that previous policy set by governors resulted in annual dividends to the people. He recounted that the formulation was to be 50 percent for the people and 50 percent to the state after adjustment for inflation. The state had reinvested its portion and the Permanent Fund had grown as a result.

Co-Chair Stedman asserted that all the citizens had benefitted from the policy and growth of the fund. He suggested that if the legislature had followed the statute, the value of the Permanent Fund would be roughly \$30 billion, and the dividend would be \$1,100. He cautioned against setting future policy in a vacuum. He thought there were issues to work through before changing the constitution. He hoped the public would recognize the \$50 billion in added value to the Permanent Fund, rather than the legislature spending the funds along the way.

[9:43:02 AM](#)

Co-Chair Bishop asked for a definition of certain capital projects and asked if there was a list.

Ms. Schultz replied that the current constitutional appropriation limit in Article IX, Section 16 had a provision where under certain circumstances a portion of

the appropriation limit needed to be spent on capital items. She continued that SJR 5 allowed for capital appropriations that exceeded the appropriation limit if voted on and approved by a majority of voters in the state, similar to the provisions required for a general obligation (GO) bond. The provision was added in the Senate Judiciary Committee in order to enable capital expenditures outside the limit, with the added control of a vote by the people.

Co-Chair Bishop asked if the capital projects could only include water and sewer projects. He thought the bill was not definitive on the type of civil projects that would be allowed.

Ms. Schultz explained that there was some ambiguity in the wording regarding whether an item was for capital improvement or capital project. She noted that the definition of a capital project had not been tested in court in Alaska. She thought the conversation would be academic in nature and noted that Assistant Attorney General Bill Milks was available for questions.

[9:45:45 AM](#)

Mr. Steininger pointed to slide 5, "SJR 5 Constitutional Appropriation Limit - Timing Matters," which had a graph depicting the proposed appropriation limit starting at various times. He noted that the slide showed a tighter timeframe than was shown on the first slide. He thought it was possible to see that the result was different depending on when the proposed appropriation limit was started. He pointed out that the scenarios in 2000 and 2005 were relatively similar due to the fact that the time period had relatively flat and stable budgets, and the three-year average calculated by SJR 5 yielded the same results.

Mr. Steininger pointed out the increase in expenditures leading to 2010, which increased the three-year average. He thought it was important to note that if the SJR 5 proposal was implemented in a time of higher spending (unlike what was shown on the first graph), the initial base calculation would be based on the most recent three budgets. He emphasized that the calculation was responsive and ensured that when the spending cap was implemented it would not significantly constrain spending immediately. He noted that if implemented 2010, the proposed limit would have constrained spending after a few years. He commented that

as expenditures went down to meet the decline in revenue subsequent to FY 15, it was observable that the averaging brought the appropriation limit down with spending. Growth would be limited to inflation or population growth.

Co-Chair Bishop commented that when the state had flat revenue, the legislature was not over-spending. He pointed out that when the state had more revenue, it was catching up on 20 years of deferred maintenance it was previously unable to do.

[9:49:43 AM](#)

Mr. Steininger looked at slide 6, "SJR 5 Constitutional Appropriation Limit - Looking Forward." He explained that the slide the graph on the slide used OMB's ten-year plan as well as the Department of Revenue's official forecast. He explained that the graph tried to show that the appropriation limit in SJR 5 had some flexibility and was dependent upon choices that were made. The two black dotted lines represented a range of where the spending limit could be calculated in the future. The top line showed that if the state tried to respond to the limit by treating it as a goal, the amount would increase over time.

Mr. Steininger continued to address the graph on slide 7. He explained that the lower dotted line showed that if spending was flat, the line would meet the spending and grow by population or inflation depending upon which was greater. The graph used a rate of one-half percent in annual population growth and 2.25 percent in inflation growth. He summarized that the provisions in the bill, as currently drafted, were responsive to appropriation decisions that were made and allowed for a small amount of growth but not a fast run-up of expenditures.

[9:51:39 AM](#)

Co-Chair Bishop thought if the state could maintain its savings discipline, it could pay the Constitutional Budget Reserve (CBR) back in 16 years with \$1 billion per year instead of in 130 years by paying \$100 million per year.

Mr. Steininger highlighted slide 7, "SJR 5 Constitutional Appropriation Limit - As Amended by Senate Judiciary":

SJR 5 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
 - Payments toward retirement unfunded liability
 - Disaster response
 - Non-state funds for a specific purpose
 - Capital projects if approved by voters

Mr. Steininger noted that slide 7 and slide 8 provided details of what was in the bill. He suggested that the provisions were areas for legislative consideration to ensure that the way the bill was drafted gave the ability to address items such as deferred maintenance and capital appropriation.

Co-Chair Bishop asked if the administration had a plan for addressing deferred maintenance.

[9:54:24 AM](#)

Mr. Steininger stated that the current mechanism used to fund deferred maintenance was through the Alaska Capital Income Fund, and earnings that went into the fund. The administration was in the process of addressing deferred maintenance on a statewide basis through the Division of Facilities Services. He acknowledged that there was a need to find more adequate funding for deferred maintenance, and that the amount of money available in the Alaska Capital Income Fund was less than the ideal amount if one was to calculate one to two percent of the asset value.

Co-Chair Stedman asked about bond proceeds and debt service costs. He spoke of bonded projects and false numbers represented in the budget. He thought that bond proceeds should be included. He was curious whether bond packages should be pushed forward or not. He thought there was

clearly budgetary manipulations that made bond packages more attractive than they should be. He questioned taking capital projects to the voters when the legislature was elected to make the decisions.

Co-Chair Stedman continued his thoughts. He highlighted the unequal distribution of voters across the state. He noted that the legislature spent many areas to ensure that the call on the treasury was equally distributed around the state. He thought a vote by the people could lead to inequity with projects concentrated in population centers. He thought there were numerous examples to draw from relating to unfair allocation of resources around the state.

Co-Chair Bishop solicited questions. He asked whether the capital projects were particular to the GO bond list only, or if the bill proposed to eliminate the normal capital budget process.

[9:59:31 AM](#)

Mr. Steininger explained that under SJR 5 the legislature would still provide for a normal capital budget process. The capital project or GO bonds approved by voters would happen in a case where there was a need for projects that exceeded the proposed appropriation limit.

Co-Chair Stedman reminded that capital budgets in the near past had been federal match funded only. He pondered what size of capital budget would spill over enough to require a vote. He reiterated his concern about equal treatment around the state. He discussed examples in rural Alaska and the perception that expenditures in the Railbelt were supported while smaller rural projects were not.

Senator Hoffman asked about excluded appropriations and thought a strong argument could be made for the Power Cost Equalization Program to be excluded from the appropriation limit. He recounted that there had been expenditures across the Railbelt to reduce energy costs in the area, and the PCE Fund was an attempt to equalize expenditures as there had been no infrastructures built to reduce cost in rural Alaska.

[10:03:01 AM](#)

Co-Chair Stedman considered ways things were manipulated. He observed that under the current enacted budget there were about \$200 million in expenditures that were not made. He listed oil tax credits, school bond debt reimbursement, Regional Educational Attendance Area (REAA) school funding, and community assistance. He discussed using the proposed three-year average as a policy of the executive branch. He discussed vetoes by the governor. He opined that there was a difference in policy decisions to increase expenditures and the discussion of paying the states obligations. He was not sure the proposal did not hinder the state's ability to meet its obligations. He had concerns that using a three-year expenditure average left room for financial manipulations and political maneuvering.

Mr. Steininger pointed to slide 8, "SJR 5 Constitutional Appropriation Limit - As Amended by Senate Judiciary":

SJR 5 amends article 9, section 17 of the Alaska Constitution:

- Amends section 17 (a) to clarify deposits to the fund
- Removes section 17 (b) which currently allows simple majority access under certain circumstances

Retains access through three-quarter vote and repayment provisions

Mr. Steininger detailed that the bill proposed to address a difference in interpretation of current language in Article 9, Section 17 of the Alaska Constitution. The change would address what types of settlements went into the CBR and would clarify that there were settlements directly related oil, gas, and mineral resource issues.

[10:07:40 AM](#)

Co-Chair Stedman noted that the legislature had used the access provision to the CBR without a three-quarter vote. He proposed that the access to the CBR through a three-quarter vote was always more expensive. He recalled accessing the CBR without additional cost, and the creation of the Statutory Budget Reserve. He thought the bill would create greater expenditures. He relayed that normally there was language in the budget to provide a backstop on spending.

Co-Chair Bishop summarized that if one wanted to save money, a three-quarter vote was not a good choice.

[10:12:38 AM](#)

Ms. Schulz discussed "CS SJR 5 (JUD) Sectional, Version 32-GS1664\B, (Constitutional Amendment: Appropriation Limit; Budget Reserve Fund), September 9, 2021" (copy on file):

Section 1: This section would amend the appropriation limit amendment in the Alaska Constitution (Art. IX, sec. 16).

Subsection (a) begins by listing the appropriations that would be excluded from the appropriation limit:

- appropriations made under new subsection (b) [Section 2],
- money for permanent fund dividends,
- money going into the permanent fund,
- appropriations of general obligation and revenue bond proceeds and the payment of debt service on those bonds,
- appropriations into a state savings account or fund that requires a subsequent appropriation from the account as prescribed by law,
- appropriations for payment of the unfunded liability of a State retirement system,
- appropriations to meet a disaster,
- and appropriations of money from a non-State source in trust for a specific purpose including revenues of a public corporation of the State that issues revenue bonds.

The section then sets forth a new appropriation limit. The new limit would require that appropriations for a fiscal year not exceed the average of the appropriations for the last three years plus the cumulative percent change in the greater of population or inflation over the previous two calendar years.

Section 2: New subsection (b) in Art. IX, sec. 16 permits appropriations for capital projects in excess of the limit if approved by a majority of voters of the State and specifies that appropriations in excess

of the limit are not to be used in calculating the appropriation limit in subsequent years.

Section 3: This section would make limited changes to section 17(a) of the budget reserve fund in Article IX that clarify what money is deposited into the budget reserve Office of the Governor CS SJR 5 (JUD) September 9th, 2021 fund and that deposits into the fund are not subject to the dedicated fund prohibition in Section 7 of Article IX.

Section 4: This section would provide for a transition provision to ensure a smooth transition between the existing appropriation limit and the new limit.

Section 5: This section would repeal subsection (b) of the budget reserve fund in Section 17 of Article IX. Subsection (b) currently allows for appropriations from the budget reserve fund with a simple majority if the amount available for appropriation is less than the amount appropriated in the previous year.

Section 6: This section would require that this amendment be placed on the ballot in the 2022 general election.

Co-Chair Bishop discussed the agenda for the afternoon.

SJR 5 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[10:15:47 AM](#)

The meeting was adjourned at 10:15 a.m.