

S

J

R

4

COMMITTEE REPORT
SENATE

FURTHER: Finance

Date: MAY 1, 1981

Mr. President:

The Committee on Judiciary has had SJR 4 proposing an amendment to the Constitution of the State of Alaska relating to limitations on appropriations of state money

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- ~~do pass~~ INDIVIDUAL REC. do not pass
- do pass with attached amendments(s)
- replace with CS for SJR 4 (JUD.) same title
 new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

[Signature]

MEMBERS HAVING
OTHER RECOMMENDATIONS:

[Signature]

CHAIRMAN

DISCUSSION PAPER
EXPENDITURE LIMITATIONS

Division of Policy Development and Planning

August, 1980

OUTLINE

DISCUSSION PAPER -- EXPENDITURE LIMITATIONS

	Page
I. Introduction.....	1
II. Pros and Cons of Expenditure Limitations	
A. Arguments in Favor of Limitations.....	2
B. Arguments in Opposition to Limitations.....	2
III. Limits in Other States.....	3
IV. Limitation Components	
A. Spending Formula.....	5
B. Escape Clauses.....	6
C. Treatment of Surplus.....	7
V. Other Issues	
A. Constitutional or Statutory.....	10
B. Impact on State Credit Rating.....	10
C. Unfunded Obligations.....	10
D. Treatment of Dedicated Funds and User Charges.....	11
E. Mandated or Shifted Costs.....	11
Appendices	
A. State Spending and Revenue Limits: General Provisions.....	12
B. Rates of Growth of Formula Components, and Summary of Statistics Used in Limits.....	15
C. Examples of Legislative Language.....	19

Discussion Paper
Expenditure Limitations

I. INTRODUCTION

During recent years several states have instituted expenditure limits. These actions appear to have been prompted by a public perception of onerous and/or rising tax burdens (primarily local property taxes), concern for government efficiency, and worry about growth of government as a share of gross national product.*

Alaska's case is not directly comparable to the situation in these other states. Rather than a problem of high individual taxes or declining demand for government services, we have instead windfall, non-sustainable revenues. These revenues result in "painless" spending increases, the demand for which the Legislature and the executive find difficult to resist. The absence of the traditional revenue constraint on spending has allowed us to become accustomed to levels of per capita spending which will be difficult, if not impossible, to support in the future. The results of the past legislative session have reaffirmed the concern for the State's ability to restrain growth in the face of rising revenues and public demands for expenditures, and in the absence of some binding limit.

Therefore, the purpose of this paper is to review the major issues associated with State expenditure limits. Included are the principal arguments for and against such measures; a summary of limitations imposed by other states; a discussion of the fundamental components of a limit; and, remaining questions which need to be resolved prior to legal drafting of such a limit. Examples of language used elsewhere are also attached.

*Interestingly, subsequent research has shown that realities of high tax burdens and government growth do not correlate closely with passage of limiting measures. This may argue for public perceptions of such matters as the crucial factor in passage of these limitations.

II. Pros and Cons of Expenditure Limitations

A. Arguments in Favor of Limitations

1. The growth of spending would be slowed. This is particularly important in Alaska where, because of oil revenues, expenditures appear "free" to the individual taxpayer. As a result, the Legislature and the Governor are subjected to strong demands for increased expenditures; acceding to such demands may appear to be the easiest short-term solution.
2. A limit would contribute to the long-run stability and predictability of the size of the public sector, thus reducing the seriousness of economic dislocations resulting from future declines in State revenues.
3. An expenditure "rule" offers an explanation for the level of various government programs, i.e. given constraints, the State cannot be expected to do "everything."
4. Increased competition for scarce resources among government programs might result in better priority setting, improved programmatic analysis and increased efficiency.

B. Arguments in Opposition to Limitations

1. A spending rule limits government flexibility and ability to rationally respond to changing circumstances and public input. It amounts to a determination that representative democracy cannot adequately deal with resource allocation decisions.
2. Such a rule would make government activities pro-cyclical, i.e. government spending would decrease (increase) at the same time private economic activity decreased (increased) thus exacerbating business cycles. This could be particularly serious during and following large construction projects.

3. Such limits are not consistent with the "pay its own way" philosophy or approach toward certain government activities. For example, spending limits could restrict front-end expenditures necessary to obtain long-term development benefits. Likewise it would not be possible to increase spending for programs, even though people were willing to pay for them with user fees.
4. Federally mandated expenditures (for example, bilingual education programs or criminal detention facility requirements) could force damaging service cuts in other areas.
5. Such limits give decision makers an incentive to put off certain types of expenditures which have long run implications (e.g., building maintenance) in favor of spending for items where cuts would have more immediately obvious (but possibly less harmful) effects.
6. Once a spending limit is in place and if general fund surpluses increase, the corporate and federal government position that the State doesn't need the revenues becomes more persuasive.
7. Spending limits usually exclude federal receipts. This can result in program emphasis on federal rather than state priorities.

Additional incentive and impact questions are addressed in a section below on limit formulae.

III. Limits in Other States

During the last four years 13 states have instituted expenditure limitations and three additional states have limited growth in state revenues on which spending is dependent. Many have instituted

local restrictions as well. The spending limits range in strength from those restricting budget requests to those which apply to general fund appropriations. The most common limit basis (12 states) is personal income, or growth in the economy. Spending is held at some proportion of this measure of economic activity. Two states (California and Nevada) adjust their spending requests according to changes in population and inflation; while the remaining two states use a flat percentage calculation (Colorado - 7%; Rhode Island - 8%). Appendix A contains a summary chart of these state measures, including the formulae used, provisions for emergency override, and treatment of surpluses.

Very little analytical work has been done in evaluating the impacts of these limitations. This primarily results from the recentness of the limit experience. In fact, several limits have effective dates between 1980 and 1982. The experience with local limitations is somewhat longer. The Advisory Commission on Intergovernmental Relations has developed an estimate of the effects of local property tax controls adopted before 1976. Their results indicate that local governments with such property tax limits have expenditure levels six to eight percent less than local governments in other states. This estimate does not adjust for the amount of shifting of responsibility among the various levels of government.

In speaking with state budget officials in a few of the states with limits, the impression gained is that drastic program disruptions have not occurred. Adjustments have been made by adjusting funding sources (i.e. refinancing programs from non-limited sources); some small across the board cuts; and the exempting from limits of certain categories of expenditures. Some concern is voiced regarding the impact of the current recession which is increasing social welfare demands at the same time that expenditure limits based on economic activity begin to put on the squeeze. Another area of concern is the depreciation of the State government physical plant as fewer resources are put into building repair and maintenance. It is generally agreed that the next few years will be a crucial testing period for the spending limits.

IV. Limitation Components

There are several fundamental components of an amendment to limit State spending. The major components are the spending formula--the way in which allowable expenditures are calculated; an escape clause--conditions and procedures under which the limit can be exceeded; and, the treatment of revenues in excess of current spending.

A. Spending Formula

A spending limitation is composed of an expenditure base and an adjustment factor. The base is essentially the budget starting point while the adjustment factor is the means of calculating any year-to-year changes in expenditure levels. The base is usually some function of past budget levels. Most of the controversy centers on which portions of expenditures should be covered by the formula. The formulae generally apply to expenditure of general fund revenues, after exempting federal funds, and occasionally exempting certain capital expenditures and/or local government aid. In general, the more inclusive the base the more effective the limit and the fewer distortions expected in expenditure patterns. The major modifications which are made in response to such limits tend to be a redefinition of activities to fit into the allowable expenditure categories. Since in Alaska the limit impetus comes from a need to reduce rather than redirect spending, a broad limit would appear most applicable. The federal funds exemption seems to be the least damaging, although as noted earlier this might lead to an increased emphasis on federal as opposed to state priorities.

The most common adjustment factors are a function of personal income or of price and population changes. The use of growth in personal income to determine the growth rate of spending is based on the rationale that personal income is a proxy for

ability and willingness to pay for government services; or, alternatively, on the belief that government spending should not become a greater proportion of total economic activity.

Use of an adjustment factor involving population growth and inflation (both of which are also reflected in changes in personal income) allows spending to expand in response to these direct cost pressures. Such a real per capita limit would over time reduce state spending as a percentage of personal income. This would occur to the extent that private economic growth exceeded population changes and inflation. It is to be expected that this formula would be more restrictive than would one depending upon changes in personal income.

Appendix C contains some sample formulae. Appendix B summarizes growth rates in spending, personal income, population and prices over the last ten years. A comparison can thus be made between actual growth in expenditures and the rates which a formula approach would have implied.

B. Escape Clauses

There are a variety of emergency override provisions contained in existing spending limits. Over half the limits are statutory and thus may be amended through the usual legislative process. The constitutionally established limits require approval of specific excess amounts by a simple, or a strong majority (3/5 or 2/3); or, by voter approval.

Some provision must be made for unforeseen circumstances. One approach is to include two overrides: one procedure for natural disaster or other similar emergencies and another (perhaps more rigorous) procedure for simply exceeding the formula amount.

Appendix A contains a description of escape clauses in effect in other states.

C. Treatment of Surplus

Any effort to limit state spending must include provisions for the general fund surplus.

This is probably the most crucial component of an Alaska spending limit and also that area where we can obtain the least guidance from the experience of other states. Those states which address this question provide for tax rebates or reductions with some allowing for a budget stabilization or rainy day fund. Since the Alaska limit intent is to enhance the long-term fiscal security and stability of the state, it would be inappropriate to return the total unspent windfall oil revenue to individuals. The standard used in presenting the possibilities listed below is that in order to assure future fiscal integrity it will be necessary to have market rates of return on "non-spent" funds, and that some portion of the principal or corpus of these funds will also be needed to finance state government in the future. This issue will require careful consideration and resolution prior to the proposal of any such limitation. Here are some possibilities:

1. Increased contribution to the Permanent Fund. The Permanent Fund was conceived and established as one mechanism for preserving this surplus (our oil wealth) in income producing investments. Depending on the size of the principal and the return on investments, the income from the permanent fund could provide an important source of recurring revenues in the future as our non-recurring mineral revenues decline. One approach would be to provide for an additional contribution to the Permanent Fund of some fixed percentage of the general fund surplus, say 75%. The remainder could be allocated to a budget stabilization fund, emergency fund, or other use.

2. Establishment of a not quite so permanent Permanent Fund. This would involve design of a semi-permanent fund which would be styled after the existing Permanent Fund, but from which expenditures could be made once oil revenues and permanent fund interest earnings are insufficient to support even the "limited" State expenditure levels. This would, in essence, be a long-term budget stabilization fund, which would be invested in assets earning market rates of return.

3. Loans. Direct loans or investments (as opposed to loans through some fund as in (1) or (2) above) are another possibility. It is assumed that appropriation of funds to increase the capitalization of loan funds (existing or new) and appropriation of loan subsidies would both be covered by the expenditure limit. If this were not the case, the State would be in a situation similar to the recently resolved problem of the general fund balance automatically funneling into loan programs. Most of the existing loan programs are revolving funds, where repayments return to the fund to be reloaned for a similar purpose. It would be possible to make direct loans from the general fund (e.g., as was done for the Green Lake hydro project). Such loans, which could be used for industrial development or other purposes, could be designed to repay the general fund on schedules which would help offset declining oil revenues. Another possibility would be to make general fund loans to existing loan programs. This money could then be leveraged, loaned, and repaid to the general fund (i.e. would not be part of the revolving accounts). For a loan approach to be logical, the past practice of lending below market rates would have to be abandoned.

4. "Altruistic" Major Investment. Although the increasing price of oil has meant a windfall revenue gain to the State, consumers of petroleum products here and elsewhere are the source of much of that revenue. The national perception seems to be one of Alaska reaping enormous benefits at the expense of the rest of the United States. Although the complete validity of that perception is arguable, it does raise a question as to whether some portion of currently surplus revenues should not be used in a way to furnish long-term, national benefits. There might, for example, be potential projects in fusion research, cancer or some other medical research, social welfare experiments, or synfuels development. The important elements of such an expenditure would be potential benefits to a national as opposed to a strictly local constituency. In considering such an approach it must be remembered that this is basically a spending option which would contribute to long-term fiscal security only in so far as to prevented State revenues from being garnisheed by the federal government.

Possibly some combination of these and other uses might be a preferable approach to dealing with revenues in excess of current spending. The main point is that whatever the uses are, they should be planned and designed prior to the limitation of spending and the resulting existence of substantial cash balances.

V. OTHER ISSUES

In addition to the questions discussed above, there are several other issues that need to be addressed in the design of a spending limit. These are outlined briefly below.

A. Constitutional or Statutory

Constitutional provisions are generally reserved for statements of fundamental principles, while details are taken care of statutorily. This would argue for establishment of a statutory formula, perhaps accompanied by a general statement regarding growth as a constitutional amendment. The disadvantage of a statutory formula is the ease with which it can be changed, making a statutory limit less secure than a constitutional one. Seven of the seventeen states discussed above have constitutional limits. Of these, four were referenda approved by voters, two were initiatives approved by voters, and one was legislatively instituted.

B. Impact on State Credit Rating

If bond buyers become concerned about a spending limit affecting the ability of the State to pay its debts, this could negatively influence the State's credit rating, thus increasing the cost of borrowing. Bond repayment can be guaranteed either by granting such payments first claim on State spending (priority status) or by exempting such payments from the limit. The former method appears preferable, in that a limit exclusion would encourage bonding and discourage the careful evaluation of the impact of debt service on the State's future fiscal health.

C. Unfunded Obligations

Legislation is sometimes passed which creates programs without provisions for funding these activities. A spending limit might create an incentive to design programs without concurrent funding, thus disguising, at least temporarily, the fiscal impact of government actions. An example of such action might be the incremental funding of a large project, or the raising of unemployment benefits. Another aspect of this problem is programs which represent obligations to make future payments. Difficulties arise if these obligations (e.g.,

STATE SPENDING AND REVENUE LIMITS: GENERAL PROVISIONS

STATE	(C OR S)*	METHOD AND DATE OF APPROVAL	LIMIT APPLIES TO	BASIS OF LIMIT	EMERGENCY OVERRIDE PROVISIONS	TREATMENT OF SURPLUSES
Arizona	C	Legislative Referendum: approved by voters 11/78.	Expenditure of state tax revenues.	7% of total personal income of the state, determined by 3-member Economic Estimates Commission. (Legislature shall consider these funds in prescribing growth rates.)	2/3 vote of legislature on specific additional amount.	no provision.
California	C	Initiative: approved by voters 11/79.	State and local tax revenues appropriations.	Rate of growth of state and local tax revenues appropriations is limited to percentage increase in cost of living and the percentage increase in the state and local government's population.	Limit can be exceeded by voter approval (to be reapproved after 4 years); and, "in the event of an emergency," the limit can be exceeded for 1 year. (The amendment does not specify how and by whom an emergency is determined.)	"To be returned by a revision of tax rates or fee schedules within the next subsequent years."
Colorado	S	Legislative vote; July 1, 1977.	State general fund spending.	7% increase over previous fiscal year's expenditures.	(Statutory: may be amended.)	4% of revenues in excess of 7% limit retained as surplus; additional revenues to be utilized for property tax relief.
Delaware	C	A 2/3 vote of each house in 2 consecutive sessions is required to pass a constitutional amendment. This received by majority vote first in the 1979 session and enacted in April 1980.	State general fund appropriations.	Aggregate state general fund appropriations, for any given fiscal year, may not exceed 98% of estimated general fund revenue for that fiscal year. The estimate is to be determined by "the most recent Joint Resolution" and signed by the Governor.	In the event of emergencies, with a 3/5 vote in each house, the legislature may appropriate any portion of the amount between 98% and 100% of the estimated general fund revenue for any fiscal year."	Excess revenue paid into Budget Reserve Account, as long as that payment does not increase the Account's total to more than 5% of the estimated general fund. Legislature may, by a 3/5 vote in each house, appropriate funds from the BRA to funds "any unanticipated deficit...or to provide funds required as a result of any revenue reduction...."
Hawaii	C	Constitutional Convention Referendum approved by voters 11/78.	State general fund appropriations.	Estimated rate of growth of state's economy, determined "as provided by law."	2/3 vote of "members to which each house of the Legislature is entitled," on specific amount.	If state general fund balance in 2 succeed-years exceeds 5% of general fund revenues for each of the 2 fiscal years, legislature shall provide tax refund or credit.

*Constitutional (C) or Statutory (S).

pensions or other benefits) are not adequately funded between the commitment time and the time payment is due. This problem can be avoided by the requirement that actuarially sound current appropriations be made for pensions and other future obligations. How such a provision could be designed and enforced requires further discussion.

D. Treatment of Dedicated Funds and User Charges

Alaska has certain dedicated funds, and the inclusion or exclusion of expenditures from these funds in a limit calculation must be decided. For example, it may be desirable to count expenditures from the Fish and Game Fund and Renewable Resources Funds under the limit. If these expenditures do not "count," there would be a great incentive to refinance programs from these sources rather than from the general fund.

Another consideration of this nature is the treatment of user charges. Some have argued that spending financed from such sources should be excluded from the general limit, where the purchase of such goods or services by the user is discretionary. It would be important to define carefully program receipts, since there would be pressure to inflate and extend user charges as a means of circumventing a limit. Also, since dedication of funds is constitutionally limited, such an exclusion might pose legal difficulties.

E. Mandated or Shifted Costs

Limiting the expenditures of one level of government results in an incentive to transfer expenditures to another (unlimited) government, or to mandate new functions without providing new funding. Some limits, therefore, provide that the current proportion of state expenditures going to municipalities is not to be reduced unless there is a shift of program responsibility; and, if such a shift is made, provide that the expenditure base be appropriately adjusted.

Wording to deal with these problems is suggested in Appendix C.

STATE	(C OR S)*	METHOD AND DATE OF APPROVAL	LIMIT APPLIES TO	BASIS OF LIMIT	EMERGENCY OVERRIDE PROVISIONS	TREATMENT OF SURPLUSES
Idaho	S	Legislative vote; 1980 session.	State general fund expenditures.	State general fund expenditures may not exceed 5-1/3% of the total state personal income for the ensuing fiscal year. The Economic Estimates Commission determines the estimated total personal income prior to January 1 of each year.	(Statutory: may be amended.)	no provision.
Louisiana	S	Legislative vote; July 1979.	Increase in state tax revenue.	The revenue limit is the percentage determined by dividing state tax revenue for the 1978-79 fiscal year by state personal income for 1977.	(Statutory: may be amended).	Excess revenue, and all interest, is deposited "immediately" in the Tax Surplus Fund; excess revenue may only be appropriated for tax refunds.
Michigan	C	Initiative; approved by voters 11/78.	"Total amount of taxes."**	$\frac{\text{Total State Revenues } 1978-79}{\text{Personal Income } 1977} \times \text{previous calendar year}$ <p>*or averaged over 3 previous years, whichever is greater.</p>	Governor first specifies emergency; 2/3 of members in each house concur.	If revenue, exceed limit by more than 1%, excess refunded pro rata based on income tax liability. (1% excess may go to Budget Stabilization Fund.)
Nevada	S	Legislative vote; 1979 session.	State budget bill requests.	Level of general fund expenditures for the 1975-77 biennium budget plus the percent equal to the increase in population plus, a percentage equal to the rate of inflation.	(Statutory: may be amended.)	no provision.
New Jersey	S	Legislative vote; August 18, 1976.	"expenditures of the state"	$\frac{\text{State Per Capita Personal Income Current Fiscal Year}}{\text{State Per Capita Personal Income Base Year}}$ $\frac{\text{Base Year Expenditures}}{\text{Maximum Expenditures}}$	Proposed increase submitted to people as referendum and approved by majority of legally qualified voters who vote.	no provision.

**Michigan state spending cannot exceed this limit according to a provision of the amendment. A limit is also placed on local governments.

STATE	(C OR S)*	METHOD AND DATE OF APPROVAL	LIMIT APPLIES TO	BASIS OF LIMIT	EMERGENCY OVERRIDE PROVISIONS	TREATMENT OF SURPLUSES
Oregon	S	Voter approval; April 1980.	Growth of state appropriations.	Each biennium, rate of growth of state appropriations shall not exceed the rate of growth of personal income in the 2 preceding calendar years. After session adjournment, Executive Department reports to the Emergency Board the estimate as of July 1 of the first year of the biennium of general fund revenues that will be received.	(Statutory: may be amended.)	If the revenue received during the biennium exceeds the estimate by 2% or more, the excess shall be credited "in a percentage amount of income tax liability."
Rhode Island	S	Legislative vote; 1977 session.	State budget request submitted by Governor.	8% increase over current year's general fund appropriation.	(Statutory: may be amended.)	no provision.
South Carolina	S	Legislative vote; June 1980	Growth in state expenditures.	Expenditures are limited to the previous year's expenditures multiplied by the average state personal income ratio for the 3 previous years.	(Statutory: may be amended.)	no provision.
Tennessee	C	Constitutional Convention Referendum; approved by voters 3/78.	Appropriations from state tax revenues.	Estimated rate of growth of state's economy.	Specific excess amount can be approved by majority vote of General Assembly.	no provision.
Texas	C	Legislative Referendum; approved by voters 3/78.	Appropriations from state tax revenues	Estimated rate of growth of state's economy, determined by law (use personal income increase).	Record vote of majority of legislature finds emergency and specifies amount.	no provision.
Utah	S	Legislative vote; 1979.	State appropriations and revenue.	85% of growth in personal income.	A 2/3 vote of the legislative body "may declare a fiscal emergency in order to exceed the appropriations of revenue limit for any fiscal year."	Excess revenues are rebated or returned in the form of reduced taxes the following year; legislature may limit surpluses to 2% of the state's appropriations for the prior fiscal year.
Washington	S	Initiative; approved by voters 11/79.	Growth in state tax revenues.	Revenues are limited to the previous fiscal year's state tax revenue limit multiplied by the average state personal income ratio for the 3 previous years. The legislature shall establish tax rates so the limit will not be exceeded.	The limit may be exceeded "to meet an emergency as declared by the Legislature" by a 2/3 vote of each house. The legislature, by a 2/3 vote of each house, appropriates the additional revenue requested.	Excess revenue becomes part of the state tax revenue for the succeeding fiscal year.

*Source: National Conference of State Legislatures.

APPENDIX B

Rates of Growth of Formula Components.

The two most commonly used expenditure formula are based on (1) changes in personal income; and (2) inflation plus population changes. Given below is the history of these indicators over the past few years, and for purposes of comparison, the rate of growth in general fund appropriations.

<u>FY</u>	<u>General Fund Appropriations (\$000)</u>	<u>% Increase in Appropriations</u>	<u>% Change in Personal Income Residency Base</u>	<u>Percentage Change in Personal Income 3-year running avg.</u>	<u>Percentage Change Population</u>	<u>CPI</u>	<u>Pop + CPI</u>
1969	\$ 127,849.5	10.85					
1970	172,814.6	35.17	13.414%		3.02	4.58	7.60
1971	298,627.3	72.80	10.269%	11.83	3.08	3.91	6.99
1972	314,110.4	5.18	9.056%	9.66	3.56	2.51	6.07
1973	364,007.5	15.89	17.903%	13.39	2.74	2.27	5.01
1974	374,176.0	2.79	21.728%	19.80	4.11	5.90	10.01
1975	528,260.1	41.18	44.768%	32.75	10.90	13.09	23.99
1976	627,274.5	18.74	18.906%	31.20	8.22	12.43	20.65
1977	734,626.0	17.11	2.813%	10.57	.33	6.86	7.19
1978	833,794.7	13.50	1.298%	2.05	-.61	5.95	5.34
1979	1,066,266.8	27.88	4.555%	2.91	-.22	9.32	9.10
Rate of increase over the period	23.63%		13.88%		3.45%	5.62%	10.07%

Summary of Statistics Used in Limits

PERSONAL INCOME

Total personal income in Alaska is estimated on a quarterly basis by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce.

Personal income is defined as the sum of all money and non-money income received from any source. Money income includes wages and salaries, proprietor income, rents, dividends, interest, and money gained from the sale of property, plus transfer payments such as welfare, unemployment insurance benefits, or retirement income. Non-money income includes the value of free or reduced-price housing and food, such as Alaskan construction workers often receive at remote construction sites. The concept of non-money income also includes the net value of food obtained by subsistence agriculture, hunting, or fishing -- although the accuracy of the estimates for income in the form of food obtained from subsistence activities is extremely questionable. Somewhat arbitrary procedures are used to convert total income to income on a residency basis.

Quarterly estimates of the annual rate of total personal income received by Alaskan residents are published by BEA during the first month of each quarter, with a lag of one full quarter. For example, in July 1980 BEA published an estimate of the annual rate of total personal income received by Alaskan residents during the first quarter of calendar year 1980 (January, February, and March).

During the legislative session in the spring of 1981, Alaskan legislators could expect to receive BEA estimates of annual rates of Alaska's total personal income during the third and fourth quarters of calendar year 1980. During this session, the legislators would be considering the budget for the twelve-month period beginning July 1, 1981 and ending June 30, 1982.

It should be noted that in Alaska total personal income is very much a function of the level of State government spending. Thus, as spending slows, one can expect the rate of growth of personal income to likewise slow, thus causing spending to slow again. This is mentioned in the body of the paper in discussing the procyclical nature of spending limitations. Another problem is reflected in the large amount of variance reflected in this statistic. Over the last ten years the percentage increase ranged from 1.3% to 44.8%. Possibly these difficulties can be mitigated somewhat through lagging the indicator (which would reduce the procyclical elements) and by using a 3 or 5 year running averages (to reduce the year-to-year variations).

CONSTANT "REAL" EXPENDITURES PER CAPITA

Another suggested limiter for State government spending is constant real (i.e., inflation adjusted) expenditures per capita.

A computation of real expenditures per capita involves use of a price index and an estimate of total population. Consumer price indices are published by the U.S. Bureau of Labor Statistics with a lag of one to two months. That is, the index for June 1980 was published around August 1. Consequently, during the spring 1981 session of the Alaska legislature, indices would be available approximately through April of 1981. Legislators at that time would be considering the budget for the twelve month period ending June 30, 1982. Estimates of total resident population in Alaska on July 1 of each year are published in January of the following year by the U.S. Census Bureau. Thus, when the Alaska legislators were considering the budget for the twelve month period ending June 30, 1982, the latest population estimate available would be for July 1, 1980. The July 1, 1980 estimate would be preliminary, and subject to revision.

Population estimating techniques used by the U.S. Census Bureau are not always appropriate for Alaska - particularly during periods of rapid economic growth or decline such as those during and after construction of a pipeline. The Census Bureau is believed to have underestimated

population growth in Alaska during construction of the oil pipeline. To the extent that population is underestimated in such circumstances, a real per capita budget limiter would make it difficult for the state to respond to rising demands for services during boom periods. The lag in receipt of the statistics would exacerbate this difficulty.

The only price index available in Alaska is the Consumer Price Index. By contrast, on a national basis several indices are available for the various segments of the Gross National Product -- including special indices for construction and for the components of construction. Because the Consumer Price Index generally rises less rapidly than construction costs and costs of services of most kinds, including government services, use of the Consumer Price Index would result in a yearly decrease in real government expenditures per capita.

Note: Information on the availability and characteristics of these statistics was supplied by Jim Sullivan of Budget and Management.

Appendix C*

Examples of Expenditure Limit Language

The following model provisions present suggested wording for many of the alternative approaches to and components of a limit on expenditures.

These drafts may be a useful guide in drafting a limitation proposal for any state. However, they are presented as guides only. Conformance to a state's own constitutional and statutory patterns and practice will be required in every case.

Expenditure Limitation

Section 1. It is proposed to amend the Constitution of _____ by adding an article to read:

Article _____ Section 1. Expenditure Limitation. A limit on the total amount of expenditures by the State in any fiscal year is established.

Formula #1. Cost of living and population changes - legislative formula

The annual state expenditures shall not exceed the total expenditures for the prior fiscal year, except for annual percentage changes in the cost-of-living and population. The legislature shall by law provide a method for determining the percentage change in the cost of living and population but in no case shall such percentage change in expenditures exceed the change in the state's per capita personal income. (Modeled after California Senate Constitutional Amendment No. 42, 1977)

*Source: National Taxpayer Conference, "Statement on Limitations of Taxes and Expenditures," August 1978.

Formula #2. Percentage of personal income increase

The annual state expenditures shall not be increased over expenditures of the prior fiscal year by more than the percentage increase in personal income for the prior year or the average of the percentage increase in personal income for the previous /three/five years/, whichever is /greater/lower/.

Formula #3. Percentage increase

The annual state expenditures shall not be increased over expenditures of the prior fiscal year by more than _____%.

Formula #4. Percentage of personal income

The annual state expenditures shall not be more than _____% of personal income for the prior fiscal calendar year or _____% of the average personal income for the prior /three/five fiscal/ calendar years, whichever is /greater/lesser/.

Formula #5. Growth in state economy - Tennessee approach

In no year shall the rate of growth of appropriations from state tax revenues exceed the estimated rate of growth of the state's economy as determined by law. No appropriation in excess of this limitation shall be made unless the legislature shall, by law containing no other subject matter, set forth the dollar amount and the rate by which the limit will be exceeded.

Formula #6. Ratio of personal income to state budget

The annual state expenditures shall not exceed the amount determined by multiplying the limitation ratio by the average state personal income for the three prior calendar years. The limitation ratio is the quotient formed by dividing the average gross budget/expenditures for the three fiscal years immediately preceding the effective date

hereof by the average state personal income for the three calendar years immediately preceding the effective date hereof. (Modeled after a Massachusetts proposal)

Formula #7. Per capita cost of living increase

(1) The annual state per capita expenditure during any fiscal year shall not be increased over its per capita expenditure during the immediately preceding fiscal year by a percentage any greater than the percentage of increase occurring in the state cost of living during the first twelve month period immediately preceding the fiscal year. (Modeled after a Colorado proposal)

(2) The limit on expenditures may be increased or decreased if approved by a majority of the voters who vote upon the question at a statewide special or general election pursuant to a measure enacted and placed upon the ballot by the legislature.

Section 2. Reserve Fund. Any excess of state revenues over expenditures at the end of a fiscal year shall/may be transferred to a Reserve Fund. The Reserve Fund shall not

Formula #1 exceed _____% of the state's personal income for the prior calendar year.

Formula #2 exceed _____% of the prior/current years expenditures.

Formula #3 exceed _____% of the prior/current years revenues.

Such excess amounts not to exceed _____% of _____ may be transferred to a budget stabilization fund or retained as an opening balance in the _____ fund.

Appropriations from the Reserve Fund may be made only upon the exhaustion of all other available funds, including federal emergency funds, upon the declaration of an emergency by the governor, and upon a two-thirds favorable vote of each house of the legislature. Income earned to the fund shall/may accrue to the fund.

Section 3. Excess Revenues. For any fiscal year, the excess of revenues over expenditures, except as provided in Section 2, shall be...

- a)...
- b)...
- c)...

Section 4. Emergency. The limitation imposed by Section 1 may be exceeded upon exhaustion of the fund established in accordance with Section 2 and upon the declaration of an emergency by the governor and upon favorable approval of a 2/3 vote of each house of the legislature. The legislature, by law, shall set forth the amount of the cost of the emergency and the method by which it shall be defrayed. The limitation may be exceeded only for the years in which the emergency is declared. In no event shall such emergency expenditures be included in the computation of the limitation imposed by Section 1 for any other year.

Section 5. Mandated and Shifted Costs. The state shall not impose upon any local unit of government any part of the costs of new program or services, or increased in existing programs or services, unless a specific appropriation is made sufficient to pay the local unit of government for that purpose. The proportion of state revenue paid to all local units of government, taken as a group, shall not be reduced below that proportion in effect at the adoption of this article. Where costs are transferred from one unit of government to another unit of government, either by law or court order, the limitation imposed by Section 1 shall be adjusted and transferred accordingly so that total costs are not increased as a result of such transfer.

Section 6. Severability. If any expenditure category, or revenue source, shall, by a court of competent jurisdiction in a final order, be adjudged exempt from this article, the process of computing the expenditure limitation shall be adjusted accordingly and all remaining provisions shall be in full force and effect.

Section 7. Implementation. The legislature shall enact legislation consistent with and as may be necessary to implement and enforce the provisions of this article.

Section 8. Definitions. Note: Some of these definitions may not be needed depending upon what limitation is selected.

(1) "Personal Income" means the total income received by persons in _____ from all sources, including transfer payments as defined and officially reported by the U.S. Department of Commerce or its successor agency for a 12-month period of time. Note: The amount of personal income can be further defined or limited. For example, federal individual income taxes paid may be deducted from personal income.

(2) "Cost of Living" means the Consumer Price Index (all items) for _____, or any comparable index, as computed by the Bureau of Labor Statistics or the Department of Commerce of the United States, or successor agencies thereto, for a 12-month period of time.

(3) "Population" means the number of people residing in the state, excluding armed forces stationed overseas, as determined by the U.S. Bureau of Census or its successor agency.

(4) "Expenditures" means the total amount of moneys appropriated by the state except:

- a) Monies received from the federal government;
- b) Principal and interest on bonded indebtedness;
- c) Appropriations funded by unemployment and disability insurance funds;

- d) Appropriations funded by discretionary user charges to the extent that such charges do not exceed the cost of the goods or services and its purchase by the user is discretionary;
- e) Appropriations funded from permanent endowment, trust funds, or pension funds;
- f) Proceeds of gifts or bequests made for purposes specified by the donor;
- g) Monies appropriated for tax relief.

(5) "Fiscal Year" means any accounting period of twelve consecutive months.

(6) "Per Capita Expenditure" means the quotient derived from dividing expenditures of the state for a fiscal year by its population on the first day of that fiscal year.

(7) "Emergency" means an extraordinary event or occurrence which could not have been reasonably foreseen or prevented and which requires immediate expenditure to preserve the health and safety of the people.

Section 9. Effective Date. The Article shall be effective commencing with the _____ fiscal year. (This section should also be used to designate any "base years" needed to determine the expenditure limitation. Care should be taken to spell out the base years involved to prevent uncertainty. It should be pointed out that statistical information such as personal income and population is not timely available which may cause difficulty in ascertaining an expenditure limitation during the time of the budget making process.)

Section 10. Miscellaneous. Nothing contained herein shall be construed as requiring the State to spend or appropriate the full amount of the limitation provided in this article. Nothing contained herein shall be construed to impair the ability of the state or any local unit of government to meet its obligations with respect to existing or future obligations.

STATE OF ALASKA

OFFICE OF THE GOVERNOR
JUNEAU

JAY S. HAMMOND
GOVERNOR

NEWS RELEASE



FOR INFORMATION CONTACT:
Chuck Kleeschulte
Press Secretary
Office of the Governor
Pouch A, Juneau, Alaska 99811

Bus. Phone: (907) 465-3500
Res. Phone: (907) 593-1069

HAMMOND EXPLAINS SPENDING LIMITATION PROPOSAL
1-13-81
#9

FOR IMMEDIATE RELEASE

JUNEAU--Governor Jay Hammond today, as another plank in his overall, responsible financial plan for the state, introduced his language for a Constitutional amendment to limit government spending.

Hammond introduced in both Houses a joint resolution calling for the public to vote on a constitutional amendment which would impose a spending limit on state government. The amendment, if approved by voters, maybe in August or November of 1982, would change article IX of the Constitution to limit spending to an increase from the previous year.

"The proposed amendment is conservative, responsible and workable. It will not hobble the state or prevent the performance of any needed governmental function. It will, however, set limits where they are needed and it will not set limits where they aren't needed," Hammond said.

The governor, who will explain his reasons for seeking a constitutional amendment to limit spending in his annual budget message on Thursday, today said such a limit is "imperative" to force increased saving of the state's oil wealth--a plank in his investment plan.

MORE

The spending limitation bill the governor is proposing would apply to both operating and "capital" expenditures. The bill does list 10 specific exceptions from the ceiling, some so that money can be appropriated for investment purposes that really don't involve the actual expenditure of state funds.

The bill calls for state spending increases of money from state sources of only the increase in the federal consumer price index for Alaska for the preceding year plus a percent equal to the state's average yearly growth in population. While increases in the revenues from non-state sources aren't included, federal funds for example, the limit ties increases in state spending to inflation plus population hikes.

The bill says that inflation will be determined by using the federal consumer price index. Currently there is an index for Anchorage and one for Fairbanks will be starting soon. If there is more than a single index the inflation rate will be determined by using the weighted average of the available index in proportion to each community's relative population.

"The use of the data prepared by the federal government is deliberate and essential. The pressure to shape cost and population data to justify increased expenditures would be enormous if those data were prepared by state or local agencies. Using data developed by an independent and separate government avoids that problem completely," Hammond said.

The measure of population will be taken from the federal decennial census and the interim five-year enumerations scheduled to start this decade.

"These two measures of growth, while not always coincident with all governmental needs, will allow the state to keep abreast of most needs and yet hold growth to reasonable and responsible limits.

MORE

"To the extent that the state still lags behind its sister states in some areas of governmental services and facilities, the exemptions ... will allow it to catch up, if that is what the electorate wants," Hammond said.

The exceptions include:

--Appropriations for the Permanent Fund or to pay for Permanent Fund dividends. Both can be made from state revenues without regard to or inclusion in the spending ceiling.

--Money can be appropriated to capitalize loan funds. This means money can be set aside to fund state loans but the interest subsidy for low-interest state loans must be appropriated and counted under the spending limitation ceiling.

--Money may be spent for capital improvements, but only if the projects in excess of those that can be afforded from funds included in the budget ceiling are approved by voters. This includes projects funded by appropriation and those approved from the general fund or from bond proceeds.

"Voter approval is a must for the appropriations to be within the exception. But if the voters approve, there are no limits on appropriations for capital improvements," Hammond said.

The proposed resolution defines capital improvements in the same language that appears in sections 8 and 9 of the Constitution on state and local debt.

--Money may be sent to escrow accounts such as to repay general obligation bonds. Hammond said repaying debt would almost always be to the state's advantage and such an expenditure for debt retirement would not constitute a real expenditure, but a form of saving for the state.

--The sixth exception is for money appropriated as a reserve account for disasters of natural or human origin.

MORE

The exception allows for the rainy-day account--the Reserve for Emergency Operating Expenses Account passed last year by lawmakers, AS 27.05.159. Money from the account could be spent by the same means that lawmakers could spend money in the event of a natural disaster--the tenth exception included in the proposed bill.

For the legislature to spend in either event would require passage of an appropriation bill by a two-thirds majority of each House, the bill being approved by the governor. If the governor would not approve the appropriation or vetoes it by reducing or striking any item, his veto is final.

"The purpose of the absolute veto is to preclude any excess spending for non-emergency items in a bill appropriating money for disaster relief. Without an absolute veto, this exception would create an unacceptably large loophole," Hammond said.

--The seventh exception allows for money to be appropriated which is generated through "user fees." The term means all taxes or charges which are levied upon those who use a government facility or service. They include everything from hunting and fishing licenses to boiler inspection fees.

"So long as users are paying the money, no purpose would be served in placing this category within the limitations on expenditures," said Hammond, who added he could see no reason why the limitation would promote any increase in such fees at the present time.

--An eighth exception is for appropriations required by court orders or by a transfer of functions from the federal to state government. Transfers from the local to state government, however, would be impacted by the spending limitation.

--And a final exception would be for appropriations possible with money derived from one-quarter of the income from extra additions to the Permanent Fund.

MORE

As a means to encourage additional contributions to the Permanent Fund, Hammond is proposing that one-fourth of the interest earnings from additional contributions to the fund would be "free" money not counted under the limitation. "The more money that is placed in the fund, the more money there will be available to spend outside of the expenditure limitation," Hammond said.

The governor in his Dec. 4 speech in Anchorage outlining his rationale for the limitation stressed that it should include both operating and capital expenditures since "creative" accounting techniques could shift normal operating expenditures to the capital side of the budget--thwarting the purpose of a spending ceiling.

Hammond added that capital projects also entail "downstream" operating and maintenance costs which would justifiably require an increase in operating budgets if the two types of expenditures are not controlled equally.

Introduced: 1/13/81
Referred: Transportation,
Judiciary and Finance

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE JOINT RESOLUTION NO. 4

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - FIRST SESSION

5 Proposing an amendment to the Constitu-
6 tion of the State of Alaska relating to
7 limitations on appropriations of state
8 money.

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

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

*Letter
of
intent*

12 SECTION 16. APPROPRIATION LIMITATIONS. The amount of State money
13 *requested by the Legislature and appropriated by the legis.*
~~appropriated~~ during a fiscal year shall not exceed the amount appropri-

14 ated in the preceding fiscal year by more than the increase in the fed-
15 eral consumer price index for the state for the calendar year preceding
16 the governor's submission of the budget under section 12 of this arti-
17 cle plus a percentage equal to the average yearly growth in the State's
18 population as shown by the last two federal censuses or renumerations.
19 Money appropriated under any exception prescribed by section 17 of this
20 article shall not be included in the base for determining the allowable
21 increase from year to year.

22 SECTION 17. EXEMPTIONS FROM APPROPRIATION LIMITATIONS. The limi-
23 tations on increases in appropriations do not apply to appropriations
24 of money to be deposited in the permanent fund; money appropriated to
25 pay permanent fund dividends; money appropriated to capitalize loan
26 funds, but the money to subsidize low interest loans must be appro-
27 priated separately and is subject to the limitations; money appropriated
28 to construct capital improvements, whether of bond proceeds or other-
29 wise, where the appropriation for the capital improvements is approved

1 by the voters; money appropriated to escrow accounts or otherwise to
2 repay general obligation bonds; money appropriated as a reserve for
3 disasters of natural or human origin or other emergencies; money appro-
4 priated to coincide with increases in user fees; money appropriated to
5 meet increases in costs to the State resulting from court orders or a
6 transfer of authority or responsibility to the State from the federal
7 government; money derived from one-quarter of the income from those
8 contributions made to the permanent fund which exceed the minimum
9 required by this constitution; or money appropriated by a vote of
10 two-thirds of the membership of each house and approved by the governor
11 to meet disasters of natural or human origin which are declared by the
12 governor.

13 * Sec. 2. The amendment proposed by this resolution shall be placed be-
14 fore the voters of the state at the next general election in conformity with
15 art. XIII, sec. 1, Constitution of the State of Alaska, and the election
16 laws of the state.
17
18
19
20
21
22
23
24
25
26
27
28
29

Introduced: 1/13/81
Referred: Transportation,
Judiciary and Finance

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE JOINT RESOLUTION NO. 4

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - FIRST SESSION

5 Proposing an amendment to the Constitu-
6 tion of the State of Alaska relating to
7 limitations on appropriations of state
8 money.

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

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 appropriated during a fiscal year shall not exceed the amount appropri-
14 ated in the preceding fiscal year by more than the increase in the fed-
15 eral consumer price index for the state for the calendar year preceding
16 the governor's submission of the budget under section 12 of this arti-
17 cle plus a percentage equal to the average early growth in the State's
18 population as shown by the last two federal censuses or renumerations.
19 Money appropriated under any exception prescribed by section 17 of this
20 article shall not be included in the base for determining the allowable
21 increase from year to year.

22 SECTION 17. EXCEPTIONS FROM APPROPRIATION LIMITATIONS. The limi-
23 tations on increases in appropriations do not apply to appropriations
24 of money to be deposited in the permanent fund; money appropriated to
25 pay permanent fund dividends; money appropriated to capitalize loan
26 funds, but the money to subsidize low interest loans must be appro-
27 priated separately and is subject to the limitations; money appropriated
28 to construct capital improvements, whether of bond proceeds or other-
29 wise, where the appropriation for the capital improvements is approved

VOTE
TO
EXCEED

1 by the voters; money ⁽⁵⁾ appropriated to escrow accounts or otherwise to
2 repay general obligation bonds; money ⁽⁶⁾ appropriated as a reserve for
3 disasters of natural or human origin or other emergencies; money ⁽⁷⁾ appro-
4 priated to coincide with increases in user fees; money ⁽⁸⁾ appropriated to
5 meet increases in costs to the State resulting from court orders or a
6 transfer of authority or responsibility to the State from the federal
7 government; money ⁽⁹⁾ derived from one-quarter of the income from those
8 contributions made to the permanent fund which exceed the minimum
9 required by this constitution; or ⁽¹⁰⁾ money appropriated by a vote of
10 two-thirds of the membership of each house and approved by the governor
11 to meet disasters of natural or human origin which are declared by the
12 governor.

13 * Sec. 2. The amendment proposed by this resolution shall be placed be-
14 fore the voters of the state at the next general election in conformity with
15 art. XIII, sec. 1, Constitution of the State of Alaska, and the election
16 laws of the state.

Limiting state government

2/23/81
The News-Miner recently published a list of the 700 or so salaried state employees (not counting the University of Alaska nor ferry employees) who are projected to be paid more than \$50,000 this year. They comprise about 4½ per cent of the people on our state's payroll.

We'll not attempt to make individual judgments—whether any particular person on the list is performing work worth that amount of money. Many of these people are widely known in Alaska and our readers are quite capable of making such judgments for themselves.

But we do observe that the proportion of highly paid Alaskan state employees is much greater than in other states. Nationwide, 4 per cent of state workers earn \$19,000 or more a year; in Alaska 4½ per cent earn \$50,000 or more.

And we also observe that many of these Alaskan state government positions appear to be paid significantly more than their counterparts in private employment, and that leads us to a judgment.

Attempts are under way to put a lid on the amount of the annual increase in the state budget. The state Chamber of Commerce is circulating an initiative petition that would limit budget increases to an amount based in part on the 'yearly increase' in per capita personal income.

We believe any such limit should be based on the increase in private per capita income, excluding public employees. It's easy to see how the salaries of our relatively well paid state employees could skew such a limit to make it higher than it ought to be, particularly when we consider that state employees receive pay raises based on a percentage of their income.

And state officials also should consider ending the automatic percentage increases for these highly paid state employees and using flat dollar amounts for them instead. Why should a state employee earning \$60,000 a year receive a raise three times greater than a state worker earning \$20,000?

If we are to limit the growth of state government—and we believe that is a goal worth trying for—the upward push caused by high state salaries should be disregarded in setting the formula for state spending increases.

State Chamber pushes spending limit

Associated Press

Juneau — Arguing that control of government spending will be the state's biggest challenge over the next 20 years, pro-business groups and politicians united Friday to rally for a legal limit on state spending.

State Chamber of Commerce President Don Dickey urged the audience of lawmakers and businessmen to support an initiative which would restrict state spending to combat the image of Alaskans "as the fiscal fat cats of the North."

The measure is backed by Common Sense for Alaska, a business group lobbying for lower state spending, and the State Chamber. The two groups sponsored a Friday luncheon titled "The Challenge of Plenty,"

which featured several addresses on state government spending.

The initiative, which has garnered about 200 of the required 16,000 signatures, would keep future state operating budgets at the 1981 level, with increases allowed for growth in population and per capita incomes. If the needed signatures are collected, the measure will go on the ballot in 1982.

At the luncheon meeting, previous administrations and Legislatures were sharply criticized for overspending. Dickey said that in the past 20 years the state's population has grown 84 percent compared with a 3,043 percent increase in the state operating budget.

Lt. Gov. Terry Miller said Alaska

has more government per capita than any other jurisdiction, and spends nearly three times per person of the average of states in the Lower 48.

According to projections by Commonwealth North, at an annual state growth rate of less than 20 percent, lower than the current rate of growth, the state will spend \$45 billion per year by 2000.

Miller said the Common Sense initiative is "next best" to a constitutionally imposed limit on state spending (SJR) proposed by Gov. Jay Hammond. He said a state official can't break a constitutional restriction and would be forced to spend and invest oil wealth more wisely.

Group trying to put budg

By MARK BAUMGARTNER
Empire Staff Reporter

Does Alaska have too much money?

The answer, according to state businessmen, appears to be a sober "yes."

A group calling itself Common Sense for Alaska met in Juneau Friday to organize an effort to focus attention on what it sees as a need to limit government spending. The state should, in the words of one speaker, "bring the horse back to the barn" before either the state squanders its oil wealth or an outside force comes and takes it away.

Although there was unanimous support for putting a lid on government spending, there was considerable disagreement over the most judicious way to do it.

"I personally prefer a constitutionally imposed limit which the Legislature and executive branch cannot circumvent," Lt. Gov. Terry Miller said in a speech to the group. Miller said he considers the governor's constitutional amendment (SJR 4) to be an excellent starting point. SJR 4 would key state spending to a yet-to-be determined base year's budget with allowances for inflation, population growth and emergencies.

Dealing rationally with projected surpluses is the major challenge facing Alaska in the next two decades, Miller said.

Alaska Chamber of Commerce President Don Dickey said businessmen support the lieutenant governor's proposal, but Dickey had doubts the Legislature can get a handle on state spending. He said all the pressures brought to bear on legislators to fund "motherhood" and "apple pie" programs makes it appear the best way to limit spending is to get Alaskans to pass an initiative which takes spending out of the lawmaker's hands.

To back his claims, Dickey cited statistics showing state population growth since statehood

at 84 percent, while at the same time the operating budget was up over 3,000 percent.

Dickey said Common Sense has distributed over 200 petitions around the state in the hopes of obtaining 16,000 signatures necessary to put a budget-limiting initiative on the 1982 ballot.

The initiative, if approved by the voters, would do many of the same things SJR 4 would do, Dickey said. The main difference is that it would exempt capital expenditures from the spending limit, concentrating instead on putting a lid on the state's operating expenses.

Some lawmakers, as well as Hammond, have proposed legislation that puts a spending limit on both the capital and operating budgets.

Although not advocating capital limitations in his speech, Miller urged development of cost-benefit analyses for all proposed capital improvement projects. "If any proposed project's benefits are greater than its cost, it is, by definition, an investment. If not, then the project is nothing more than 'spending,'" he said.

Rep. Terry Gardiner, D-Ketchikan, one of the legislators who has introduced legislation to limit capital and operating spending, told Common Sense it is important to remember that if state-funded capital improvements are not checked it will be impossible to keep operating costs down, since capital improvements require maintenance and other costs.

Gardiner applauded the efforts to examine spending limitations but warned that the task may be more difficult than it appears. Besides just looking at ways to cut the bureaucracy, careful scrutiny needs to be given to the economic effects of a host of state programs, he said.

"We have to look at the effect of our loan programs," Gardiner said. As an example he cited the heavy state involvement in housing loans, which he said is causing inflation and is therefore comparable to raising taxes.

Capital projects need spending limit also, Hammond suggests

By PETE SPIVEY
Daily News reporter

If a proposed constitutional limit on state spending is to have any real meaning, it must apply to capital projects as well as the annual operating costs of government, Gov. Jay Hammond said Monday.

In Anchorage to promote a constitutionally imposed spending lid on government, Hammond said if only operating costs are "controlled," legislators and government agencies would simply find ways to sneak new project funding into their annual capital budgets.

"You just shift things to a different ledger," he said. "Creative accounting permits you to do all kinds of things and I guarantee you all of them would be tried."

Hammond said such a limit would not mean the state could never again fund a capital project. Rather, he says he advocates giving voters more direct say on expensive capital proposals through the referendum process, whether the projects would be built with bonds or paid for with general fund appropriations.

"We could set a limit on capital expenditures and then require anything above that to go before the voters," Hammond said. "In my view, the public ought to have a say when the state is contemplating some of these huge capital costs."

Hammond said his proposal would not hinder the state's effort to provide services. Under his plan, state spending could grow to accommodate population increases and inflation, a formula he said would have allowed a 13-15 percent increase this year. The plan would also allow exceptions for larger contributions to the Alaska Permanent Fund, various "rainy day" reserve accounts and allowances for providing appropriations needed to deal with natural disasters.

Hammond said placing limits on state spending would hardly mean belt-tightening to the point of cutting off any critical state services.

"It seems to me that limiting spending to a 15 percent annual increase is not going to cause us to fail to meet the state's needs."

Hammond's proposal would go on the 1982 ballot and, if approved, would go into effect for the fiscal 1984 budget. He said there is plenty of legislative sentiment for a spending limit, but he's concerned that many legislators seem to want to wait a few years.

"Some say let's wait until 1982 or 1984, but that's like a fat man saying he'll wait until he weighs 400 pounds before he goes on a modest, incremental diet," Hammond said. "Good grief, we may have a \$10 billion budget by 1984. That's just too long to wait."

Limit government spending

We're glad to see state legislators moving to tie local governmental growth limits into proposed municipal aid legislation, but we believe that alone is not enough. We also need limits on the growth of school expenditures and on the growth of state government itself.

In the Fairbanks area, for example, increases in school spending have far outstripped additional amounts spent on other units of local government—and that at a time of falling enrollments.

And the Babe Ruth of increased spending has to be our state government, which has gone from a budget of \$383 million in 1971 to \$2.7 billion this year. That's nearly an eight-fold increase in 10 years and there is not the least indication that, left to its own devices, the rate of increased state spending will slow as long as there is our growing oil wealth to fuel it.

An initiative sponsored by the state Chamber of Commerce would limit the state's operating budget to increases based on a formula that considers the growth of per capita personal income and population. This is one step in the right direction, although we believe the factor for personal income should exclude public employees, who, particularly at the state level, have wages that significantly surpass comparable pay in the private sector.

And while we may have to rely on that initiative, it certainly would be simpler and faster if the Legislature were to impose a similar limit of its own on state spending. The Legislature could do it now. The initiative can't go onto the ballot until the 1982 statewide elections.

We tend to agree with those who say that a state-imposed limit is necessary on local governmental spending if the additional money is to bring about local tax relief, although to their credit, local officials here have pledged to cut taxes if more state aid is made available.

But we believe such a limit also must be put on school operation budgets. Otherwise the additional state money will just go for higher school expenditures and there will be no local tax relief. In our area, the cost of schools makes up the biggest share of the borough budget, yet school officials have not pledged to limit their expenditures.

And ultimately we must cap state spending, too. The legislators could do it, but if they won't, the people will have to through the initiative.

Spending limit said state's most crucial issue

By JON MATTHEWS
Daily News reporter

JUNEAU — The most crucial issue now facing Alaska is the need for a limit in government spending, Gov. Jay Hammond said Tuesday.

"Everything else pales in contrast," Hammond said at a press conference here.

Hammond said that without such a limit holding back the state's pool of skyrocketing oil wealth, legislators "are going to try to get everything for everybody."

"Absolutely the most crucial issue facing the state is a reasonable and appropriate constitutional amendment on spending," said the governor who has proposed a spending limit to the legislature.

In what might be taken as a warning to legislators, Hammond said: "I will look with a



jaundiced eye at everything that crosses my desk" unless there is a spending limit.

With personal taxes being repealed, the public doesn't sense any need to restrict spending of the oil wealth, the governor said. Yet, Alaska could wind up in bad financial shape if it doesn't set limits, he said.

Although he did not sound especially enthusiastic about the prospect, Hammond said he expects the state to eventually take over the federally operat-

ed Alaska Railroad.

"I suspect we will ultimately end up owning the railroad . . . I don't presume it's going to make money for the state," Hammond said.

The governor said he believes the state couldn't afford to let the railroad be taken over by a private enterprise that might only want to break up and sell the railroad's substantial land and property holdings -- as well as its rights-of-way.

Hammond said he's not eager to see the state take over the railroad this year.

The governor said he's apprehensive about the proposed repeal of the state's Coastal Zone Management laws.

"My major concern is that the local people have a very significant say in what goes on in their own backyard," he said.

Hammond also said he's not receiving a great deal of public support for possible state investment in the Alaska natural gas pipeline, but added that such investment might turn out to be a good idea.

The governor, however, said the state should "not be the first out of the chute" in offering investment in the line, and should wait until other investors are lined up.

Turning to Washington, D.C., Hammond said as far as he is

concerned, "the jury is still out" on U.S. Interior Secretary James Watt.

But the governor was quick to add that he believes Watt may be more sensitive to environmental concerns than national press reports indicate.

Hammond said he has discussed with Watt the possibility of more federal oil leases in the Gulf of Alaska. But the governor said Watt indicated he would probably screen out areas that face environmental objections from the state.

Hammond urges limits on spending

by Ellis E. Conklin
Times Writer

Practically everyone, including a majority of legislators, wants to see a constitutional limit on state spending, Gov. Jay Hammond said Monday.

But the governor is concerned that the proposed amendment is not getting the proper attention by the Legislature.

"They have no sense of urgency about this," Hammond said in an in-

terview here.

Hammond, in Anchorage to drum up support for the constitutionally imposed spending lid on government, called the amendment "the key to our fiscal salvation."

"Without it, our fiscal prognosis in this state is very dim," Hammond said. "I believe this is the most important thing now confronting the Legislature, especially now that we can no longer count on the (state) income tax."

Hammond repeatedly stressed that his plan would not thwart the state's effort to provide essential services. Rather, state spending would grow to meet population increases and inflation. Under such a formula, spending would have increased 13-15 percent this year.

"And if the people want to exceed the limit on (the general) operating budget, we'll put it on the ballot and let the people decide."

Hammond said capital improvement projects and any other initiatives the people deem necessary could still be funded, but that such expensive projects should first meet the tests of the referendum process.

The governor also said his spending plan would be flexible enough to ensure that funds are made readily available to deal with natural emergencies and to build up the Alaska Permanent Fund and other "rainy day" reserve accounts.

If approved by the Legislature, Hammond's proposal will go on the 1982 ballot. If it receives the required

(See HAMMOND, page A-3)

Hammond . . .

(Continued from page A-1)
two-thirds vote, it will go into effect for the fiscal 1984 budget.

"It is imperative that we pass this now," Hammond said. "If we wait and wait as some legislators would like to do, the budget by 1984 might be out of our control."

"This plan is a way of stopping us from floundering, from the non-direction in state spending that tries to meet all the demands of varying constituencies."

Hammond indicated his ceiling on state spending plan never would have been needed had the income tax not been repealed.

"That was one of the most imprudent things we've ever done," he said. "Suspend it, yes. But it should never have been repealed."

"And before we ever reinstate it,

we'll have to lease everything. It was a very bad mistake."

The governor complained that he has been unfairly branded as anti-development.

"Isn't that ironic? They say I'm against growth in this state, but without the income tax, how are we supposed to make (industry) self-supporting without state subsidies?"

On the Point MacKenzie dairy farming project, Hammond said he was not familiar with the recent studies that questioned whether it was economically feasible to produce milk at a profit on the 15,000 acres across Kink Arm from Anchorage.

The reports — one by the state, one by an independent milk processor and one by the University of Alaska — indicated that dairy farming on Point MacKenzie might not be possible without out large doses of state support.

"We're virtually subsidizing everything now anyway," Hammond said.

in the long run will pay off.

"In 50 to 100 years from now, people will bless us for the 'imprudent' expenditures we made. It has enormous potential to help produce food supplies for the world."

Alaska officials warn of a possible economic calamity

By JON MATTHEWS
Daily News reporter

JUNEAU — State legislators Wednesday held their first public hearing of the year on a proposed constitutional limit to the state's skyrocketing spending.

Gov. Jay Hammond has called such a limit on spending his top priority, and other legislators also have voiced support for a budget lid.

Wednesday, the 101st day of the 12th Alaska Legislature, found Rep. Terry Gardiner, D-Ketchikan, urging the House Finance Committee to support his proposal for a constitutional change to limit state spending increases to the rate of growth of Alaska's economy.

The committee didn't take action on the proposal. But House Finance Chairman Sam Cotten, D-Eagle River, said he will "make every attempt to get it past the legislature this year."

Gardiner echoed warnings,



often repeated by Hammond and other officials, that unless state spending is controlled, Alaska could face economic calamity by the end of the century when Prudhoe Bay oil revenues dry up.

Those revenues currently fuel all but a small fraction of the state budget, and the state's dependence on oil money increases as other taxes are cut.

"If government expenditures collapse at that point, we're going to have about 200,000 more people around than we need," he told the House panel.

"We may run into the problems that New York did," he

said.

Rep. Oral Freeman, D-Ketchikan and vice chairman of the finance panel, said he believes Alaska's growing pile of money, unless controlled, "is going to do more harm than good ... it's eventually going to destroy us."

Gardiner, a liberal Democrat, conceded that in past years he would have "vigorously opposed" such a spending limit as unneeded. But he argued that the "old rules, such as the 'user ought to pay'" have been thrown out the window as Alaska's oil wealth has piled up in the state's treasury.

"All these old rules that used to restrain state government are effectively out the window," Gardiner said.

Gardiner said that while those seeking money from the state used to have to justify their requests, "the burden of proof is on the government now to say why we shouldn't fund something."

"These new rules ... have been classified by the consumers — everybody that comes to the legislature and asks for something," he said. "These people say that the state is going to have \$300 billion in

revenues over the next 25 years, so what does my \$50 million have to do with it?"

Gardiner said more than ever, interest groups are hiring consultants and lobbyists to put big spending packages together

for presentation to lawmakers.

As the state invests more of its money into public works projects, it is also going to have to continue to pay funds to operate and maintain those projects, said the lawmaker.

A FREE HAWAIIAN VACATION*!

Including round trip air fare to the value of \$550.00 plus deluxe accommodations, when you purchase a time share of one week per year of deluxe resort accommodations till the year 2005.

Total cost \$2,995.00, no yearly maintenance or assessments.

FOR MORE DETAILS PHONE (714) 531-0146 Collect
OR WRITE RESORT INTERVALS
15781 Brookhurst W.
Westminster, CA 92683

*Limited offer