

COMMITTEE REPORT

HOUSE

6/17/81

FURTHER:

(9)

Date: June 18, 1981

Mr. Speaker:

The Committee on FINANCE has had CSJR 6 (Fin) am

Proposing an amendment to the Constitution of the State of Alaska relating to limitations on appropriations of state money.

under consideration and reports it back as follows:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for CS JR (Fin) same title
 new title
- and recommends individual rec
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

N + Rep. Motion (see below) - [Signature]

CHAIRMAN

Original sponsor: Rules/Governor

Offered: 6/18/81
Referred: Rules

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 HOUSE CS FOR CS FOR SENATE JOINT RESOLUTION NO. 4 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - FIRST SESSION

5 Proposing an amendment to the Consti-
6 tution of the State of Alaska relat-
7 ing to limiting increases in appro-
8 priations.

9 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. Article IX, Constitution of the State of Alaska, is amended
11 by adding a new section to read:

12 SECTION 16. APPROPRIATION LIMITATIONS. Except for appropriations
13 to the Alaska permanent fund and appropriations required to pay the
14 principal and interest on general obligation bonds, appropriations from
15 the general fund during a fiscal year shall not exceed the amount
16 appropriated from the general fund in fiscal year 1981 by more than the
17 cumulative inflation and population growth or decline as defined by
18 law. No appropriation in excess of this limit may be made unless a
19 state of emergency is declared by the governor as provided by law.

20 * Sec. 2. The amendment proposed by this resolution shall be placed
21 before the voters of the state at the next general election in conformity
22 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-
23 tion laws of the state.

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Original sponsor: Gardiner

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CS SJR 4 (FINANCE)

SUMMARY

The first is Section 16 and deals with APPROPRIATION LIMITATION. It states that appropriations are limited to the appropriation of the previous year, adjusted for inflation and population change. The base is FY '82 at \$2.7 billion.

Section 17 deals with EXCEPTIONS to the appropriation limitation. Exempted are:

- trust funds received from third parties;
- Permanent Fund deposits;
- money for General Obligation Bonds;
- loan capitalization funds, if a subsidy is contained under the limitation;
- money for disasters;
- and a limited sum for capital appropriations (\$1500 per capita).

Capital appropriations and disaster appropriations are made by a two-thirds vote of each house and are subject to the Governor's veto. The State of disaster must be first declared by the Governor.

CONSTITUTIONAL LIMIT ON SPENDING

The primary reason for the constitutional limit on spending is to guard against a dramatic increase in government spending during the boom portions of Alaska's economic cycles. To the extent that a spending limit encourages saving of revenues, there are a variety of benefits from the limit, including:

1. To limit expenditures controls growth. This will mean retaining the capacity to support ourselves when revenues decline -- by limiting outgo and providing for future income.
2. The limit helps minimize the extent to which government spending must be cut back during the downswings in the economy. Government expenditures seem much easier to increase rather than decrease, and large decreases can be especially disruptive.
3. The limit helps make government spending a stabilizing influence in the economy. Spending will represent a relatively smaller portion of Statewide economic activity during the booms, and be able to respond to economic downturns.
4. The limitation covers most areas in which representatives traditionally have "traded off" and established priorities. Competition for the scarce resource of expenditure limited funds will bring back to the political process a healthy competition. There will be reason for legislators to say "no" to some projects, and to support others with needed dollars.

PROPOSED AMENDMENT EXPLANATION

The proposed constitutional amendment contains two sections.

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- money for disasters;
- and a limited sum for capital appropriations (\$1500 per capita).

Capital appropriations and disaster appropriations are made by a two-thirds vote of each house and are subject to the Governor's veto. The State of disaster must be first declared by the Governor.

As with other versions of the spending limitation, neither appropriations exempt from the spending limit nor extraordinary appropriations can be used to "increase" the spending limitation for the next fiscal year.

The present veto powers of the Governor remain unchanged. Both appropriations under the limit and appropriations exempt from limitation are subject to the veto. In turn, legislative veto override powers also remain unchanged.

Overall, the proposed language creates only a few "automatic" exemptions from the spending limitation. It is simply not possible to control the growth of government spending (and, in turn, government itself) unless the spending limitation is as all-inclusive as possible. Again, appropriations to the Permanent Fund and to funds invested at market rates are exempted as an encouragement to the Legislature to save rather than spend for larger government programs.

An analysis of specific exemptions included in this version of the spending limitation are attached.

REASONS FOR THE FORMULA CHOSEN

Section 16.

A constitutional limit should be appropriate for a long period of time. In designing the formula, we looked for a long-term solution which treated downturns, repeat booms, and overall trends in State income, as well as our present wealthy conditions.

The first element of the flexibility which we built into the limit, (as have almost all other advocates of a constitutional limit) was to allow for inflation. Any specific dollar limit must be in adjusted-dollar terms, as inflation is too great to make any other formula workable over a long period of time. A federal index of Alaskan inflation was specified because it was thought a third party source for the measure was desirable. In this way, the State will not be determining the rate used for its own limitations.

The second element of flexibility was to allow for a dampened amount of swing in government spending levels to accompany swings in the economy. During times of economic expansion, the constitutional limit is allowed

to grow, in real terms, to the extent that population grows. During the downswings we believe that taxpayer resistance and other economic realities will hold State spending in check, and that in a broad sense government spending will be regulated by ability to pay. Therefore, there was no need to make specific provisions in the constitutional limit for economic downswings.

It is important to note that the limit on spending refers to the previous year's appropriations as a base. It is a limit on the rate of growth, which in turn controls total size during boom periods. It is a much more flexible and effective limit than one which establishes a single base year and gives a cumulative adjustment for inflation and population growth, since the latter formula limit will probably grow beyond the State's ability to pay within ten or twenty years.

SCOPE OF THE CONSTITUTIONAL LIMIT

Section 17

The approach we follow is that aggregate levels of State activity must be controlled. Therefore, the limit must include -- and be appropriate for -- almost all State activity. The only reasons for an exclusion from the limit are:

- 1) Extraordinary items
- 2) Provisions to take care of excess State income during boom periods, through the Permanent Fund and other investments.
- 3) Allowing for a controlled response to the State's development needs through loans and capital improvements.

Money Received In Trust for a Specific Purpose

This exemption is designed to allow for the receipt of non-State funds which are restricted for specific purposes. The State presently receives money which must be spent for specific purposes. The intent of this exemption is to allow for the receipt and expenditures of these funds from non-State sources outside of the limitation. The language included in the bill specifically notes that the trust funds' exemption applies only to funds from another source. This exemption would apply to such items as benefactors' trust funds to a museum or the university.

Permanent Fund

Appropriations to the Permanent Fund are exempt from the expenditure limitation for two reasons. The first reason is to assure that deposits to the fund do not compete with appropriations for other purposes. By limiting State spending in other areas, more funds should also be available for deposits to the Permanent Fund. This will allow deposits to the fund to be larger than they might otherwise be under a spending limitation.

Secondly, the larger the contributions to the Permanent Fund, the more revenue from that fund will be available for State spending in future years. To meet the intent of the Permanent Fund as a source of major State revenues after oil revenues begins to decrease, deposits to the fund should be as large as possible. The exemptions of the Permanent Fund from the expenditure limitation will encourage generous Permanent Fund deposits which will stabilize State services over time.

Principal and Interest. G.O. Bonds

The State's financial advisors tell us that our bond rating will be negatively impacted unless the bond market feels secure that principal and interest on General Obligation Bonds will be exempt from the limitation. This allows the State to meet previously made commitments.

Money to Capitalize Loan Funds

Loan fund capitalization, as distinct from the subsidy for loan funds, is excluded from the limitation. If loan funds earn market rates, then no appropriation limitation applies. If the legislature desires to subsidize loans, then the subsidy difference between the market rate and the subsidized rate will be made up from under the limitation. It is equitable that the subsidy should compete with other statewide benefits to citizens that are also under the limitation.

Capital Improvements

The limitation figure includes money for capital construction. The sum of \$1500 per capita has been added to the amount contained under the limitation. This means a secured sum of money will be available for capital projects needed in the State, but limits the total available in much the same way as the budget itself is limited in Section 16. Thus, two pools of money are available for capital construction allocation. The \$1500 figure is not adjusted for inflation, providing a declining amount of money available parallel to the decline in Pradhoe Bay revenues, and the filling up of the operation budget of capital project operation, maintenance and programs costs that have accumulated over the years.

Disasters

Disasters are excepted from the State spending limit. The intent is to include such things as:

Need for relief moneys after a natural disaster, providing that such relief is not taken care of by insurance or some other programs;
or

War or similar threats against the State.

Cases of disaster should be unusual and unforeseen. These constraints prevent the exception for emergencies from becoming a routine loophole.

When such a situation exists, the State spending limit may be exceeded upon a declaration of disaster by the Governor, and appropriation of the funds in excess of the State spending limit by a two-thirds majority vote of both the House of Representatives and the Senate. It should be noted that for both capital and disaster appropriations, the Governor retains the authority to veto the appropriation made by the Legislature.

Original sponsor: Rules/Governor

Offered: 6/11/81
Referred: Rules

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10 * Section 1. Article IX of the Constitution of the State of Alaska is
11 amended by adding new sections to read:

12 SECTION 16. APPROPRIATION LIMITATIONS. The amount of State money
13 the governor may request or the legislature may appropriate during a
14 fiscal year shall not exceed the amount appropriated in the preceding
15 fiscal year by more than the increase in the federal consumer price
16 index for the State for the calendar year preceding the governor's
17 submission of the budget under Section 12 of this article plus or minus
18 a percentage equal to the cumulative average yearly growth or loss in
19 the State's population as shown by the last two federal censuses or
20 reenumerations. Money appropriated under any exception prescribed by
21 Section 17 of this article shall not be included in the base for deter-
22 mining the allowable increase from year to year.

23 SECTION 17. EXEMPTIONS FROM APPROPRIATION LIMITATIONS. The
24 limitations on increases in appropriations established in Section 16 of
25 this article do not apply to money received in trust for a specific
26 purpose; to appropriations of money to be deposited in the Alaska
27 permanent fund; or to money appropriated by a vote of two-thirds of the
28 membership of each house and approved by the governor to meet disasters
29 of natural or human origin which are declared by the governor.

1 * Sec. 2. The amendment proposed by this resolution shall be placed
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3 with art. XIII, sec. 1, Constitution of the State of Alaska, and the election
4 laws of the state.

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