

HJR

52

Alaska State Legislature

REPRESENTATIVE
STEVE RIEGER
District 8, Seat B

House Finance Committee



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House of Representatives

SUMMARY OF SSHJR 52

SPENDING LIMIT.

House Joint Resolution 52 (SSHJR 52) limits state spending for a period of four years. The limit is the lower of \$2.2 billion, or the actual appropriations for the previous fiscal year. The measure does not apply to constitutionally mandated deposits into the Permanent Fund and specified appropriations for revenue bond proceeds, general obligation bond debt and specific trusts. The limit applies for fiscal years 1992, 1993, 1994 and 1995.

The spending limit may cut spending by ratcheting down spending: in any year for which appropriations are less than \$2.2 billion, spending in subsequent years is limited to the new lower amount. The more likely way in which it will reduce spending is through inflation. The limit does not automatically index for normal inflation, and therefore spending will be reduced to a more reasonable level through erosion of the purchasing power of any budget dollar amount.

There are two escape valves for the spending limit. Both are to address extraordinary circumstances. The first allows appropriations in excess of the spending limit to meet state disasters declared by the governor. However, to exercise this escape valve requires a 3/4 affirmative vote of each house. Any appropriations to meet a disaster do not count toward the spending limit for the following year.

The second escape valve allows for inflation in excess of six percent. This means that, for example, if actual inflation in a fiscal year were eight percent, the spending limit would allow an increase by the excess of inflation over six percent, i.e. an increase of two percent.

It is anticipated that the final adjustments to spending for a fiscal year will be made in supplemental appropriations. The limit requires that actual yearly total -- rather than anticipated -- inflation be the measure for a change in the limit. This means that upward adjustments, if any, in the spending limit would probably be made late in a fiscal year after actual inflation for the year had exceeded six percent. Such upward adjustments would permit supplemental appropriations to cover some of the unanticipated cost increases in previously approved projects.

BUDGET RESERVE FUND.

SSHJR 52 also provides for a budget reserve fund. The purpose of the budget reserve fund is to absorb money in high-revenue years, and pay out money in low-revenue years. The fund receives any state revenues which are left over after the appropriations for a fiscal year are made. During years in which revenues are insufficient to meet the desired (and permitted) appropriations, up to two-thirds of the fund can be withdrawn and used to make up the difference.

The funds in the budget reserve fund can also be used to meet state disasters, with the same restrictions as apply to the general funds for state disasters.

LIMITED DURATION.

The sponsor of the bill anticipates that the spending limit issue will be revisited in future years, and therefore is designed to allow another ballot proposition on the 1994 election ballot, if the legislature so chooses.

FISCAL NOTE

REQUEST:

Revision Date: 12-6-89
Title: Use and expenditure of state money
Sponsor: Rieger
Requestor: Rieger

Agency Affected: Office of the Governor
BRU: Division of Elections
Components: I Elections

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	2.2*	-0-	-0-	-0-	-0-	-0-
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	2.2*	-0-	-0-	-0-	-0-	-0-

CAPITAL						
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REVENUE						
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FUNDING: (Thousands of Dollars)

GENERAL FUND	2.2*	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	2.2*	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

* Costs included cover 2 to 3 pages in each Official Elections Pamphlet, for printing and typesetting, and costs estimated to cover computer programming requirements for vote counting purposes. (Continued)

Prepared by: Linda Edgeworth
Division: Elections

Phone: 465-4611
Date: 12/5/89

Approved by Commissioner: Garrey Peska
Agency: Office of the Governor

Date: 12/8/89

Distribution (by preparer):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. HJR 52

However, these costs are based on the assumption that all candidates and issues will fit on three ballot cards, which is the norm. It should be noted, however that should the inclusion of this issue require a 4th ballot to be printed, the cost increase would have to be calculated at 16 cents per ballot x approximately 320,000 voters. The total cost of printing the additional ballot card would be \$51.2

Under these circumstances the fiscal note would be:

53.4

Five Year Fiscal Plan Summary

FY 1990 - FY 1995
(\$ Millions - Nominal Dollars)

Revenues	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Prior Year carryforward	162.7	130.4				
Fall Forecast Unrestricted General Fund Revenue	2,295.6	2,255.6	2,416.1	2,435.2	2,460.7	2,375.8
Other G.F. Revenue	90.1	45.8	45.8	45.8	45.8	45.8
Potential Revenues						
Motor Fuel Tax		34.2	35.0	37.0	39.0	42.0
Income Tax						172.9
Expenditures	(2,384.0)	(2,404.2)	(2,435.9)	(2,482.9)	(2,522.1)	(2,583.3)
Science & Tech. Transfer	(34.0)					
Annual Surplus or Deficit	130.4	61.8	61.0	35.1	23.4	53.2

Notes: Revenue and expenditure totals include \$32 million deposited to the Oil and Hazardous Substance Release Response Fund in FY 90, a \$25.1 million deposit in FY 91 and \$25 million annual deposits for FY 92-95. Income tax revenues have been estimated by the Division of Policy based on the provisions embodied in the Governor's proposed legislation (SB 148, HB 154). Due to the fiscal year calendar, first year income tax revenues are budgeted as a half-year's receipts.

Office of the Governor, Division of Policy.

1/11/90

FY 1991 - FY 2010 LONG-RANGE FISCAL OUTLOOK

\$ Millions - Nominal Dollars

AR	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
RES:																				
Appropriations	(2,404)	(2,436)	(2,483)	(2,522)	(2,583)	(2,633)	(2,683)	(2,733)	(2,783)	(2,833)	(2,883)	(2,933)	(2,983)	(3,033)	(3,083)	(3,133)	(3,183)	(3,233)	(3,283)	(3,333)
Fund Dividends	(493)	(486)	(498)	(542)	(586)	(628)	(674)	(702)	(728)	(754)	(779)	(802)	(824)	(844)	(863)	(880)	(896)	(911)	(925)	(939)
	(2,897)	(2,922)	(2,981)	(3,064)	(3,169)	(3,261)	(3,357)	(3,435)	(3,511)	(3,587)	(3,662)	(3,735)	(3,807)	(3,877)	(3,946)	(4,013)	(4,079)	(4,144)	(4,208)	(4,272)
JES:																				
rd	130																			
Revenue Forecast	2,256	2,416	2,435	2,461	2,376	2,209	2,031	1,896	1,753	1,597	1,477	1,364	1,225	1,148	1,080	1,020	970	906	894	892
Total Fund Revenues	46	46	46	46	46	46	46	46	46	46	46	46	46	46	46	46	46	46	46	46
Oil	493	486	498	542	586	628	674	702	728	754	779	802	824	844	863	880	896	911	925	939
Gas	28	26	(2)	(15)	(162)	(379)	(607)	(792)	(985)	(1,191)	(1,361)	(1,534)	(1,713)	(1,840)	(1,958)	(2,068)	(2,168)	(2,282)	(2,344)	(2,396)
PROJECTIONS																				
Endowment Fund					173	367	389	412	436	462	489	517	547	579	613	649	687	727	769	814
Tax	34	35	37	39	42	44	47	50	53	56	59	63	66	70	74	79	83	88	93	99
							131	129	127	126	124	124	120	117	113	110	107	104	100	96
NET SURPLUS OR DEFICIT	62	61	35	24	53	33	(40)	(201)	(368)	(547)	138	111	93	80	78	89	114	127	196	280

Projected appropriations increase at a nominal rate of \$50 million per year, driven by increases to formula programs.

Fund Dividend appropriation estimates and Education Endowment Fund revenue estimates are based on a 4% annual real rate of return.

Oil taken from the DOR Fall 1989 Revenue Forecast, mid-case scenario.

Total Fund revenues includes restricted program receipts and G.F. loan receipts.

Gas revenues have been estimated by the Division of Policy based on provisions embodied in the Governor's proposed legislation (SB148, HB 154).

Tax revenue estimates are based on the Governor's proposed legislation (SB188).

Revenue projections are based on the Department of Interior's most probable estimate of recoverable reserves, timing is projected by the Division of Policy.

AGS revenues was provided by Yukon Pacific Corp. Revenue estimates are based on a \$.50/MCF wellhead value and derived by the Division of Policy.

Governor, Division of Policy.

Notes to Five and Twenty Year Fiscal Plans

Projected Appropriations. After 1995, projected appropriations increase at a nominal rate of \$50 million per year, driven by increases to formula programs. All other programs are held to a flat nominal dollar amount.

Permanent Fund Dividends. The estimated amounts are based on a 4% annual real rate of return and the October 1989 Permanent Fund Corporation earnings report, with the Education Fund proposal in place.

Oil Prices. The 1989 fall revenue forecast is much higher than the 1988 fall forecast used in last year's plans. The current forecast is over \$1 billion per year higher from FY 92 through FY95, and is a total of \$9.8 billion higher over the 20 year period from 1991 to 2010. If oil prices turn out to be lower than forecast, the state would have to enact additional revenue measures or cut spending to balance the budget.

Other General Fund Revenues. Estimates include program receipts and general fund loan receipts.

Education Fund. The plans assume Education Fund earnings would not be appropriated until the year 2001, as proposed in the original version of House Joint Resolution 13. Earnings are calculated at a 4% real rate of return.

Income Tax. The plans use the income tax revenue assumptions embodied in the Governor's proposed 1987 legislation (SB 148, HB 154). Due to the fiscal year calendar, first year income tax revenues are budgeted as a half-year's receipts. Single filer rates would be 2.06% (under \$30,000 of taxable income) and 3.7% (over \$50,000); joint filer/head of household rates would be 2.06% (under \$50,000) and 3.7% (over \$50,000). Tax structure assumes current federal tax rules are adopted, PF dividends are taxable, and non-resident income is apportioned pro rata according to place earned. Currently Alaska is one of seven states that do not have a state income tax.

Motor Fuel Tax. Estimates are based on Governor's proposed legislation, SB 188. This approach assumes doubling of current tax to \$0.16/gallon, that marine and aviation fuel remain unchanged, and that the refund for off-highway use remains unchanged at

\$0.06/gallon. This change would place Alaska about 25th in the nation; currently only Georgia has a lower motor fuel tax.

ANWR. The ANWR revenue estimate is based on the Department of Interior's most probable estimate of recoverable reserves, which is a field one-twentieth the size of Prudhoe Bay. Production is assumed to start in 2002. Estimate is net of associated Permanent Fund contributions.

TAGS Gas Line. The TAGS gas line revenues are based on an assumed wellhead price for Prudhoe gas of \$.50, with a start-up date of 1997. Estimate is net of associated Permanent Fund contributions.



NEA-ALASKA

AFFILIATED WITH THE NATIONAL EDUCATION ASSOCIATION

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FAIRBANKS REGIONAL OFFICE

2118 CUSHMAN STREET
FAIRBANKS, ALASKA 99701
(907) 456-4435

March 16, 1990

To: Representatives Goll and Gruenberg, Co-Chairs
Members, House Judiciary Committee

Re: Constitutional/Statutory Spending Limits

NEA-Alaska opposes any form of constitutional or statutory spending limit. Such a change would be far more than a limit on spending. It would be a limit on government and on your ability to represent your constituency and to act on their behalf and in their interests.

Tough spending decisions are never easy decisions but they must be made by our elected representatives based upon the circumstances which are current. They should not be based upon a formula driven system without regard for unique circumstances and needs.

A constitutional spending limit will have the effect of distorting subsequent spending decisions. Alaska is unique. Our problems, programs, and needs are truly different from other states. They are always dynamic.

It is predictable that they will be changing this session, next year, and in future years. As Legislators, you have a continuing need for maximum flexibility in how you chose to deal with them.

A state spending limit will do nothing more than pass along an increasing financial burden to local government. It will only serve to increase a disparity and inequity which is already glaringly evident.

In our opinion, the Alaskans who were involved in last years' "town meetings" were asking you and the Administration to have the courage to make the tough and responsible decisions on the level of programs and services which reflect our current needs and our current and projected financial resources. Such a process does not require any form of formula driven spending limit.

As Legislators you have the information, the responsibility, and the opportunity to make those spending decisions which are in the best interests of all of us. Please do so.

Thank you for your consideration of our position.

Respectfully submitted,

Bob Manners
Executive Director

Don Oberg
President



MY TURN

Just say 'No' to a constitutional spending limit

By BILL POTTER

The Alaska Legislature is presently considering a constitutional spending limit. I think this is an ill-conceived idea and hope that fellow Alaskans will also oppose such a politically motivated way to avoid making the important decisions elected officials are supposed to make.

When the Founding Fathers gathered in Philadelphia to write our Constitution, the most significant comprehensive political document the world had ever seen or has yet to see, there were many present who did not have much trust in governments or government institutions. Yet in spite of this mistrust and even fear, of government run amok, they wrote a document that placed the ultimate control, the ultimate power, the power of the purse, in the hands of the people's elected representatives.

Without money, government cannot act; with money government can act. Those Founding Fathers placed the power to act, or not to act, in the hands of the people's representatives. And when a like number of another set of Founders met in Fairbanks to draft the Alaska Constitution, they recognized the wisdom of that earlier group which had met in Philadelphia, and acted likewise. They put the ultimate power, the power of the purse, in the hands of elected representatives. And that is as it should be.

A constitutional spending limit is more than a limit on spending; it is a limit on the power of government to act. It is a limit on the power of government to protect the people; it is a limit on the power of the government to serve the people; it is a limit on the power of the government to govern.

I suspect that many people who support a spending limit are concerned about the financial future of this state, and I think that is a just and righteous concern, but as bleak as the financial future of Alaska may be, it is not as bleak or as foreboding

as it has been in times past. Any review of the first eight years of this state government's financial history will show that the financial constraints were far more severe than even the most dire predictions for the future. In spite of the lack of financial resources during those early years, the state legislature, the people's representatives, were able to balance the needs of government with the financial resources available without a constitutional spending cap.

I believe we had many wise people in our legislature during those formative, financially pressing years, but I submit that the current legislature is equally wise and equally able to balance the needs of government with the finances available. I further submit that the people of Alaska will choose an equally wise legislature in the 1990 elections which will be equally able to balance the needs that exist with the finances that will be available, and subsequent elections will result in equally wise and able representatives of the people.

I don't believe it is good government policy or good public policy, for any legislature or any other body to second-guess the intelligence, judgment, or motives of future legislative representatives.

To deny future legislatures the opportunity to use their judgment to address the issues before them with the resources available at that time smacks of, if not arrogance, a profound lack of confidence in those legislators and/or the people who elected them.

I am concerned about the future of public schools because I have devoted my life to education in this state. I am concerned about the future we offer our children, and I am concerned about the economic and social status of the elderly, and I am concerned about those for whom circumstances have cast their lot outside the mainstream of our society. I have concerns for the future and what it is that may be done to restrict the ability of our legislature

to act to deal with the issues and needs that arise within the confines of the resources available.

Notwithstanding what I said about the wisdom and ability of past, present, and future legislatures, I am painfully aware that not all legislators have been, or are likely to be, willing to make the judgments necessary to balance needs with the financial resources available. If there is a constitutional spending limit in place, I am concerned about legislators who will take the low road by saying "I wanted to help, but our hands were tied." "I wanted good schools, but there was a spending limit." "I support you in your desire to deal with alcohol and drug abuse, but there is nothing we can do with the constitutional limits placed on the legislature."

In the interests of good public policy; in the interests of good government, I urge you to resist any constitutional spending limits. I urge Alaskans to insist that elected officials demonstrate the courage to resist the temptation to tie the hands of government's ability to act in the public interest with the resources available.

Bill Potter has taught in Juneau for 25 years and is a member of the Education Commission of the State.

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