

HOUSE FINANCE COMMITTEE
May 12, 2023
2:34 p.m.

[2:34:44 PM](#)

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 2:34 p.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

PRESENT VIA TELECONFERENCE

Marie Marx, Legislative Counsel, Legislative Legal Services, Juneau.

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 SCHEDULED but not HEARD.

HB 50 CARBON STORAGE

HB 50 was SCHEDULED but not HEARD.

Co-Chair Foster reviewed the meeting agenda.

#hjr2

HOUSE JOINT RESOLUTION NO. 2

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

2:35:43 PM

Co-Chair Foster asked Representative Stapp to summarize the bills.

Representative Stapp explained that both HB 38 and HJR 2 were revisions to the current statutory and constitutional limits that had been in place since the 1980s. He suggested that the bills would correct a problem with the existing appropriations limit which had proved ineffectual. The existing limit was around \$11 billion. He did not think \$11 billion could be generated even if the legislature were to implement every type of tax in existence. He thought the current appropriation limit was inadequate and did not serve its purpose. A provision in the state constitution stated that one-third of the appropriation limit would be reserved for capital appropriation but as demonstrated by the Legislative Finance Division (LFD), the provision had not been followed. He concluded that the purpose of the bills was to improve upon state processes and procedures.

Representative Josephson asked how the legislature could ensure that any additional operating expenses would go towards savings and not towards larger Permanent Fund Dividends (PFD).

Representative Stapp responded that he would solve the problem by offering an amendment.

Representative Josephson understood that the proposals were not directly related to population and inflation but would be inadvertently impacted through Gross Domestic Product (GDP). He asked whether Representative Stapp would agree that population and inflation impacted the private sector and that there was a correlation.

Representative Stapp agreed that inflation impacted the private sector and it was also a metric that was calculated inside of a real GDP. A higher population made for a better economic output. He did not think that the population aspect would alter the spending cap. The legislature had examined modeling population-based spending caps in a previous session and determined that population made no difference; however, the inflation aspect was a key driver of the spending cap.

Representative Josephson noted that he had been told that a common definition of GDP included government spending. He asked if Representative Stapp's definition included government spending.

Representative Stapp responded in the affirmative.

Representative Josephson asked whether the bills were GDP bills. He understood that the bills were an alternative to GDP.

Representative Stapp responded that he would not characterize the bills as such. He elaborated that when examining a controlled mechanism with limitations, it was important to factor out a level that acknowledged that the limitation could be abused. He understood the argument about government spending correlating directly with a spending cap. He thought it should be more difficult to increase the spending cap.

[2:41:28 PM](#)
AT EASE

[2:44:55 PM](#)
RECONVENED

Co-Chair Foster began the amendment process for HJR 2.

Representative Stapp rolled Amendment 1 to the bottom.

Representative Stapp MOVED to ADOPT Amendment 2, 33-LS0294\S.5 (Marx 5/9/23) (copy on file):

Page 1, lines 5 - 6:

Delete "for Alaska Permanent Fund dividends, appropriations to the Alaska Permanent Fund,"

Insert "to the Alaska Permanent Fund [FOR ALASKA PERMANENT FUND DIVIDENDS],"

[2:45:31 PM](#)

Representative Hannan OBJECTED for discussion.

Representative Stapp explained Amendment 2. He explained that the amendment and most of his forthcoming amendments would make the adjustments to the spending appropriation limit to reflect the inclusion of the PFD as subject to the spending cap as well as increase the spending appropriation limit. The purpose was to ensure that the constitutional limit would reflect the incorporation of any type of Permanent Fund amount. He would explain the idea in more detail later in the meeting.

Co-Chair Foster invited discussion on the amendment.

Representative Hannan was curious about the thought process behind the language construction. She thought the word "dividend" would no longer appear in HJR 2 if Amendment 2 were to pass. She wondered what the intent was of the change.

Representative Stapp asked if Representative Hannan could rephrase the question.

Representative Hannan understood that the purpose of Amendment 2 was to include the PFD in the spending cap. Her read of the amendment was that the word "dividend" would be deleted and the words "Alaska Permanent Fund" would be inserted. She was trying to understand how dividends would be covered in the amendment.

[2:48:19 PM](#)

AT EASE

[2:49:23 PM](#)

RECONVENED

Representative Stapp explained that Amendment 2 required deletion of the language that was not subject to the cap and would insert language that would include the Alaska Permanent Fund. He understood that it would effectively make any appropriation for the PFD subject to the spending cap.

Representative Ortiz referred to line 5 of Amendment 2. He understood that the purpose of the amendment was to include the appropriations for the cost of managing the PFD. He asked if Representative Stapp had an idea of the general cost that would be incurred.

Representative Stapp responded that the issue was addressed by another one of his amendments. The cost of managing the PFD was about \$200 million.

Representative Ortiz asked if the costs were direct general fund (GF) costs.

Representative Stapp responded that the costs consisted of the management fees absorbed by the Alaska Permanent Fund Corporation (APFC) to manage the assets and were not a GF appropriation.

Representative Ortiz asked if the effect of the amendment was to exempt the costs.

Representative Stapp responded in the affirmative.

Representative Stapp concluded that the intent of Amendment 2 was to craft better legislation in response to feedback he had received about the original resolution.

[2:51:55 PM](#)

AT EASE

[2:55:40 PM](#)

RECONVENED

Co-Chair Foster noted that former Representative Chuck Degnan was present in the audience.

Representative Josephson understood that Amendment 2 would mean that PFDs would no longer be excepted from the spending cap. In the past, there had been a \$4 billion PFD check appropriated from the Earnings Reserve Account (ERA) to the corpus because the governor had forgotten to veto it. He understood that appropriation would not be part of the limit.

Representative Stapp asked for clarification on whether Representative Josephson was asking about inflation proofing.

Representative Josephson responded in the affirmative.

Representative Stapp responded that the action would not be subject to the appropriation limit. He deferred to Legislative Legal Services for confirmation.

[2:57:38 PM](#)

MARIE MARX, LEGISLATIVE COUNSEL, LEGISLATIVE LEGAL SERVICES, JUNEAU (via teleconference), understood that the question was whether appropriations for inflation proofing would be excluded from the spending cap under Amendment 2. She responded that it would be excluded because it would be an appropriation to the Permanent Fund.

Representative Josephson asked if an appropriation would be excepted from the cap if for some reason the budget did not use the words "inflation proofing" but simply said an appropriation was made to the Permanent Fund in the amount of \$4 billion.

Ms. Marx responded in the affirmative. Every appropriation had a "from" and a "to." Under Amendment 2, the language would indicate that the appropriation was specifically directed to the Permanent Fund and would therefore be excepted.

[2:59:04 PM](#)

Representative Hannan WITHDREW the OBJECTION.

Representative Tomaszewski OBJECTED.

[2:59:21 PM](#)

A roll call vote was taken on the motion to adopt Amendment 2.

IN FAVOR: Galvin, Hannan, Josephson, Ortiz, Coulombe, Cronk, Stapp, Edgmon, Johnson
OPPOSED: Tomaszewski, Foster

The MOTION PASSED (9/2). There being NO further OBJECTION, Amendment 3 was ADOPTED.

[3:00:14 PM](#)

Representative Stapp MOVED to ADOPT Amendment 3, 33-LS0294\S.1 (Marx, 5/6/23) (copy on file):

Page 1, line 6, following "dividends,":

Insert "appropriations for the costs of managing the Alaska Permanent Fund,"

Co-Chair Edgmon OBJECTED for discussion.

Representative Stapp explained that the costs that APFC took from the fund itself to manage the assets were not originally exempted from the cap in the original draft of HJR 2 and Amendment 3 aimed to solve the oversight.

Representative Josephson asked why a cost that was part of doing business with the state would be excepted in Amendment 3 while the cost of employing teachers was not, which was also a cost of doing business with the state.

Representative Stapp responded that the money would not be appropriated from GF by the legislature. The money was used by APFC itself to manage the assets and was not subject to legislative appropriation.

Representative Josephson suggested that the legislature could change the procedure and make the funds subject to legislative appropriation. He understood that the concept of management and equity fees was a new idea that had come about within the last five years. He asked whether the amendment would give the corporation an advantage over every other appropriation outlaid in the appropriating budget.

Representative Stapp responded that he would not consider it an advantage. The funds originated from the ERA itself and the legislature could currently appropriate the entirety of the account with a majority vote. He noted that the dividend was not subject to legislative appropriation for the majority of his life. He would argue that if the state were to move forward with structural reform, Amendment 3 would contribute to the forward momentum.

Co-Chair Edgmon understood that because Amendment 2 had been adopted, the bill would be contradictory on lines 5 and 6. He wondered if the drafter could help him understand the way the bill would work as amended.

Representative Stapp deferred the question to Ms. Marx.

[3:04:38 PM](#)

Ms. Marx responded that Amendment 3 would change page 1, line 6, of HJR 2 by inserting "appropriations for the costs of managing the Alaska Permanent Fund," following "dividends." It would read, "except for appropriations for the Alaska Permanent Fund Dividend, appropriations for the cost of managing the Alaska Permanent Fund, appropriations to the Alaska Permanent Fund," followed by the language in Amendment 2 and Amendment 3 [if adopted].

Representative Josephson thought that Ms. Marx was one of the state's most talented attorneys; however, she had stated that the word "dividends" would be included and he understood that Amendment 2 had deleted the word.

Co-Chair Edgmon commented that he shared Representative Josephson's understanding.

Ms. Marx responded that if the committee gave legislative legal the approval to make conforming and technical changes, it would ensure that the resolution as amended would read in a logical and grammatically correct manner.

Co-Chair Edgmon thought the language was missing a grammatical article such as "for" or "the." He asked whether legislative legal would insert the appropriate article.

Ms. Marx responded in the affirmative and reassured the committee that any necessary aspects of grammar would be changed to ensure that the legislation read correctly.

Co-Chair Edgmon understood that other elements apart from grammatical changes would need to be made with the passage of Amendment 2 in order for the legislation to read in a logical manner.

Ms. Marx responded that together, Amendment 2 and Amendment 3 would read, "except for appropriations to the Alaska

Permanent Fund, appropriations for the cost of managing the Alaska Permanent Fund, appropriations of revenue bond and general obligation bond," and so forth.

[3:07:32 PM](#)

AT EASE

[3:11:36 PM](#)

RECONVENED

Co-Chair Foster understood that the identified concerns about Amendment 3 were minor issues that could be fixed. He asked Representative Josephson if he had any comments.

Representative Josephson was inclined to maintain his objection.

Co-Chair Edgmon asked Representative Stapp to rephrase the reason for putting the appropriation for the Permanent Fund into the constitution.

Representative Stapp explained that it was his intent to exempt the current structure and management fees that APFC used to pay its investment bankers. The idea was that if the fund grew faster than the state's economy itself, APFC's costs would dismantle the legislature's ability to appropriate the revenue generated from the corporation. It could potentially eliminate the legislature's ability to appropriate its own revenue. The management fees from the retirement system were also exempt from the spending cap for the same reason.

Co-Chair Edgmon understood the rationale behind the argument but was pondering the prescriptive nature of the language.

Representative Stapp stated that the subject to the appropriation limit was the language portion of the constitution. He thought it was beneficial for the fees incurred to manage the Permanent Fund to not be burdensome. If the corpus of the fund grew to \$200 billion, the fee to administer the asset would grow as well and he did not want to limit the ability to appropriate the funds in order to increase revenue.

[3:15:59 PM](#)

A roll call vote was taken on the motion to adopt Amendment 3.

IN FAVOR: Galvin, Hannan, Ortiz, Coulombe, Representative Cronk, Tomaszewski, Johnson, Stapp
OPPOSED: Edgmon, Josephson, Foster

The MOTION PASSED (8/3). There being NO further OBJECTION, Amendment 3 was ADOPTED.

[3:17:04 PM](#)

Representative Stapp MOVED to ADOPT Amendment 4, 33-LS0294\S.4 (Marx, 5/9/23) (copy on file):

Page 2, line 3:
Delete "thirteen"
Insert "seventeen"

Page 2, line 7:
Delete "thirteen"
Insert "seventeen"

[3:17:09 PM](#)

Representative Josephson OBJECTED for discussion.

Representative Stapp explained that Amendment 4 would increase the appropriation limit up to 17 percent of GDP. He thought there would be ample room within the existing appropriation limit to accommodate for all types of spending.

Co-Chair Edgmon supported increasing the threshold of the cap to 17 percent.

Representative Stapp added that the 17 percent limit would be a total spend of \$7.6 billion. As a reference, the current proposed budget totaled \$6.2 billion. He had made the change in response to the feedback he had received from committee members.

Co-Chair Edgmon wondered if there would also be a net increase if the limit was increased to 17 percent but the PFD was included in the cap.

Representative Stapp responded that there would be a slight net increase. All of the legislature's recent spending would fall within the appropriation limit up to the spending cap. He thought it would ensure that there would be space left for additional spending without assigning an arbitrary spending amount for the PFD.

[3:21:16 PM](#)

Representative Ortiz understood that the 17 percent increase was chosen in an effort to incorporate the addition of the PFD appropriation. He asked if there were other factors involved in the decision.

Representative Stapp responded that there was an amalgamation of factors. The upward limit had to be applied in order to incorporate the PFD, which helped him land upon the 17 percent figure. He also wanted to alleviate some concerns that had been raised by Representative Galvin and Representative Hannan regarding future expenditures that might come into play. He did not want to make a draconian cut, but also wanted to ensure that there was an appropriation limit. He referred to Handout 1 (copy on file) as a more detailed explanation on the increased appropriation limit.

Representative Ortiz thought that the original bill used a 2.5 percent inflation rate to make projections. He asked if the original calculation included an increase in the Base Student Allocation (BSA) and asked if there was room for the BSA to continue to grow.

Representative Stapp explained that the version of the budget that was currently held by the Senate totaled \$6.2 billion and the proposed appropriation limit in his bill capped spending at \$7.6 billion. He acknowledged that GDP and inflation increased over time and were factored into the calculations. Unless more than \$1.5 billion was incorporated into the current version of the budget, there would be room for the BSA to continue to grow.

[3:24:03 PM](#)

Representative Galvin appreciated the intent of the legislation. She remained confused as to how the 17 percent figure was determined. Many communities in the state were in desperate need of basic utilities such as water and

sewer, which could be unreasonably expensive. Communities were also struggling with the impacts of climate change, which would require significant investment. Broadband and the Alaska State Troopers were also in need of significant funding. She was concerned that some basic needs would not be met if the spending cap was reached. She had also heard that it was important to incorporate some liquidity into the state's finances and she was not sure the 17 percent increase was the right choice for the spending cap. She was also concerned about the state's low bond rating.

Representative Stapp responded that the state's bond rating was low because of inconsistent appropriations, which he believed would be fixed by his legislation. He thought it would help increase the state's credit rating and would add some stability and predictability. He thought that 17 percent was slightly high because in the event that oil prices decreased by \$15 and the market performed poorly, Alaskans could not afford to pay enough in taxes to approach the limit; however, he wanted to ensure that when oil prices were high, the spending cap remained effective. He saw the 17 percent figure as a "happy medium."

Representative Galvin responded that Alaska was not spending even one-tenth of what other states were spending on early learning. She appreciated that the number had increased but was not sure that it was the right number. Her understanding was that liquidity was significant in determining a state's credit and bond rating and she wanted to be cautious about incorporating non-liquid assets into the PFD. She commented that it was difficult for Alaska to appropriately ascertain GDP because its industries could be inconsistent. If the state were to lose its hunting industry or fisheries, the economy would require an influx of funding. She was not sure the formula incorporated all of the elements valued by Alaska that might not fit in to the GDP perspective.

Representative Stapp responded that most of Representative Galvin's concerns could be accommodated by changes made in his amendments. He thought it was a fair question but that GDP was a stable metric. He thought that 70 percent of GDP was generous and that there was flexibility built into the formula.

[3:31:44 PM](#)

Representative Josephson thought that the idea that the limit was generous was noteworthy. The money belonged to the citizens and the argument that the legislature was being generous with money that already belonged to the people was curious. He understood that Representative Stapp had stated that the entire Senate version of the budget totaled \$6.2 billion but was not driven by a statute, while HJR 2 would be statute-driven. He asked if his understanding was correct.

Representative Stapp noted that the limit also included capital expenditures in the Senate's budget. He thought he could better answer the question when the committee discussed HB 38.

Representative Josephson understood that Representative Stapp said that the state could spend whatever it wanted under HJR 2. He was confused by an included document entitled "Backup for HJR 2; Amendment 4" (copy on file). The document depicted a chart showing data from eight years of legislatures in a row without compliance with the limit.

Representative Stapp asked if Representative Josephson was referencing years FY 07 through FY 13.

Representative Josephson responded in the affirmative.

Representative Stapp responded that he did not mean to say generous in the way Representative Josephson interpreted it, but generous in the way that it was opposite to draconian. He suggested that "amenable" would have been a better descriptor. He relayed that the "whatever we want" amendment was Amendment 1, which had been rolled to the bottom of the agenda. He noted that between FY 04 and FY 14, the legislature had effectively tripled the state's budget. He could not think of any other states that had tripled the operating budget in a single decade. He suggested that if an appropriation limit had been in place, the state might not have grown in an unsustainable manner.

Representative Josephson stated that he would not be voting in favor of HJR 2. Considering that the operating budget consisted mostly of personnel costs, he thought that Representative Stapp had suggested that if everyone in state government simply made less money, the state would not be in the present financial predicament. The increase seen in the chart would have constituted scores of

different legislatures coming in and out of office and coming to the same conclusion that personnel costs were important and budgets needed to grow. He did not believe in the thesis of the bill and he did not think all of the legislatures were wrong to grow the operating budget at the rate it had grown.

[3:36:34 PM](#)

Representative Stapp responded that he did not think that state employees made too much money. Implementing a spending cap was not about adding services or paying people but about the appropriate amount of operational growth. The state had experienced years of astronomical revenue. For example, Alaska's operating budget was six or seven times greater than that of Wyoming in 2013. He concluded that past levels of state spending were not sustainable considering the state's current financial situation. He thought everyone in the state would benefit if spending was more consistent, including people who worked for state government.

Representative Coulombe asked what the original percentage had been before it was changed by the House Ways and Means Committee.

Representative Stapp responded that it was 14 percent.

Representative Coulombe understood that the number went from 14 percent to 13 percent and then back up to 17 percent. She thought that the 17 percent figure was chosen in order to accommodate the Permanent Fund.

Representative Stapp responded that the figure had been adjusted as a response to feedback he had received. If he had just accounted for the Permanent Fund, the figure would have been 16.8 percent but he wanted to remain on the side of caution and chose 17 percent as the final figure.

Representative Coulombe asked if the spending cap would increase if the economy started "skyrocketing" and GDP increased.

Representative Stapp responded in the affirmative.

Representative Coulombe recalled that there was a narrow exception for emergency declarations and capital

expenditures that would allow the legislature to spend beyond the cap. She asked for clarification on the situation.

Representative Stapp responded that HJR 2 focused on the constitution but HB 38 would address the identified exception. His next amendment would allow the legislature to spend "every penny" it ever had. He clarified that a two-thirds vote would be required in order to allow for spending beyond the cap but situations like emergencies and disasters existed outside of the spending cap entirely.

[3:41:04 PM](#)

Co-Chair Edgmon understood that the 17 percent figure was calculated by an organization in another state. He asked how Representative Stapp would explain to a constituent how the 17 percent figure was chosen. In previous debates on other similar legislation, the committee had executed many Monte Carlo simulations and models in order to determine a GDP mean and attach it to projected population growth and spending. He highlighted the comparison because he thought it explained the overall dilemma the legislature had encountered when attempting to determine a spending cap. The explosion of spending from the 1990s to the 2000s was unexpected and changed the state significantly. There were 98 Alaska State Troopers in the 1990s and there were now over 400 troopers. He was defensive when the idea that the legislature was spending recklessly was brought forth because the state had been saving money effectively for years. He thought that if HJR 2 went to the Senate, he saw the Senate conducting extensive third-party analyses of GDP and projections based on population growth and decline. He reiterated his question regarding the recommended way to speak to a constituent about the 17 percent figure.

Representative Stapp responded that there were several methods that he looked at in order to arrive at the 17 percent figure. He looked at the GDPS of other states with different types of revenues as well as at the federal government. He noted that there was a great depression scenario in which the federal government could take over spending. He looked at other comparisons and state of Alaska spending and worked with his staff and concluded that 17 percent seemed to be the most appropriate number that would not be too limiting. The purpose behind an appropriation limit was to ensure that the things the state

ought to fund were sustainable. One of the biggest issues with education was consistent funding.

[3:46:26 PM](#)

Representative Galvin thought it was important to appreciate that there was an option to spend beyond a spending cap if a disaster was declared. She struggled with the definition of disaster because a fiscal disaster would not be included in the definition. She noted that there was other legislation in circulation about a lack of mental health beds and highlighted that the deficiency was also not considered a disaster. She thought it was a disaster that 81 percent of kids in kindergarten were two years behind in education. She was also concerned because getting a two-thirds vote on any issue was difficult. She had heard from Representative Stapp and others that it was undesirable to have too much government; however, many social, health, and educational problems in the state could be considered disastrous.

Representative Stapp responded that the limit at 17 percent provided a generous amount of head room and there was room for the legislature to prioritize its existing budgetary needs. He thought it was important to prioritize encouraging the private sector to grow and thrive. Many of the items mentioned by Representative Galvin would fall under HB 38 and would be better discussed in the context of that bill. In the event that there was not enough "wiggle room" between the statutory limit and the constitutional limit, the legislature could raise the constitutional limit.

[3:50:06 PM](#)

Representative Ortiz recalled Representative Coulombe's comment that if the GDP were to increase, the state would also be permitted to increase its expenditures. He reminded the committee that the state could increase its expenditures only if there was revenue tied to the increase in economic activity and GDP. The revenue was an integral piece, and he was concerned about moving forward with the legislation without considering revenue.

Representative Stapp responded that most problems occurred when there was a lack in revenue and not when the revenue was subject to appropriation. He argued that in the event

of a levied tax in the state, it would be preferable to have a robust private sector to better distribute and absorb the tax than to have a failing private sector. In the event that revenues were raised, it would be better to "tax a healthy person than a sick one."

[3:52:23 PM](#)

Representative Hannan highlighted the phrase "real domestic product" on line 8 of HJR 2. She offered a hypothetical in which the state had a carbon tax credit program. She asked if the program would fall under government spending or if it would fall under private sector GDP.

Representative Stapp responded that if Representative Hannan was referring to offsets, it would be considered revenue and not GDP. He asked if he understood the question correctly.

Representative Hannan confirmed that Representative Stapp had interpreted the question correctly.

Representative Stapp responded that it would count in favor of revenue and would not have an impact on the appropriation limit. A carbon tax credit program would generate revenue that could be appropriated under the cap.

Representative Hannan noted that in definition, GDP included government spending. She asked what the meaning of the term "real" was in relation to GDP.

Representative Stapp responded that real GDP was a measurement of economic output that incorporated Consumer Price Index (CPI) inflation.

Representative Hannan asked if the government spend included qualifying all federal money as government spend as well. For example, she asked if it would be considered government spend if the military commissioned \$500,000 of groceries for a troop exercise in Fairbanks.

Representative Stapp responded that consumption spending was captured within GDP. When the monies were distributed the state was not considered part of the GDP, but when the monies were spent it would be considered GDP.

Representative Hannan asked what the situation would be if a government body was buying a product. For example, the Alaska Marine Highway System (AMHS) made many local purchases, such as mechanical parts or groceries. She asked if the purchases would be considered government spend.

Representative Stapp replied that GDP was defined at the point of consumption. He did not want to enact a mechanism that allowed for monies to be counted twice. The purchasing of goods would qualify as government spend, but money given by the government to a government employee would not qualify.

Representative Hannan emphasized that the state was buying things from the consumer economy. She was not questioning purchases by individuals but purchases by state agencies.

Representative Stapp explained that a purchase qualified as Gross Domestic Output (GDO). If the government were to be appropriated monies and then purchased goods with the monies, the monies could potentially be counted twice. He relayed that the only thing that mattered in terms of private sector GDP output was the actual sale of the good itself.

Representative Hannan responded that the issue around the GDP measurement had been problematic to her in the contemplation of the legislation. For example, local grocers in small communities did not have consumers to purchase the products even when consumers were receiving checks from the government to purchase groceries. The stores could not keep the shelves filled and no one was purchasing groceries. She was concerned about the legislature truncating the government spend from the economy because the two were tightly connected in Alaska.

[3:58:50 PM](#)

Representative Galvin understood that Permanent Fund expenditures had already been exempted. It seemed to her that there were significant expenditures from the state to ensure that it was raising revenue. She wondered if there was space for other exemptions. She thought that some carbon projects would require a substantial amount of state expenditures and if some Department of Natural Resources (DNR) projects should receive similar exemptions.

Representative Stapp requested that the committee complete proceedings on Amendment 4 as he would discuss the details of Representative Galvin's question in Amendment 1, which had been rolled to the bottom of the agenda.

Representative Tomaszewski commented that some members thought the cap was too low and some thought it was too high. He thought there was a happy medium that could be reached. He heard a lot of discussion about the population of Alaska and outmigration. He relayed that 2016 was a population high for the state with 742,575 residents and as of 2022, the state had 733,583 residents. Over the last six years, about 9,000 people had left the state, or 1.2 percent of the population. He understood the concern but thought that the number was close to the average outmigration numbers over the last ten years. Regarding the spending cap, he thought that a compromise could be reached. He argued that revenue could not be managed without a spending cap. He noted that the cap was one element of a fiscal policy that the state needed to produce and stated that he would be supporting HJR 2.

Representative Josephson commented that the fiscal policy working group were insistent that "things happen concurrently."

[4:03:40 PM](#)

AT EASE

[4:12:02 PM](#)

RECONVENED

Co-Chair Foster noted that Representative Jesse Sumner was present in the audience. He was waiting for a committee member to rejoin before continuing business.

Representative Josephson was willing to lift his objection but thought he did not need to lift the objection if the committee was waiting on a member to rejoin.

Representative Stapp concluded that Amendment 4 would increase the 13 percent limit to 17 percent to accommodate greater flexibility to appropriate funds. He suggested that if the amendment was not adopted, elements of the budget would need to be cut.

[4:14:11 PM](#)

Representative Josephson WITHDREW the OBJECTION. There being NO further OBJECTION, Amendment 4 was ADOPTED.

4:14:23 PM

Representative Stapp MOVED to ADOPT Amendment 1, 33-LS0294\S.3 (Marx, 5/9/23) (copy on file):

Page 1, line 5:

Following "Limit.":

Insert "(a)"

Following "Except":

Insert "as provided in (b) or (c) of this section or"

Page 2, lines 4 - 8:

Delete "Upon an affirmative vote of two-thirds of the membership of each house, the legislature may appropriate an additional amount for capital improvements in excess of the limit under this section, except that the total amount appropriated shall not exceed an amount equal to thirteen percent of the average calculated under this section."

Page 2, following line 30:

Insert a new resolution section to read:

"*Sec. 2. Article IX, sec. 16, Constitution of the State of Alaska, is amended by adding new subsections to read:

(b) Upon an affirmative vote of two-thirds of the membership of each house, the legislature may appropriate an additional amount for capital improvements in excess of the limit under (a) of this section, except that the total amount appropriated shall not exceed an amount equal to thirteen percent of the average calculated under

(a) of this section.

(c) Upon an affirmative vote of three-fourths of the membership of each house, the legislature may appropriate an amount in excess of the limits under (a) or (b) of this section."

Re-number the following resolution sections accordingly.

Representative Josephson OBJECTED for discussion.

Representative Stapp indicated that he was not certain how he felt about Amendment 1. He summarized that in the event that two-thirds of both legislative bodies agreed upon spending as much money as "humanly possible" for capital appropriation, the amendment would give the legislature the ability to appropriate as much money as it would like on a capital project with a two-thirds vote. He thought that a two-thirds vote was the same as the ratio required to override a governor's veto [he later corrected himself]. He was not certain it was a good idea but would like to hear the thoughts of committee members.

Representative Cronk asked if Representative Stapp meant a two-thirds vote or three-quarters vote could override a veto.

Representative Stapp clarified that he meant three-quarters vote.

Representative Hannan was trying to understand the amendment. She understood that it would require a two-thirds vote but the total amount appropriated could not exceed an amount equal to 13 percent of the calculated average. She asked if the average changed because the 13 percent figure was changed to 17 percent with the adoption of Amendment 4.

Representative Stapp responded that the amount would change due to the previous amendment.

[4:16:56 PM](#)

AT EASE

[4:17:48 PM](#)

RECONVENED

Representative Stapp agreed that the 13 percent figure should be changed to 17 percent due to the adoption of Amendment 4. He indicated that he would propose a conceptual amendment to Amendment 1.

Co-Chair Foster invited Representative Stapp to propose the amendment.

[4:18:38 PM](#)

Representative Stapp MOVED to ADOPT conceptual Amendment 1 to Amendment 1:

Page 1, line 20:
Delete: "13 percent"
Insert: "17 percent"

Representative Hannan OBJECTED because the language also appeared on line 11.

Representative Stapp stated he would also make the change to line 11.

Co-Chair Foster added that he thought the changes would be covered by allowing Legislative Legal Services to make conforming changes.

[4:19:21 PM](#)
AT EASE

[4:19:31 PM](#)
RECONVENED

Representative Stapp noted that the language would be deleted on line 11.

Representative Hannan WITHDREW the OBJECTION.

There being NO further OBJECTION, conceptual Amendment 1 to Amendment 1 was ADOPTED.

[4:20:00 PM](#)

Representative Galvin wondered if the legislation would help alleviate problems such as needing 100 more beds in mental health institutions. She understood that the bill would not address issues of additional staffing.

Representative Stapp read from Amendment 1: Upon an affirmative vote of three-fourths of the membership of each house, the legislature may appropriate an amount in excess of the limits under (a) or (b) of this section. If adopted, the amendment would allow the legislature to spend "whatever you want" if it were able to garner a vote threshold high enough to override a governor's veto.

Representative Galvin understood that capital spend would require a two-thirds vote threshold, but a three-quarters vote would be required to change state employee salaries. She asked for the reasoning behind the decision.

Representative Stapp clarified that the vote would be to exceed the constitutional limit which would already require a three-quarters vote. He could understand Amendment 1 being useful in a situation in which the legislature needed to make a single and substantial appropriation to the gasline in an emergency situation. He presumed that the gasline was the only spending item that would receive a three-quarters vote.

[4:23:34 PM](#)

Representative Josephson referred to the chart 1 provided by LFD "HB 38 and HJR 2 model" (copy on file). He understood that according to the chart, the legislature would not have been able to spend its desired amount on the operating budget in FY 09, FY 10, and FY 14, without a three-quarter vote.

Representative Stapp responded that the years mentioned by Representative Josephson would have exceeded the current constitutional limit. In order to reach the desired amount of spending in those years, the legislature would have had to already have adopted Amendment 1 and obtained a three-quarters vote.

Representative Josephson thought a legislator who wanted a particular capital item to move forward might be enticed by the situation, which would grow the capital budget. He asked if the situation was possible.

Representative Stapp responded that it would be possible and was the reason why he was not convinced on the merit of Amendment 1. He thought the purpose behind an appropriation limit was to enact a hard cap that could not be exceeded. However, he wanted to entertain the notion that an amendment could be adopted that would allow the legislature to spend whatever it wanted in the event of a three-quarters vote. He thought it would be a "terrible idea" because it would incentivize bad behavior. Unlimited spending had contributed to the state's current financial situation, but he was curious as to committee members' thoughts on the amendment.

Representative Josephson noted Representative Stapp's claim that unlimited spending was the catalyst for the state's current financial situation. Alaska was the only state without counties apart from Louisiana, which had parishes, and the only state without a broad-based tax; both were contributing factors to the state's situation.

Co-Chair Edgmon commented that there were political factions that would require more spending to break the spending cap. He commended Representative Stapp's work, but thought the complexities underlined why a spending cap had been so elusive.

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Representative Coulombe stated that she did not support Amendment 1. She thought it could create a lot of issues within the legislature; however, she supported a hard spending cap. She supported the cap because she thought it would ensure that the government was living within its means. She thought the cap would stabilize and spending would become dependable, which is how other sectors worked. She had heard from many constituents that there needed to be more predictability and stability.

Representative Stapp appreciated the comments. He agreed that Amendment 1 would incentivize individuals to exceed the spending limit. He WITHDREW Amendment 1.

[4:28:48 PM](#)

Co-Chair Foster recessed the meeting [note: the meeting never reconvened].

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

ADJOURNMENT

[4:29:06 PM](#)

The meeting was adjourned at 4:29 p.m.