

HOUSE FINANCE COMMITTEE

May 2, 2023

10:34 a.m.

10:34:15 AM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 10:34 a.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair  
Representative Neal Foster, Co-Chair  
Representative DeLena Johnson, Co-Chair  
Representative Julie Coulombe  
Representative Mike Cronk  
Representative Alyse Galvin  
Representative Sara Hannan  
Representative Andy Josephson  
Representative Dan Ortiz  
Representative Will Stapp  
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Bernard Aoto, Staff to Representative Stapp.

PRESENT VIA TELECONFERENCE

SUMMARY

HJR 2 CONST. AM: APPROP LIMIT

HJR 2 was HEARD and HELD in committee for further consideration.

HB 38 APPROPRIATION LIMIT; GOV BUDGET

HB 38 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the meeting agenda.

#hjr2

#hb38

HOUSE JOINT RESOLUTION NO. 2

Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit.

HOUSE BILL NO. 38

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

[10:36:17 AM](#)

REPRESENTATIVE STAPP, SPONSOR, introduced himself and his staff. He explained that HJR 2 was a revision to the existing appropriation limit. The state had a constitutional and statutory appropriate limit since 1982. He believed that the argument to revise the limit was that the current limit had not been effective since its inception. The "boom and bust" cycle driven by high and low oil prices was not familiar to the state until the 1980s and was not taken into consideration in the original appropriation limit. He delineated that the proposed limit used a "stabilizing metric" that smoothed out high revenue years and insulated the state from decreasing revenue by applying a 5-year average to the state's Gross Domestic Product (GDP). He felt that the plan would bring stability for long term investments in the state.

[10:38:10 AM](#)

BERNARD AOTO, STAFF TO REPRESENTATIVE STAPP, introduced the PowerPoint presentation "HJR 2 GDP - Based Spending Cap" dated May 2, 2023 (copy on file). He began on slide 2 titled "Current Constitutional Limit:"

- Established in Art IX, §16
- Effective starting 1982
- Appropriation Limit is set as follows:
- "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."

- At Least 1/3 is reserved for Capital Projects & Loans
- Voter approved Capital projects are allowed to exceed the limit.

Mr. Aoto directed attention to the words "for a fiscal year" that would be relevant later in the discussion. He elaborated that the metric used to calculate the cap was a population and inflation model with a set date of 1981. There were exceptions to the limit listed in Article IX, Section 16 as follows: Alaska Permanent Fund Dividends, appropriations from revenue bond proceeds, appropriations to pay principal and interest on General Obligation Bonds (GO), and appropriations for non-state sources for specific purposes that included things like federal receipts and grants or revenues from corporations of the state that issued revenue bonds. He noted that there was another section that included additional exceptions such as the Alaska Permanent Fund, appropriations for capital projects from bond proceeds that were approved by the voters and signed by the governor, and appropriations needed for a declared state of disaster.

Co-Chair Foster asked what the funding limit would currently look like. He pointed to the \$2,500,000,000 and the words "by more than the cumulative change" and deduced that a current limit could be higher. Mr. Aoto responded that by using the population and inflation metric there needed to be some kind of anchor the cap was tied to, which was the \$2.5 billion. He noted that the section described the cumulative change as "derived from federal indices as prescribed by law" based on population changes and inflation via the Anchorage Consumer Price Index (CPI). Co-Chair Foster suggested that an easy way to think about the concept was an "inflation adjusted number." He asked what the current number would be.

Representative Stapp interjected that the information was on a future slide.

Co-Chair Foster indicated that Co-Chair Edgmon joined the meeting.

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Mr. Aoto continued on slide 3 titled "What does HJR 2 do:"

- Uses a different metric of calculating appropriations limit by using the trailing average of the 5 previous calendar years of Real Gross Domestic Product (GDP)
- Calculating Real GDP
- Takes data for standard GDP calculations by government agencies, subtracts government spending, and adjust for inflation.
- 13% of the total average is the limit for all appropriations not listed as exceptions.
- If established before FY24, that would equal approximately \$5.8 billion.
- Would effectively set limit near current spending levels to allow for stable and predictable and budgeting.

Mr. Aoto delineated that GDP was calculated using a variety of economic factors like consumer spending, business spending, net imports and exports, and government spending. He acknowledged that there were other outside factors that could affect the state's revenue and economy but believed that the limit would provide "stable and predictable" governing.

[10:43:23 AM](#)

Representative Ortiz asked if real GDP meant the GDP calculated by the federal government or if there was an agency in the state that calculated GDP. Mr. Aoto answered that the bill required that GDP was calculated by a state government agency. The data that was typically used was through the Federal Bureau of Economic Analysis in the United States (US) Department of Commerce. Representative Ortiz summarized that it was a measurement of GDP at the national level. Mr. Aoto replied that the national calculation used the national CPI and for Alaska there was a specific CPI based on Anchorage.

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Representative Galvin appreciated the concept of the legislation. She asked how population changes would relate

to GDP. Some populations might decline, but it was important to incorporate public services that needed to happen in areas with declining populations even if the services had shrunk in scale because they were constitutionally mandated.

Representative Stapp asked for more specificity to her question.

Representative Galvin asked how the spending cap decisions would be made related to population size when the state was mandated to deliver certain services even to areas of declining populations. Representative Stapp answered that it was fair to say that as population increased, GDP also increased. He acknowledged that the state had negative GDP for the past few years due to out migration. He commented that regarding the cap, it should not be a "backdoor draconian cut" he intended reasonable and stable limits placed on appropriations. It was not ideal to have a metric that was so tight that there was no room to accommodate changes. He thought a goal of the bill was to incentivize private sector growth. He believed that there were two economies: public and private sectors. He held that healthy economies were based on a "a public sector economy that sat on the shoulders of a robust private sector economy" that was diversified and could support the "overarching needs" of the population irrespective of population changes.

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Representative Hannan asked how real GDP accounted for Alaska's unique economy due to the oil industry that was located on public land and contracted with the state to operate for its benefit. She asked how it would be reflected and measured in a GDP based on the private sector. Alaska was unique in the way that most of its resources were state owned but not state agency produced. She wondered how that could be accurately measured. She did not believe the federal calculation took that into account.

Mr. Aoto responded that standard GDP calculations included things like the oil industry, and it was baked into the state's standard GDP. The difference between standard GDP and real GDP was that it adjusted for inflation and removed government spending. Representative Hannan viewed it as a flaw in the calculation. She exemplified that if the state did not fund the Department of Natural Resources permitting

due to a cap it would shut down contractor services. She wanted to ensure that if there was a limit, the way the state operated as a contractor for its natural resources would be accurately reflected. She did not believe it currently was reflected in GDP and emphasized that setting a limit placed the state in a "precarious situation to not operate as an owner state of the resources."

Representative Stapp spoke to her DNR example. He believed that private sector performance was being measured and the facilitation of commerce was an aspect of that. He deduced that where the state took steps to facilitate private sector commerce it would be captured in outputs in GDP calculations. He thought it was apparent in the "downstream" in consumption based spending and investment in that "type of sector of the economy."

[10:51:19 AM](#)

Representative Ortiz referred to the statement about how public sector GDP sat on the shoulder of private sector growth. He agreed with Representative Hannan that it was different in Alaska because other than some corporate tax revenue, there was no direct link between private sector economic growth or decline and revenue without state income and other taxes, that other state economies were based on. He believed that there was a flaw in standard GDP theory espoused by the sponsor as it applied to Alaska. He did not believe there was a direct link between private sector growth and revenue to the state for appropriations lacking private sector taxes. Representative Stapp answered that Representative Ortiz's point was the reason behind HJR 2. He believed that it would begin to create the tie that did not currently exist and incentivize the legislature to make decisions to benefit the private sector. He deduced that in the event that broad based taxes were implemented in the future, it would be beneficial to currently consider how to grow the private sector base. He thought that it was healthier to have a flourishing private sector economy that was tied to the outcome of state governance.

[10:54:25 AM](#)

Representative Josephson asked if it was the state's obligation to foster economic development and not the private sector's own obligation to look out for its own needs. He asked whether it was Representative Stapp's

philosophical approach. Representative Stapp replied in the negative and added that he would not phrase it that way. He thought that the state had a role in facilitating commerce and believed it was "a good concept" and the public and private sectors should work together to create a future that benefits all Alaskans. He did not believe that it was the state's responsibility to grow the economy, but it could play an active role.

[10:55:40 AM](#)

Co-Chair Johnson recalled that Senator Kaufman introduced a similar bill [HB 258 Appropriation Limit; Gov Budget] in the prior session and noted that there currently was a companion bill in the Senate [SB 20 Appropriation Limit; Gov Budget, Senator Kaufman]. She inquired about the differences in the sponsor's House Bill. Representative Stapp responded that the difference between the House and Senate versions was that HJR 2 was the constitutional spending limit with the calculation in HB 38. He indicated that the calculation was amended downward in the prior committee, House Ways and Means Committee. The senate version used the original calculation therefore, the difference was in the percentages the appropriation limit was based on.

[10:57:13 AM](#)

Representative Josephson assumed that the 13 percent figure was selected in the prior committee because the \$5.8 billion number is roughly the size of the current budget. He asked why the number was chosen. Representative Stapp answered that the previous version had a higher percentage than the original bill and was amended downward in the prior committee at its discretion.

[10:58:12 AM](#)

Representative Galvin understood that the premise of the proposal was to achieve the right level of funding. She noted that the House recently passed a budget that was roughly \$100 million higher than the number in the bill. She asked what would happen if a future legislature discovered that there was underfunding in a critical sector of the economy like education spending. She asked how a need to "catch up" on funding would be handled if a spending cap was implemented. Representative Stapp

responded that the current adopted House budget did not exceed the constitutional spending limit but did exceed that statutory spending limit. He furthered that the concept of the measures was to create stability and reiterated that it was not his intention to create a limit that was too tight and functioned like "backdoor cuts." He believed that his proposal included a metric when applied was consistent, measurable, and changed with different input and outputs. He commented that he would entertain amendments that achieved the objective.

[11:00:37 AM](#)

Mr. Aoto turned to slide 4 titled "Appropriations Subject to Limit:"

Subject to Limit

Unrestricted General Funds (UGF) Operating Expenditures  
UGF Capital Expenditures (some exceptions)  
Payments for Retirement benefits

Not Subject to Limit

Permanent Funds Dividends  
Appropriations to Permanent Fund/PCE Endowment  
Appropriations to a State Savings Account (ex. CBR, MHTF\*)  
Appropriations to capitalize state retirement accounts  
Direct spending from a Disaster Declaration  
Proceeds of bonds that are approved by voters

\* CBR - Constitutional Budget Reserve

MHTF - Mental Health Trust Fund (AS 37.14.031)

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Representative Hannan asked why the PFD would be an exception when there were other constitutionally mandated items like education that would be subjected to the limit. Representative Stapp replied that the PFD was one of the largest state expenditures and he thought the issue needed to be handled separately outside the bill.

[11:03:06 AM](#)

Representative Ortiz communicated that his question was essentially the same as Representative Hannan's and he also inquired as to the additional exemptions listed under the UGF capital expenditures. Mr. Aoto responded that the exceptions were GO and revenue bonds approved by the voters for capital projects and any money from non-state sources like the federal government for capital projects. Representative Ortiz asked whether the required match to meet the federal funding would be included under the cap. Mr. Aoto replied that the state match would be subject to the limit but not the federal receipts.

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Representative Josephson believed that the PFD created the greatest instability. He commented that often chambers of commerce and the most affluent people did not desire large dividends because they viewed it resulted in growth in taxation. He was informed by the entities he mentioned and unions that they wanted PFD reform. He recounted that in 2017 the governor wanted to pay a \$10 thousand PFD, which some viewed as creating instability. He reported that he was responding to Representative Hannan's as well as his concerns. He asked for comment.

Representative Stapp answered that was a reason why the dividend was an exception to the limit because the appropriation had become "arbitrary." He thought the issue should be settled separately because of the variation in what policy makers think the payout should be and it would be very difficult to model under a spending cap.

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Representative Ortiz asked if the cap included supplementals. Mr. Aoto responded that the supplementals would be included under the cap except for excluded items.

[11:07:55 AM](#)

Representative Galvin cited slide 3 and wondered about the calculations. She thought that there was too much power given to oil companies and outside entities that were "deeply affecting" the state's economy via volatility. She asked if the state was giving away its power under the cap. She did not want to "hamstring our government" at a time when the state was bouncing back from a recession. She

thought there needed to be more investment to recover. She wondered if the bill would tie the state to entities, it did not have control over. Representative Stapp replied that he did not think it would cede power to oil companies. He opined that in a revenue shortfall the state would not be worried about a spending limit if there was less revenue available than the limit allowed. Representative Galvin was not sure the limit was the stabilizer that was being sought. She thought that it depended on how the proposal was evaluated and whether the limit could be designed to avoid granting outside forces too much control. Representative Stapp agreed that the oil and gas industry comprised a large portion of Alaska's GDP. He reminded the committee that the limit included a 5 year rolling average of the state's economic performance; if the economy grew or shrank the limit would follow but the effects would be averaged out. Averages were historically used in the state because they were designed in a way that mitigated the risk. Therefore, the legislation used a 5-year rolling average of GDP. Representative Galvin commented that an average did matter, and a sliding rolling average could not cut the state out of a recession.

Co-Chair Foster noted that the bills would be heard again in a future meeting.

[11:11:51 AM](#)

Representative Hannan asked about the "subject limit payments" for retirement benefits. She wondered how the cap would work with the defined benefit retirees.

Representative Stapp answered that appropriations to capitalize state retirement accounts were outside the cap because it was a constitutional obligation. He furthered that the state made payments to the retirement system annually that would fall under the limit. However, any special appropriation to capitalize the fund would not be included in the cap. He assured that the limit would not create a liquidity crisis that left retirement unfunded.

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Representative Coulombe ascertained that if the limit was met the excess revenue would be saved. She asked how it would impact private sector investment and interest in the state.

Representative Stapp replied that the limit intended to smooth out the boom and bust economy in how the state appropriated revenue. He indicated that excess revenue was available for other things besides savings such as paying back large amounts to the Constitutional Budget Reserve (CBR), appropriating larger PFD checks or an ad hoc infusion into the PF corpus, and capitalize State Owned Enterprises (SOE), etc. He concluded that there "were lots of ways" to save or capitalize excess revenue. He thought it was generally a good thing because all choices would be part of a "long term vision" for the state. Representative Coulombe asked if the spending cap would incentivize making the retirement payments more consistent. Representative Stapp responded that it was another aspect that he had not considered. He deduced that excess revenue could be utilized to "right size capitalization of the retirement fund in the event it was underfunded." How excess revenue was utilized would be subject to the will of the appropriating body.

[11:16:12 AM](#)

Mr. Aoto continued on slide 5 [untitled] that contained a chart of raw data provided by the Legislative Finance Division (LFD). He noted that the chart was also provided as backup in the bill packet (copy on file), and he would not discuss the numbers. He described the columns so members could understand the chart. He started with the column on the far left that included the calendar year and proceeded to the subsequent columns to the right in the following order: Alaska GDP, Alaska Government GDP, GDP less Government, Anchorage CPI, and Fiscal Year. The following 5 columns were the trailing years of GDP, the 5-year average, and the last two columns contained both bill percentages (11 and 13 percent) adjusted for inflation.

[11:17:50 AM](#)

Mr. Aoto advanced to slide 6 [untitled] that presented the prior slide's data in a graph form. He reported that the red bar represented the appropriations subject to the limit, the orange line depicted the current constitutional limit, and the green line showed the HJR 2 proposal. He noted that the current fiscal year was under the constitutional limit.

Co-Chair Johnson pondered prior years' operating and capital budgets and how much was spent relative to the other. She requested a breakdown in a future meeting. Mr. Aoto responded that by request of the previous committee of referral, LFD had modeled the differences between capital and operating expenditures. He offered to provide the modeling. Co-Chair Johnson asked if it was a correct assumption that appropriations above the proposed limit in prior years had to do with the capital budget. Mr. Aoto answered that he was not certain. Co-Chair Johnson commented that some of the "slim years" where there was not much excess money was above the cap.

11:20:22 AM

Representative Josephson asked if the bill granted the legislature the discretion regarding amounts spent on operating versus capital. Representative Stapp responded in the affirmative. He pointed out that the space between the black line and the green line would in theory, be the amount for the capital budget. The intent was to ensure that there was a consistent capital budget. He recalled that in prior high revenue years the capital budget "ballooned." He opined that resulted in the unintended consequence of long term deferred maintenance. Representative Josephson asked if it would be prudent to know what would be built and how much in salaries were paid to contractors to determine what would have been foregone without the large capital expenditures. Representative Stapp answered that the argument could be made but he was not certain if that was a fair measurement of prudence.

11:22:36 AM

Representative Ortiz referred to Representative Galvin's comments regarding "catching up" in budgeting. He inquired that as the capital budgets had been limited in the previous few years and if the limit allowed the state to catch up on the capital investment in deferred maintenance costs. Representative Stapp responded that it would help the state catch up in his opinion. He pointed to FY 07 to FY 14 and deduced that if spending had been slightly reduced the state would have had more revenue to provide consistent funding overtime. He declared that deferred maintenance only got more expensive over time due to inflation and if prior appropriations were made to address

the backlog, current and future actions would be less expensive.

[11:24:17 AM](#)

Mr. Aoto addressed slide 7 titled "One Primary Goal:"  
Create an effective appropriations limit to allow the state more stable long-term fiscal viability.

Co-Chair Foster suggested Mr. Aoto explain the reason for the next bill.

[11:25:04 AM](#)

Mr. Aoto explained that the main difference between HJR 2 and HB 38 was the percentage used for the limit. House Bill 38 used the same metric, but the percentage was set at 11 percent. He explained that the statutory limit in AS 37.05.540.(b) set a limit "in a fiscal year" versus "for" a fiscal year, which created issues. In addition, the limit was tied to the prior year's appropriations plus 5 percent and an adjustment for inflation and population. He thought that the metric, based on the prior year's appropriation, created instability for the following year.

[11:26:22 AM](#)

Representative Stapp highlighted the fact that the bills had language that tied them together. He added that the statutory spending cap in HB 38 and HJR 2 were subject to legislative passage and voter approval; one could not be effective without the other.

Co-Chair Foster understood that one was constitutional and required approval from the voters and the other was statutory and did not.

Representative Stapp concluded his comments. His goal was to ensure a long-term vision for the future of the state.

[11:27:28 AM](#)

Co-Chair Foster reviewed the agenda for the afternoon's meeting.

HJR 2 was HEARD and HELD in committee for further consideration.

HB 38 was HEARD and HELD in committee for further consideration.

#  
ADJOURNMENT

[11:28:15 AM](#)

The meeting was adjourned at 11:28 a.m.