

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

March 13, 2023

6:03 p.m.

MEMBERS PRESENT

Representative Ben Carpenter, Chair
Representative Jamie Allard
Representative Tom McKay
Representative Kevin McCabe
Representative Cathy Tilton
Representative Andrew Gray
Representative Cliff Groh

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE JOINT RESOLUTION NO. 2

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

- HEARD & HELD

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."

- HEARD & HELD

PRESENTATION(S) : RESPONSIBLE ALASKA BUDGET ON SPENDING LIMITS

- HEARD

PRESENTATION(S) : SPENDING CAPS

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: HJR 2

SHORT TITLE: CONST. AM: APPROP LIMIT

SPONSOR(S) : REPRESENTATIVE(S) STAPP

01/23/23 (H) READ THE FIRST TIME - REFERRALS
01/23/23 (H) W&M, FIN
01/30/23 (H) JUD REFERRAL ADDED BEFORE W&M
01/30/23 (H) BILL REPRINTED
02/15/23 (H) JUD AT 1:00 PM GRUENBERG 120
02/15/23 (H) Heard & Held
02/15/23 (H) MINUTE(JUD)
02/27/23 (H) JUD AT 1:30 PM GRUENBERG 120
02/27/23 (H) Moved CSHJR 2(JUD) Out of Committee
02/27/23 (H) MINUTE(JUD)
03/01/23 (H) JUD RPT CS(JUD) 3DP 1DNP 1NR 2AM
03/01/23 (H) DP: C.JOHNSON, CARPENTER, ALLARD
03/01/23 (H) DNP: GROH
03/01/23 (H) NR: GRAY
03/01/23 (H) AM: EASTMAN, VANCE
03/11/23 (H) W&M AT 9:00 AM DAVIS 106
03/11/23 (H) <Bill Hearing Canceled>
03/13/23 (H) W&M AT 6:00 PM DAVIS 106

BILL: HB 38

SHORT TITLE: APPROPRIATION LIMIT; GOV BUDGET
SPONSOR(S): REPRESENTATIVE(S) STAPP

01/19/23 (H) READ THE FIRST TIME - REFERRALS
01/19/23 (H) JUD, W&M, FIN
01/27/23 (H) JUD AT 1:00 PM GRUENBERG 120
01/27/23 (H) Heard & Held
01/27/23 (H) MINUTE(JUD)
02/15/23 (H) JUD AT 1:00 PM GRUENBERG 120
02/15/23 (H) Heard & Held
02/15/23 (H) MINUTE(JUD)
02/27/23 (H) JUD AT 1:30 PM GRUENBERG 120
02/27/23 (H) Moved CSHB 38(JUD) Out of Committee
02/27/23 (H) MINUTE(JUD)
03/01/23 (H) JUD RPT CS(JUD) 3DP 1DNP 1NR 2AM
03/01/23 (H) DP: C.JOHNSON, CARPENTER, ALLARD
03/01/23 (H) DNP: GROH
03/01/23 (H) NR: GRAY
03/01/23 (H) AM: EASTMAN, VANCE
03/11/23 (H) W&M AT 9:00 AM DAVIS 106
03/11/23 (H) <Bill Hearing Canceled>
03/13/23 (H) W&M AT 6:00 PM DAVIS 106

WITNESS REGISTER

REPRESENTATIVE WILL STAPP

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As prime sponsor, presented CSHJR 2(JUD) and CSHB 38(JUD).

BERNARD AOTO, Staff
Representative Will Stapp
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Assisted in presenting CSHJR 2(JUD) and CSHB 38(JUD), answered questions and gave the sectional analyses, on behalf of Representative Stapp, prime sponsor.

QUINN TOWNSEND, Policy Manager
Alaska Policy Forum
Anchorage, Alaska

POSITION STATEMENT: Gave the PowerPoint presentation, titled "Responsible Alaska Budget on Spending Limits."

ROB CARPENTER, Deputy Director
Legislative Finance Division
Legislative Affairs Agency
Juneau, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation on appropriation limits and spending caps.

ACTION NARRATIVE

[6:03:02 PM](#)

CHAIR BEN CARPENTER called the House Special Committee on Ways and Means meeting to order at 6:03 p.m. Representatives Tilton, McCabe, McKay, Allard, Groh, Gray, and Carpenter were present at the call to order.

HJR 2-CONST. AM: APPROP LIMIT **HB 38-APPROPRIATION LIMIT; GOV BUDGET**

[6:03:56 PM](#)

CHAIR CARPENTER announced that the first order of business would be HOUSE JOINT RESOLUTION NO. 2, Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit. and 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." [Before the committee was CSHJR 2(JUD) and CSHB 38(JUD).]

6:05:05 PM

The committee took a brief at-ease at 6:05 p.m.

6:05:47 PM

REPRESENTATIVE WILL STAPP, Alaska State Legislature, as prime sponsor, presented CSHJR 2(JUD) and CSHB 38(JUD). He explained that the need for a spending cap is not new in the state's history. In 1982 Alaska had identified the potential for overspending and imposed appropriation limits. However, this decision was tied to the economy of the time, and he explained that the problem now is the limit does not effectively limit appropriations. He further explained that a decade ago Alaska had \$10 billion in revenues and \$18 billion combined in the constitutional budget reserve (CBR) and the statutory budget reserve (SBR). At that time the House Finance Committee was presented a 10-year budget forecast from the Office of Management and Budget (OMB), and the 10-year forecast did not predict that the state would spend its reserves or make Permanent Fund draws to pay for state services. He advised that one of the effective ways to ensure a strong and stable economy would be to apply "commonsense solutions to complex problems." He expressed the opinion that an appropriation limit would be the first of many commonsense solutions.

6:08:21 PM

BERNARD AOTO, Staff, Representative Will Stapp, Alaska State Legislature, on behalf of Representative Stapp, prime sponsor, assisted in presenting CSHJR 2(JUD) and CSHB 38(JUD). He referred to language from [a portion of Article IX, Section 16, of] the Constitution of the State of Alaska, regarding appropriations, which relates that appropriations from a fiscal year shall not exceed \$2.5 billion by more than the cumulative change. He explained that one-third of the income shall be reserved for capital projects and loan appropriations, while voter approved projects would be able to exceed the limit. He said CSHJR 2(JUD) would apply a different metric for calculating an appropriations limit by using the gross domestic product (GDP). He said that the proposed resolution would take a five-year trailing average of real GDP based on calendar years. The calculation would take 14 percent of the five-year average, and this would be the spending cap. He advised that if established before fiscal year 2024 (FY 24), the number would be \$6.25 billion. He explained that the reason for 14 percent is it

would set a limit near the current spending levels, and this would allow stable and predictable spending in the future.

[6:10:20 PM](#)

MR. AOTO drew attention to a PowerPoint backup slide [hard copy included in the committee packet]. He stated that the expenditures subject to the proposed limit would be unrestricted general funds (UGF) operating expenditures, UGF capital expenditures, and payments for retirement benefits. He stated the expenditures not subject to the limit would be permanent fund dividends (PFDs), appropriations to the Permanent Fund, appropriations to the Power Cost Equalization Endowment Fund, appropriations to the state savings account, appropriations to capitalize state retirement accounts, direct spending from a disaster declaration, and proceeds of bonds which are approved by voters.

[6:11:24 PM](#)

MR. AOTO, presenting another backup slide, explained that the graph illustrates the current appropriations subject to a limit, the current constitutional limit, and the limit under the proposed bills. He noted that the graph accounts for the administration's amended and supplemental FY 24 budgets. He pointed out that while CSHJR 2(JUD) would exceed the cap CSHB 38(JUD) proposes, it would not exceed the current limit as set by the state constitution. Mr. Aoto stated that HJR 2 has one primary goal: to create an effective appropriations limit to allow for stable long-term fiscal viability.

[6:12:33 PM](#)

MR. AOTO gave the sectional analysis for CSHJR 2(JUD) [included in the committee packet], which read as follows [original punctuation provided, with some formatting changes]:

Section 1:

Amends Article IX, sec. 16 of the Constitution of the State of Alaska to slightly revise appropriations subject to the limit as well as the conditions that determine the appropriation limit. Sets a maximum statutory cap at 14% of Real GDP (not including government spending).

Exceptions List [Article IX, Sec. 16]

- Adds appropriations to the Alaska permanent fund to

exceptions list.

- Moved from Appropriation Limit Section to Exceptions List
- Adds Appropriation of GO Bond proceeds to exceptions list
- Moved with slight variation from Appropriation Limit Section to Exceptions List
- Adds payment of principal and interest on revenue bonds to exceptions list
- Adds 'appropriations to a state account or fund that requires a subsequent appropriation from that account or fund as prescribed by law' to exceptions list.
- Adds 'appropriations to meet a state of disaster declared by the governor as prescribed by law to exceptions list.
- Moved from Appropriation Limit Section to Exceptions List
- Removes "Appropriation of Revenue of a public enterprise or public corporation. of the state that issues revenue bonds"

Appropriation Limit Conditions [Article IX, Sec. 16]

- Adds (Appropriations Not to Exceed) an amount prescribed by law equal to a percentage of the average Real GDP (not including government spending) for the first five of the last six years. This measure of Real GDP is estimated by state government as prescribed by law.
- Removes Old appropriation limit anchored to \$2.5 Billion + Pop. and infl. (since 7/1/81)
- Removes language reserving 1/3 for capital projects and loan appropriations.
- Removes language adding exceptions to appropriations subject to the limit from this Appropriation Limit Conditions section and moves these to the exceptions list. section.
- Removes specific language surrounding Capital projects exemptions.

Section 2:

Adds a new section to Article XV of the Constitution of the State of Alaska (Schedule of Transitional Measures), section 30, which sets an 'effective date' of the end of the fiscal year immediately following the

next possible opportunity for Alaskans to ratify a proposed amendment to the constitution.

Section 3:

Includes the provision that the constitutional amendments proposed by this resolution must be placed before the voters at the next general election.

[6:15:20 PM](#)

REPRESENTATIVE GRAY requested that Representative Stapp speak to the purpose of CSHJR 2(JUD).

REPRESENTATIVE STAPP explained that the intent of CSHJR 2(JUD) is to smooth out the boom-and-bust cycles in the state's budgeting, and this would be to ensure long-term viability and establish fiscal certainty in Alaska. He said this could also help private sector performance. He explained that private sector entities are wary of investing because the state is struggling to create stability.

REPRESENTATIVE GRAY suggested that the proposed legislation would help control spending and avoid overspending.

REPRESENTATIVE STAPP concurred with the statement. In response to a follow-up question concerning why the PFD is not included in the spending limit, he pointed out that there has been contention in the state over the PFD for the last eight years, and he expressed the opinion that the PFD "needs its own solution." He said CSHJR 2(JUD) would be setting out to solve a larger fiscal problem which has existed in the state longer than the PFD "tug-of-war." He pointed out that the struggle over the PFD ebbs and flows.

[6:18:00 PM](#)

REPRESENTATIVE STAPP, in response to a question from Representative Allard, explained that CSHJR 2(JUD) contains an exception for PFD appropriations. He said the legislature would have the ability to take funds not within the cap and appropriate them as it chooses. He suggested that this could be to pay the dividend or repay draws from CBR.

[6:19:39 PM](#)

REPRESENTATIVE MCCABE brought up the Fiscal Policy Working Group's (FPWG's) recommendations, pointing out that FPWG had separated the PFD intentionally, as well as proposed a separate spending limit. He opined that the PFD does not belong in the budget. He surmised that Representative Stapp wrote CSHJR 2(JUD), as is, because there are already solutions to the PFD which are working.

REPRESENTATIVE STAPP responded that a spending cap was one of FPWG's proposals. He pointed out that a spending cap would not be dependent on any other aspect of the situation. He said that he is not opposed to others seeking a "holistic" solution; however, he expressed belief in the merits of the proposed bills and stated that they stand independently.

REPRESENTATIVE MCCABE expressed the understanding that FPWG did not "cherry-pick," and it knew the proposals would be separate, but the group also wanted all the proposals to "march together." He noted FPWG expressed that a constitutional spending limit is important, and he thanked Representative Stapp for bringing CSHJR 2(JUD) forward and suggested that the matter bears investigating.

[6:22:24 PM](#)

REPRESENTATIVE TILTON asked Representative Stapp to elaborate on using the GDP formula over the population-plus-inflation formula. She also asked him to explain the funding limit's design.

REPRESENTATIVE STAPP stated that the private sector element is important. He referenced various countries in Europe, like the Nordic countries, which have a strong private sector economy. He expressed the opinion that the past private sector growth in Alaska has been anemic. He suggested that to get to a holistic economy in Alaska, members in the House must take measures towards a strong private sector economy. He commented that this concerns looking at decades ahead.

[6:24:13 PM](#)

MR. AOTO relayed that the current population-plus-inflation formula would need to be tied to a figure in order for it to be effective, and it is currently tied to \$2.5 billion. He said there is difficulty applying the formula with any figure, especially when enshrining a figure into the constitution, because in 10 years the figure could balloon out of control. He

pointed out that this is happening now with the current limit set out in the constitution. He pointed out the graph which illustrates how the current constitutional spending limit formula has led to spending levels the state could not even hope to achieve at its current economic level. He explained that a one-year dip in population and inflation could drastically affect the current formula limit. Alternatively, the formula that CSHJR 2 proposes bases the limit on five trailing years, which allows one bad year to not create an issue. He surmised that if there were five years of economic decline, the legislature would try to take action to reverse the decline to avoid the "shock value" which had resulted in 2015 from the decline in oil prices.

[6:26:02 PM](#)

REPRESENTATIVE GROH questioned Representative Stapp's awareness concerning FPWG's recommendation of "revising Alaska's spending limits as part of a comprehensive solution," but without offering what this solution would be.

REPRESENTATIVE STAPP responded that the answers to these questions are the prerogative of the committee.

[6:27:17 PM](#)

CHAIR CARPENTER suggested that characterizing FPWG as having a recommended action is a mischaracterization of the group's report. He said that its report put forward a revision to the concept of Alaska's spending limits, because the limits have not been effective. He questioned the relationship between the proposed bills.

[6:27:57 PM](#)

MR. AOTO explained that the connection is the proposed bills are designed to coincide with one another and mimic each other's language. He said this provides an aligning and stable spending limit, with the main difference being percentages. He contrasted the current 14 percent and the proposed statutory 11.5 percent, in that the statutory limit sets a two-thirds vote requirement for the legislature to exceed the limit.

CHAIR CARPENTER questioned whether this could be for any need or only for capital spending.

[6:29:00 PM](#)

REPRESENTATIVE STAPP responded that, conceptually, it would be for capital spending, but the money could be appropriated for other means. He expressed the intention to ensure that [the state] has the ability to maintain a level of revenue which could be appropriated for capital spending for the future.

[6:29:39 PM](#)

MR. AOTO, at the invitation of Chair Carpenter, offered information regarding CSHB 38(JUD), which he highlighted as the statutory companion to CSHJR 2(JUD). He explained that the current statutory limit, set under AS 37.05.540(b), mostly aligns with the appropriations limit under Article IX of the Constitution of the State of Alaska, which states, "Appropriations from the treasury made in a fiscal year may not exceed appropriations made in the preceding fiscal year by more than five percent plus the change in population and inflation since the beginning of the preceding fiscal year." He further explained that the change in population is based on an annual estimate by the Department of Labor and Workforce Development, and the change in inflation is based on the consumer price index, as prepared by the U.S. Bureau of Labor Statistics.

MR. AOTO said CSHB 38(JUD) would use the trailing average of the five previous calendar years of the real GDP for the state as the metric for the limit. He explained that the real GDP is calculated by taking data for the standard GDP calculations by government agencies, subtracting government spending, and adjusting for inflation. He stated that 11.5 percent of the total average would be the limit for all appropriations not listed as exceptions. He noted that, if enacted by FY 24, this figure would be \$5.1 billion. He explained that the appropriations subject to the limit under the proposed bills mimic each other; however, CSHB 38(JUD) would add an additional exemption of appropriations made from the Alaska Mental Health Trust Authority settlement income account. He said that this was put into the bill because of Weiss v. State, 939 P.2d 380 (1997), and the language was left unaltered at the advice of the Legislative Legal Services, because any change to it may subject the legislature to litigation and reopen Weiss v. State.

[6:32:34 PM](#)

MR. AOTO showed a graph depicting the current statutory limit. He said the figure varies when compared to appropriations subject to the constitutional limit. He offered further details

and noted that any supplementals made in a fiscal year count toward this fiscal year. He stated that the two primary goals of CSHB 38(JUD) are to create an effective appropriations limit to allow the state more stable long-term fiscal viability and to align Alaska statute with the constitutional proposal. He then presented a graph which represented appropriations subject to the constitutional limit, appropriations subject to the statutory spending limit, the current limit, the limit under CSHJR 2(JUD), and the limit under CSHB 38(JUD). He noted that, historically, the constitutional limit is stable at an incline; however, the statutory limit is volatile because of the metric designed for the limit.

[6:35:09 PM](#)

MR. AOTO gave the sectional analysis for CSHB 38(JUD) [included in the committee packet], which read as follows [original punctuation provided, with some formatting changes]:

Section 1:

Amends AS 37.05.540(b) to conform to changes made by HJR 2. Changes affect the list of appropriations subject to the limit as well as the conditions that determine the appropriation limit. Defines a calculation for an appropriation cap at 11.5% of a trailing average of Real Gross Domestic Product (GDP) (not including government spending).

- Exceptions [37.05.540(b)]
 - o Adds Appropriation of general obligation Bond proceeds to exceptions list
 - o Adds payment of principal and interest on revenue bonds to exceptions list
 - o Adds 'appropriations to a state account or fund that requires a subsequent appropriation from that account or fund as prescribed by law' to exceptions list
 - o Adds 'appropriations to meet a state of disaster declared by the governor as prescribed by law' to exceptions list.
- Appropriation Limit Conditions [37.05.540(b)]
 - o Adds (Appropriations Not to Exceed) 11.5% of the average Real GDP (not including government spending) for the first five of the last six years.

- o Removes Old cap of 5% more than last year + the change in population and inflation since beginning of preceding fiscal year.

- o Removes language describing determination of change in population based on annual estimate by DLWD.

- o Removes language describing change in inflation based on Consumer Price index (CPI) for all urban consumers for Anchorage.

Section 2:

Adds a new subsection (f) to AS 37.07.020 which requires a comparison of the governor's budget requests, supplemental requests, and budget amendments to the calculated appropriation limit.

[6:36:46 PM](#)

REPRESENTATIVE STAPP pointed out the current statutory limit on the graph and characterized it as a roller coaster. He echoed the comments that because of the design of the current statutory appropriations limit, it can be violated without even knowing because of the nature of the supplemental budget process. He further pointed out that because of how the current statutory limit is calculated, there could be a \$3 billion swing in one fiscal year. He expressed the understanding that this would not be what the legislature wishes to encourage when trying to find long-term fiscal stability.

[6:38:17 PM](#)

REPRESENTATIVE GROH asked Representative Stapp to describe the theory behind a constitutional and statutory spending limit. He noted that a constitutional limit is effective but questioned the purpose of the statutory limit with differing metrics.

REPRESENTATIVE STAPP explained that the purpose of the statutory limit is to have a mechanism to ensure effective capital spending without reaching the constitutional limit. He reiterated that the goal would be to ensure future fiscal stability, which he determined comes from a sound appropriations process. He noted that Alaska already has constitutional and statutory limits, so the idea is to make the current limits effective and work together.

REPRESENTATIVE GROH asked if the reason to have a separate statutory limit is because this is where there is room for additional capital spending.

REPRESENTATIVE STAPP replied, "Not necessarily." He said there can be effective capital spending within a statutory limit; it just depends on how the legislature decides appropriate funding. He said that when there is year-over-year private sector growth, there could also be years where all spending falls under the statutory limit.

[6:40:13 PM](#)

MR. AOTO noted that the limit also requires two-thirds of the legislature to go over the 11.5 percent limit. He said that theoretically, capital spending could be used but would also still require two-thirds vote of support from the legislature.

[6:40:47 PM](#)

CHAIR CARPENTER announced that HJR 2 and HB 38 were held over.

[6:40:54 PM](#)

The committee took an at-ease from 6:40 p.m. to 6:42 p.m.

PRESENTATION(s): Responsible Alaska Budget on Spending Limits

[6:42:25 PM](#)

CHAIR CARPENTER announced that the next order of business would be on the responsible Alaska budget on spending limits presentation.

[6:43:11 PM](#)

The committee took a brief at-ease at 6:43 p.m.

[6:43:58 PM](#)

QUINN TOWNSEND, Policy Manager, Alaska Policy Forum, gave a PowerPoint presentation, titled "Responsible Alaska Budget on Spending Limits." She showed slide 2 and stated that the Alaska Policy Forum (APF) is a 501(c)(3) nonprofit, nonpartisan state-based think tank, and it does not accept any form of government funding. Moving to slide 3, she addressed spending limits and how it would affect Alaska's long-term fiscal health. She

pointed out that Alaska is the only state in the modern era to have repealed its income tax. She said that the challenge for policy makers is implementing a policy based on economic principles, while also considering what makes Alaska unique. She said that Alaska has a history of high spending during periods of economic growth, which has led to the fiscal struggles today, and she suggested that reigning in spending over time would be a meaningful spending cap. She noted that Alaska currently has state statutory and constitutional spending limits; however, the base of the constitutional limit is meaningless today, and a more effective spending cap would help stabilize future budgets. She stated that economic literature shows an effective spending cap, if structured correctly, would be beneficial in curbing the growth of state spending. When coupled with low taxes, research shows that lower state spending has resulted in income, population, employment, and net cross-state immigration growth, as well as a higher GDP.

[6:47:02 PM](#)

MS. TOWNSEND moved to slide 4 and said that Colorado has had the best success implementing a spending limit, and it uses the Taxpayer's Bill of Rights (TABOR), to implement a spending cap, as TABOR is considered the gold standard. She explained that TABOR is designed to limit state spending and revenue growth. It uses the previous fiscal year as a base year and uses the inflation-plus-population formula for growth. She noted that increases to the limit would be decided by voters. If the state collects more revenue than TABOR allows, then the money is returned to taxpayers as a refund. If a public agency in Colorado wishes to spend the surplus revenue, it must place the request on the ballot. She recognized that the refund aspect would not apply to Alaska, as there are individual taxpayers in Colorado. She stated that TABOR has put the "purse strings" back in the hands of Colorado taxpayers.

MS. TOWNSEND moved to slide 5, which outlined the aspects of a meaningful spending cap. She said first is enforcement, advising that a constitutional limit would be more resilient to the "ups and downs" of politics than a statutory limit. Second is what the cap actually limits, in that a cap which allows for spending loopholes is not what is wanted, and instead the base of spending limited by the cap needs to be broad and include supplemental spending. She said that an example of an expenditure which should be exempt is spending for a disaster or emergency. She stated that APF does not hold a position on the

permanent fund dividend (PFD); therefore, the materials on the budget provided by APF do not include the PFD.

MS. TOWNSEND continued that the third aspect of a well-designed spending cap is how it limits spending. She said that most states have a two-step process for the spending cap with a base and a calculation to grow the limit. She said that economic literature acknowledges that Alaska's economy is unique; therefore, the state is sometimes excluded from national analysis. She suggested that using a running average of GDP minus government services as a way to calculate Alaska's private sector for an effective base; however, as it is not a calculation other states use, it is not possible to look at other states to see how effective it is. Furthermore, economic literature has demonstrated that spending caps which grow using a population-plus-inflation formula, rather than by a calculation of personal income, are typically more effective. She said that an effective cap should be difficult to override and have few exceptions, and spending past the limit should require a vote of residents.

[6:51:43 PM](#)

MS. TOWNSEND moved to slide 7. She related that APF publishes The Responsible Alaska Budget (RAB) annually. She pointed out that for the fiscal year 2024 (FY 24) RAB published [the estimate] of \$7.71 billion in state funds. She said that this was calculated by taking the FY 23 enacted budget, and increasing the figure by 4.87 percent, with the rate of growth of population and inflation. She clarified that APF includes the undesignated general funds, designated general funds, and other state funds as part of the total state funds. Excluded from the \$7.71 billion figure were fund transfers into the PFD, as well as expenditures or appropriations from the Permanent Fund. She said that the goal of the paper and accompanying figure is to provide for what a general spending limit would look like in Alaska, and to demonstrate how a spending limit could positively benefit Alaskans.

MS. TOWNSEND said that a true spending limit would differ from RAB depending on several factors, such as the base year. She said there are other ways to calculate the base other than just off the previous fiscal year, such as a running average of GDP from the previous five years. Also, RAB does not look at total state spending, but just state funds within the enacted budget. She relayed to members that Alaska relies heavily on supplemental spending above the enacted budget. She stated that

a limit which does not take total state spending into consideration leaves room for future policy makers to spend outside the limit, which would make the limit ineffective.

[6:54:00 PM](#)

MS. TOWNSEND moved to slide 8. She said that RAB does not take into consideration how local funding and spending interact with state funding. She said that some states include specific requirements on local funding and spending. She stressed that RAB is a general example of a broad-funding limit. She recapped the presentation and advised that policy makers consider the following: what is included in the spending limit; what state spending is; how local spending is affected; what the base is; whether the limit should be statutory or within the constitution; how it can be bypassed; and how the limit grows. She stated that Alaska would benefit from an effective limit, and every dollar spent by the state is a dollar not used by the private sector. She said that Alaska needs a strong private sector, given the recovery of the COVID-19 pandemic and current workforce shortages. She reiterated that an effective spending limit provides stability to businesses and employers.

[6:55:42 PM](#)

REPRESENTATIVE GROH asked Ms. Townsend about the RAB figure, in that the way it was calculated appears to be the same as the current statutory spending limit. He asked if that is correct.

MS. TOWNSEND shared that she is not familiar with the statutory limit in Alaska but allowed that he may be correct. She reiterated that the other states with a spending cap would use the same calculation as APF. In response to a follow-up question, she confirmed that other states with spending limits generally use a population-plus-inflation calculation, and a formula using a running five-year average of GDP is not one other states with a spending cap currently use.

[6:58:46 PM](#)

MS. TOWNSEND, in response to a series of questions from Representative Gray, began by answering that an effective spending cap would improve net in-migration because of the stability it would bring to the state budget. She said many business owners do not want to take the risk of being in a state [with a volatile economy]. Regarding consequences of spending limits in Colorado, she expressed the inability to speak to

Colorado; however, there are always issues [regarding the funding] policymakers must prioritize. In response, she expressed uncertainty why spending limit proposals are not passing in other states, but she stated she would follow up on the issue.

[7:02:40 PM](#)

MS. TOWNSEND, in response to Chair Carpenter, stated that a large net in-migration will indirectly affect the stabilization which occurs when there is a meaningful spending cap.

CHAIR CARPENTER commented that an increase in net in-migration is tied to employment growth, as there would be a demand for more workers with the economic activity. He expressed the understanding that there is a connection, but not conclusive in that implementing a spending cap naturally means in-migration.

[7:07:34 PM](#)

The committee took an at-ease from 7:07 p.m. to 7:08 p.m.

PRESENTATION(S) : SPENDING CAPS

[7:08:43 PM](#)

CHAIR CARPENTER announced that the final order of business would be a presentation on spending caps.

[7:09:54 PM](#)

ROB CARPENTER, Deputy Director, Legislative Finance Division, Legislative Affairs Agency, provided invited testimony and presented a PowerPoint presentation on appropriation limits and spending caps [hard copy included in the committee packet]. He said the state's current limit, as set out in the Constitution of the State of Alaska, is \$2.5 billion, and it would grow by cumulative changes in population and inflation. He said a key factor is that the limit uses "the fiscal year" versus "for a fiscal year." The limit currently exempts PFDs, revenue bond proceeds, service on general obligation (GO) bonds, federal funding, revenue of public enterprises and corporations, and school debt reimbursement. He said the limit in fiscal year 2024 (FY 24) was \$11.2 billion, based on the constitutional formula. Furthermore, there is a requirement that one-third of the funding within the limit be reserved for capital projects; therefore, the remaining two-thirds can go to operations.

[7:11:01 PM](#)

MR. CARPENTER presented a graph on slide 4 which shows the constitutional spending limit since 1983. He explained that the blue bars represent agency operations, green represents statewide operations, red represents the capital budget, and the thin black line is the constitutional spending limit. He pointed out the limit is high above the current budget.

[7:11:31 PM](#)

CHAIR CARPENTER asked why the bars never reached the black line.

MR. CARPENTER answered that the calculation for the spending limit has never been reached.

CHAIR CARPENTER suggested that it is because the limit was established too high, or there was not enough money to reach the limit.

MR. CARPENTER noted that what is missing from the graph is transfers to savings.

[7:12:48 PM](#)

MR. CARPENTER said that the division has been reviewing the state's limit calculation. He walked the committee through the equation. He continued that the language around a spending cap in the constitution is not very clear and noted that the word "and" typically denotes addition in mathematics.

[7:14:29 PM](#)

MR. CARPENTER moved to slide 6 to show that the wording of the calculation makes a difference. The slide shows the graph from slide 4 but with an additional purple line, which denotes the spending limit under the new calculation. He stressed that the language of the calculation is subject to interpretation and would require a court case to determine which calculation is intended. He pointed out that if this alternate calculation was used, the state would have exceeded the limit. Furthermore, between the two calculation interpretations, FY 24 would either have a \$11 billion limit or an \$8 billion limit.

MR. CARPENTER moved to slide 7 and reiterated that the key difference with Alaska's statutory spending limit is it is based on appropriations made in a fiscal year, versus for a fiscal

year. For example, this limit applies to appropriations made in FY 23 for the FY 24 budget and supplemental appropriations for FY 23. He noted that the statutory limit uses similar exclusions as the constitutional limit. He stated that, given the constitutional power of appropriation, the statutory limit has largely been ignored.

[7:16:29 PM](#)

MR. CARPENTER moved to slide 8, which depicts state appropriations graphed with the state's statutory limit. He said it appears volatile because the limit is based off the prior budget year. He said that appropriations made in FY 23 were impacted by what happened in FY 22, which had a larger capital budget, making the statutory limit this year much higher.

MR. CARPENTER moved to slide 9 to discuss calculations and modeling assumptions for CSHJR 2(JUD) and CSHB 38(JUD). He pointed out the applicability of "the five calendar years immediately preceding the previous fiscal year." He said that if the bills were to be enacted today for FY 24, the previous fiscal year would be considered FY 23. He said that the proposed bills would take the previous five calendar years prior to the previous fiscal year; therefore, the five years would be 2021 "back to 2017." He said there is firm public GDP data for those fiscal years. Mr. Carpenter explained how the limit would be calculated under the proposed bills: take the average value of real GDP for calendar years 2017 to 2021; reduce by government spending; then multiply by the 11.5 percent under CSHB 38(JUD) or the 14 percent under CSHJR 2(JUD). Under CSHB 38(JUD), the spending limit for FY 24 would be \$5.1 billion, and under CSHJR 2(JUD) it would be \$6.2 billion.

[7:20:17 PM](#)

MR. CARPENTER presented a graph on slide 11, which showed the following: operating appropriations as the orange bars; capital appropriations as the blue bars; the current constitutional limit as the black line; the current limit reinterpreted as the purple line; the CSHJR 2(JUD) limit as the red line; and the CSHB 38(JUD) limit as the blue line. The graph spans FY 04 to FY 23 with data from the governor's FY 24 amended budget. He moved to slide 12 to show the same graph as to slide 11 but with data projecting out to FY 33. The graph assumes inflation at 2.5 percent, GDP growth at 1.5 percent, and budget growth at 1.5 percent. He said that if the budget is grown at 1.5 percent,

then the budget would stay in line with the proposed 11.5 percent spending limit. He moved to slide 13 to show a different variation on the graph. He explained that the blue shaded area represents unrestricted general funds (UGF) revenue, excluding the percent of market value (POMV). The green shaded area represents POMV revenue, less than 50 percent for the PFD. In response to Chair Carpenter, he said the revenue projections were from the Department of Revenue's 10-year forecast.

[7:23:19 PM](#)

MR. CARPENTER, in response to Representative McCabe, explained that the POMV split revenue the state would receive in the future is on the table for lawmakers to decide. He continued that the green shaded area before the vertical black line is actual POMV split revenue, and the projections past the line assume a 50 percent POMV split to the general fund. In response to a follow-up remark, he commented that the shaded areas are considered UGF revenue. He said the appropriations subject to the limit are not just restricted to UGF funds; there are other funding sources. He said it is assumed that projected capital spending is accounted for in the orange bars, since he applied the figure from the FY 24 governor's amended budget and applied a 1.5 percent growth rate.

[7:26:23 PM](#)

MR. CARPENTER, in response to a question from Chair Carpenter, explained that the vertical bars are the assumed appropriations subject to the limit, both operating and capital appropriations, and he reiterated that not all the revenue subject to the spending limit is accounted for in the graph, just UGF revenue.

[7:28:01 PM](#)

MR. CARPENTER moved to slide 14 to show another variation of the previous graph with a GDP growth variable set at 2.5 percent. He pointed out that if the state had a growing GDP, it would have a growing statutory or constitutional spending limit. He showed the same graph on slide 15 but with GDP growth projected at 5 percent. He said there is potential that the budget could grow with the spending cap if there is effective growth in GDP.

[7:28:54 PM](#)

CHAIR CARPENTER, in response to a query from Representative Gray about the necessity of a spending limit, said the 1.5 percent

growth assumption on the chart may be excessive, but "we have to start the conversation somewhere."

[7:32:13 PM](#)

MR. CARPENTER confirmed that the previous comment is accurate. He expressed uncertainty as to how behavior would have changed if a spending limit like the one presented today was implemented earlier. He said Representative Gray is correct, in that the state had a self-imposed spending limit in the form of putting money into savings. He pointed out that Alaska repaid constitutional budget reserve indebtedness in anticipation of needing it.

CHAIR CARPENTER observed that in FY 08 the legislature had the revenue to exceed the constitutional spending limit, but ultimately the limit was not exceeded, and this was because the legislature chose to put the revenue into savings. He said similar actions took place around FY 11 to FY 13.

[7:34:07 PM](#)

REPRESENTATIVE MCCABE highlighted the large shift in UGF revenue between FY 14 and FY 18 and pointed out that spending levels never dropped. He questioned whether the dates are when the state spent out of savings.

MR. CARPENTER answered that Representative McCabe is correct. He commented that spending did decline by \$3 billion from FY 14 to FY 18.

[7:35:18 PM](#)

MR. CARPENTER, in response to a query from Representative Tilton as to a definition of government spending, answered that local, state, and federal funding fall under the definition of government spending. In response to Chair Carpenter, he confirmed the definition is common. He added that when he researches GDP figures, the government spending factor can be removed.

[7:36:56 PM](#)

MR. CARPENTER, in response to a series of questions from Representative Groh, indicated he was not certain why the 11.5 percent and 14 percent amounts were selected, but he suggested it had something to do with the Fiscal Policy Working Group. He

confirmed that the spending levels shown on slide 13 are nominal. He proffered that FY 15 contained \$5.8 billion in spending, and FY 24 is at \$5.5 billion. He clarified that energy relief payments were excluded from the figures being presented. He said he has heard of a report from Legislative Legal Services showing Alaska's spending limits since the 1970s but has not seen the report.

[7:40:47 PM](#)

CHAIR CARPENTER thanked the presenter.

[7:41:41 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 7:42 p.m.