

**SJR**

**23**



# FISCAL NOTE

**STATE OF ALASKA**  
**2002 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: CSSJR 23(FIN) AM  
 () Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: OOG  
 Title Constitutional amendment relating BRU Elections  
to an appropriation and spending limit Component Elections  
 Sponsor Senator Donley  
 Requester House Judiciary Component No. 21

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual	1.5					
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1.5					
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This figure includes the cost of providing information about this issue in the Official Election Pamphlet, as required by AS 15.58. If this measure requires the printing of an 8-1/2 by 18 inch ballot, the cost will increase by \$22.0.

Prepared by: Gail Fenumiai, Election Administrative Supervisor Phone 465-3935  
 Division: Division of Elections Date/Time 1/31/02 3:30 PM  
 Approved by: Lieutenant Governor Fran Ulmer Date 01/31/2002  
 Agency: Office of the Lieutenant Governor

22-LS0734\R  
Cook  
2/4/02

**ADOPTED**

**HOUSE CS FOR CS FOR SENATE JOINT RESOLUTION NO. 23( )**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-SECOND LEGISLATURE - SECOND SESSION**

**BY**

**Offered:  
Referred:**

**Sponsor(s): SENATORS DONLEY, Halford, Ward, Taylor, Cowdery, Phillips, Austerman, Leman, Kelly**

**A RESOLUTION**

1 **Proposing amendments to the Constitution of the State of Alaska relating to an**  
2 **appropriation limit and a spending limit.**

3 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 \* **Section 1.** Article IX, sec. 16, Constitution of the State of Alaska, is repealed and  
5 readopted to read:

6 **Section 16. Appropriation and Spending Limit.** (a) Appropriations made  
7 for a fiscal year shall not exceed by more than four percent the amount appropriated  
8 for the fiscal year two years preceding the fiscal year for which the appropriations are  
9 made. This subsection does not apply to

- 10 (1) an appropriation to the Alaska permanent fund;
- 11 (2) an appropriation of Alaska permanent fund income for payments of
- 12 permanent fund dividends to State residents;
- 13 (3) an appropriation to meet a state of disaster declared by the
- 14 governor as prescribed by law;
- 15 (4) an appropriation for the Alaska Railroad;
- 16 (5) an appropriation of State general obligation and revenue bond

1 proceeds;

2 (6) an appropriation required to pay obligations under general  
3 obligation bonds, revenue bonds, and certificates of participation issued by the State;

4 (7) an appropriation of money received from the federal government;

5 (8) a reappropriation of money already appropriated under an  
6 unobligated appropriation that is not void under Section 13 of this article;

7 (9) an appropriation of money for expenditure by a State agency to  
8 provide services to another State agency that has also received an appropriation of the  
9 same money; and

10 (10) an appropriation made under (b) or (c) of this section.

11 (b) An appropriation that exceeds the limit under (a) of this section may be  
12 made for any public purpose upon affirmative vote of at least two-thirds of the  
13 members of each house of the legislature. The total amount of appropriations under  
14 this subsection made for a fiscal year may not exceed two percent of the amount  
15 appropriated for the fiscal year two years preceding the fiscal year for which the  
16 appropriations are made.

17 (c) An appropriation that exceeds the limit under (a) and (b) of this section  
18 may be made for any public purpose upon affirmative vote of at least three-fourths of  
19 the members of each house of the legislature. The total amount of appropriations  
20 under this subsection made for a fiscal year may not exceed two percent of the amount  
21 appropriated for the fiscal year two years preceding the fiscal year for which the  
22 appropriations are made.

23 (d) If appropriations for a fiscal year exceed the amount that may be  
24 appropriated under (a) - (c) of this section, the governor shall reduce expenditures by  
25 the executive branch for its operation and administration to the extent necessary to  
26 avoid spending more than the amount that may be appropriated under (a) - (c) of this  
27 section.

28 \* Sec. 2. Article XV, Constitution of the State of Alaska, is amended by adding a new  
29 section to read:

30 **Section 30. Transition; Reconsideration of Appropriation and Spending**  
31 **Limit.** (a) Notwithstanding the provision in Section 16(a) of the Article IX that

1 appropriations for a fiscal year shall not exceed by more than four percent the amount  
2 appropriated for the fiscal year two years preceding the fiscal year for which  
3 appropriations are made, appropriations made for

4 (1) fiscal year 2004 under Section 16(a) of Article IX shall not exceed  
5 \$3,328,000,000 excluding appropriations under Section 16(a)(1) - (10) of Article IX;  
6 and

7 (2) fiscal year 2005 under Section 16(a) of Article IX shall not exceed  
8 \$3,394,000,000 excluding appropriations under Section 16(a)(1) - (10) of Article IX.

9 (b) If the 2002 amendment relating to an appropriation and spending limit (art.  
10 IX, sec. 16) is adopted, the lieutenant governor shall place the ballot title and  
11 proposition for the amendment on the ballot again at the general election in 2006 and  
12 every six years thereafter unless it is rejected. If the majority of those voting on the  
13 proposition rejects the proposition, Section 16 of Article IX is repealed on the date the  
14 election is certified.

15 \* Sec. 3. The amendments proposed by this resolution shall be placed before the voters of  
16 the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the  
17 State of Alaska, and the election laws of the state.

2.602

Conceptual Amendment  
moved by Rokeberg — FAILED

Pg. 2, Line 10  
move #10 to #11

insert as #10


exclude fully funded, self supported  
program receipts

friendly amendment  
only those designated in statute



**SENATOR DAVE DONLEY**  
ALASKA STATE LEGISLATURE

DATE: February 5, 2002

TO: Representative Norm Rokeberg, Chair   
House Judiciary Committee

FROM: Senator Dave Donley

RE: Work Draft HCS CS SJR 23 (JUD) "R" Version, "Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit and a spending limit"

Thank you for allowing me to appear before the House Judiciary Committee on October 19, 2001. I appreciated the committee's comments and suggestions. Attached for your consideration is a work draft of HCS CS SJR 23, version "R." Version R contains three changes from the "P" version adopted for discussion by the committee in October:

1. The first change incorporates your committee's suggestion that a third tier of appropriation limit exceptions be allowed with a 75% vote of each house of the Legislature. Section 16(c) was added which allows a third increase not to exceed 2% (page 2, lines 17 - 22).
2. The second change occurs on page 1, lines 11 and 12. Subsection (2) was rewritten to clarify that only the amounts paid out in Permanent Fund Dividends is excluded from the spending limit. The phrasing in the prior version could have been interpreted as excluding administrative costs of the PFD division from the spending limit, which was not my intent.
3. The third change is the inclusion of set dollar amounts on which the FY 04 and FY 05 spending limits are based. This allows the legislature to consider FY 02 supplementals and the FY 03 budget without debating how they may affect the spending limit and will allow a predictable growth in future years.

Attached with the proposed work draft are a sponsor statement reflecting the changes in this new work draft, a sectional analysis of the work draft, a chart showing the effect of the proposed spending limit and potential increases and a copy of the information from the 1982 election pamphlet regarding the original spending limit.

Thank you for considering this legislation. If you have any questions, please do not hesitate to call my office.

DD:dld

cc: House Judiciary Members

**Co-Chair: Senate Finance Committee**

**Vice-Chair: Senate Judiciary Committee**

**Member: Legislative Budget and Audit Committee • Legislative Council**

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[www.akRepublicans.org/Donley.htm](http://www.akRepublicans.org/Donley.htm) • [www.legis.state.ak.us/senate/donley/htm](http://www.legis.state.ak.us/senate/donley/htm)





# SENATOR DAVE DONLEY

ALASKA STATE LEGISLATURE

## Sponsor Statement

for

### Proposed Work Draft "R" Version of House Committee Substitute for Senate Joint Resolution 23 ( ) "Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit and a spending limit"

The Senate Finance Committee believes adoption of an effective, reasonable constitutional spending limit to be an essential first step to developing any new long-range fiscal plan for the state.

Senate Joint Resolution 23 would amend Article IX, sec 16 of Alaska's Constitution by lowering the existing appropriation limit to better reflect Alaska's current revenue picture. Passage of SJR 23 would ensure a limit on the growth of state government and force the state to further reasonably reduce non-essential state spending.

The existing constitutional appropriation limit, adopted by voters in 1981 has not worked as anticipated and has never been effective in restraining state spending. A main reason for its failure is that the starting amount of \$2.5 billion was too high and its escalator factor based on population and inflation was too liberal. In fact, given the increases in inflation and population over the last 19 years, the general fund spending limit imposed by Article IX, Section 16 is over \$6 billion. That is about \$3 billion more than general fund spending in Fiscal Year 2002. SJR 23 would more accurately reflect today's spending by amending the existing appropriation limit.

The appropriation limit proposed by the "R" version of SJR 23 is based on a non-cumulative amount appropriated from 2 years prior and would allow for up to a 2% increase per year (4% total) requiring a simple majority vote. An additional 2% may be appropriated bringing the total to 6%. This additional 2% would require a two-thirds vote of both houses. Yet another 2% may be appropriated bringing the total allowable increase to 8%. This last 2% increase would require a three-fourths vote of both houses.

If, for example 6% more was appropriated for FY08 than FY 06, the FY08 limit would be based on the original 4% increase that passed with a simple majority, not the full 6%.

Co-Chair: Senate Finance Committee

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Sponsor Statement  
Work Draft Version R for  
HCS CS SJR 23 ( )  
February 5, 2002

If the amount appropriated exceeds the limit, the governor shall reduce expenditures by the executive branch for its operation and administration in order to bring expenditures back in line with the constitutional limit.

A transitional section in the resolution sets the FY 04 spending limit at \$3,328,000,000 (derived by increasing the rounded FY 02 amount of \$3.2 billion by 4 percent). This amount may be increased by 2% with a 2/3 vote and an additional 2% with a 3/4 vote. The FY 05 spending limit is set at \$3,394,000,000 (derived by increasing the FY 04 limit by 2% and rounding down). Setting specific amounts for the first two years the new spending limit is in effect allows this legislature to consider FY 02 supplementals and the FY 03 upcoming budget requests without debating how they might possibly effect FY 04 and FY 05 budgets.

SJR 23 also removes the requirement that one-third of the budget be appropriated for capital expenditures. Over the years, several attorney general opinions have been written on the meaning of the constitutional limit; those opinions counter the plain English meaning of the language and have allowed the legislature and the administration to avoid this requirement. SJR 23 removes this arbitrary and superfluous requirement.

SJR 23 simplifies and clarifies exactly what spending counts towards the appropriation limit, something that is not clear in the existing constitutional language.

Without a meaningful constitutional amendment in place that limits the amount of state general fund expenditures, there is absolutely no guarantee that the state will restrain, let alone reduce, spending. SJR 23 would limit state spending and is a key component of any new long-range plan to ensure Alaska's long-term fiscal health.

DD/dld



# SENATOR DAVE DONLEY

ALASKA STATE LEGISLATURE

**Sectional Analysis  
For  
Proposed Work Draft "R" Version of  
House Committee Substitute for Senate Joint Resolution 23 ( )  
"Proposing amendments to the Constitution of the State of Alaska  
relating to an appropriation limit and a spending limit"**

- Section 1** (a) Rewrites the existing constitutional spending limit formula. With the exception of certain types of appropriations and reappropriations, provides that appropriations made for a fiscal year shall not exceed by more than four percent the amount appropriated for the fiscal year two years preceding the fiscal year for which the appropriations are made.
- (b) Permits an appropriation that exceeds the limit under (a) to be made by affirmative vote of two-thirds of the members of each house, and establishes a limit on the amount of these types of appropriations.
- (c) Permits an appropriation that exceeds the limit under (a) and (b) to be made by affirmative vote of two-thirds of the members of each house, and establishes a limit on the amount of these types of appropriations.
- Section 2** (a) Inserts a transitional section under Article XV of the Alaska Constitution setting the base spending limit for Fiscal Year 04 at \$3,328,000,000 and the base spending limit for Fiscal Year 05 at \$3,394,000,000.
- (b) The lieutenant governor is directed to place this proposition on the ballot again at the general election in 2006 and every six years thereafter unless it is rejected.

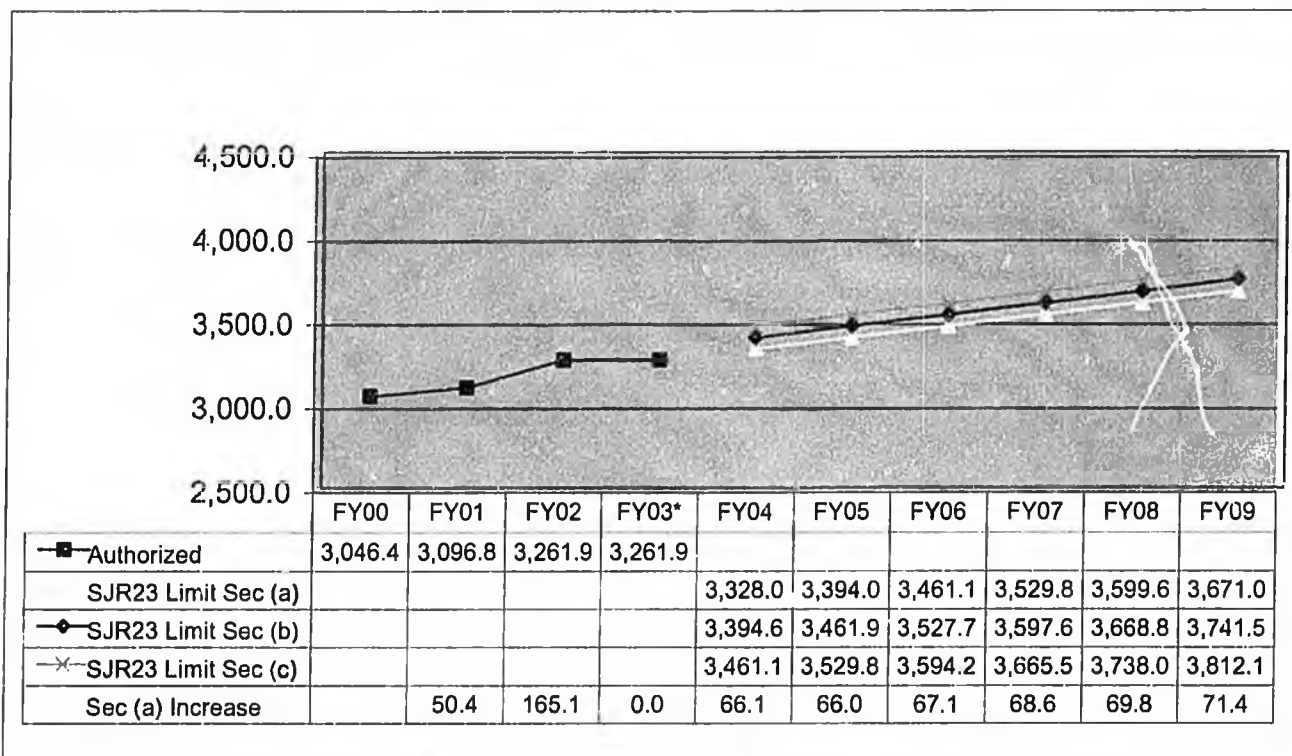
**Section 3** The proposed amendments will be voted on during the 2002 general election.

HCS CS SJR 23, Version R  
Senator Donley:dld 2/5/02

**Co-Chair: Senate Finance Committee  
Vice-Chair: Senate Judiciary Committee**

**Member: Legislative Budget and Audit Committee • Legislative Council**

## SJR 23 Appropriation Limits



Sec (a) allows for up to a 4% increase over the amt appropriated 2 years prior.

Sec (b) states an additional 2% (6% total) may be appropriated with a two-thirds vote of both houses.

Sec (c) states an additional 2% (8% total) may be appropriated with a three-quarters vote of both houses.

(All numbers taken from LFD Fiscal Summaries)

**Not included in SJP23 Limit:**

Permanent Fund dividends, G.O. & revenue bond proceeds, reappropriations, duplicated funds, funds from non-state sources.

	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
Potential cumulative increases over prior year						
Section (a) + (b) increase	132.7	133.9	133.7	136.5	139.0	142.0
Section (a)+(b) + (c) increase	199.2	201.8	200.2	204.4	208.2	212.6

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**BALLOT MEASURE NO. 4****Constitutional Amendment  
AMENDMENT LIMITING INCREASES IN APPROPRIATIONS***(Free Conference Committee Substitute for Senate Joint Resolution No. 4)***SUMMARY***(As it will appear on the November 2, 1982 General Election Ballot)*

This amendment adds a new section to article IX of the Alaska Constitution. The section limits appropriations for a fiscal year to \$2.5 billion, adjusted annually for changes in population and inflation since 1981. At least one-third of the limitation amount is reserved for appropriations for capital projects and state loan programs. The remainder (up to two-thirds) may be spent for governmental operations. Appropriations to the Alaska Permanent Fund and appropriations or bond authorizations for capital projects may exceed this limit if they are not vetoed by the governor and are approved by the voters. The limit could also be exceeded to meet a state of disaster declared by the governor. The limit would not apply to appropriations for permanent fund dividends, general obligation bond payments, appropriations from revenue bond proceeds, or for costs associated with relocation of the capital (if Ballot Measure No. 8 is passed). The amendment provides for reconsideration of the limit by the voters at the 1986 General Election.

**BALLOT FORM:**

A vote "FOR" adopts the amendment.

A vote "AGAINST" rejects the amendment.

FOR   
AGAINST **VOTE CAST BY MEMBERS OF 12TH STATE LEGISLATURE ON FINAL PASSAGE**

Senate	(20 members):	Yeas <u>15</u>	Nays <u>4</u>	Absent or Not Voting <u>1</u>
House	(40 members):	Yeas <u>27</u>	Nays <u>13</u>	Absent or Not Voting <u>0</u>

**LEGISLATIVE AFFAIRS AGENCY SUMMARY***(As required by law)*

The proposed amendments to the Constitution of the State of Alaska would impose a limit on the amount of money that could be appropriated from the state treasury for a state fiscal year. The limit for a fiscal year would be \$2,500,000,000 plus an amount representing cumulative changes in population and inflation from July 1, 1981, to the fiscal year in question. Within the limit on appropriations, one-third of the amount available to be appropriated would be reserved for capital projects and loan appropriations.

The following appropriations would be exempt from the limit on appropriations:

1. an appropriation for Alaska permanent fund dividends;
2. an appropriation of revenue bond proceeds;
3. an appropriation to pay principal and interest on state general obligation bonds;
4. an appropriation of money received from non-state sources in trust for specific purposes;
5. an appropriation to the Alaska Permanent Fund if the appropriation bill is approved by the governor, becomes law without the signature of the governor, or is passed by a three-fourths vote of the membership of the legislature over the veto of the governor; and is approved by the voters as prescribed by law;
6. an appropriation for capital projects if the appropriations bill is confined to projects of the same type; approved by the governor, becomes law without the signature of the governor, or is passed by a three-fourths vote of the membership of the legislature over the veto of the governor; and is approved by the voters as prescribed by law after the voters are informed of the cost of operations and maintenance of the proposed projects; and
7. an appropriation to meet a state of disaster declared by the governor, as prescribed by law.

## BALLOT MEASURE NO. 4 (Cont.)

### LEGISLATIVE AFFAIRS AGENCY SUMMARY (cont.)

The ballot measure also includes three transitional measures associated with the appropriations limit. If the voters approve both the appropriations limit and the cost of providing for relocation of the capital, additional voter approval of appropriations for relocation of the capital would not be required under the appropriations limit. If the appropriation limit is adopted the same proposition must be placed on the 1986 ballot for a second vote and if it is rejected in 1986 the appropriation limit would be repealed. The appropriation limit would apply to appropriations made for the state fiscal years beginning July 1, 1981, and thereafter.

### FULL TEXT OF PROPOSED CONSTITUTIONAL AMENDMENT

**SECTION 16. APPROPRIATION LIMIT.** Except for appropriations for Alaska permanent fund dividends, appropriations of revenue bond proceeds, appropriations required to pay the principal and interest on general obligation bonds, and appropriations of money received from a non-State source in trust for a specific purpose, including revenues of a public enterprise or public corporation of the State that issues revenue bonds, appropriations from the treasury made for a fiscal year shall not exceed \$2,500,000,000 by more than the cumulative change, derived from federal indices as prescribed by law, in population and inflation since July 1, 1981. Within this limit, at least one-third shall be reserved for capital projects and loan appropriations. The legislature may exceed this limit in bills for appropriations to the Alaska permanent fund and in bills for appropriations for capital projects, whether of bond proceeds or otherwise, if each bill is approved by the governor, or passed by affirmative vote of three-fourths of the membership of the legislature over a veto or item veto, or becomes law without a signature, and is also approved by the voters as prescribed by law. Each bill for appropriations for capital projects in excess of the limit shall be confined to capital projects of the same type, and the voters shall, as provided by law, be informed of the cost of operations and maintenance of the capital projects. No other appropriation in excess of this limit may be made except to meet a state of disaster declared by the governor as prescribed by law. The governor shall cause any unexpended and unappropriated balance to be invested so as to yield competitive market rates to the treasury.

**SECTION 26. APPROPRIATIONS FOR RELOCATION OF THE CAPITAL.** If a majority of those voting on the question at the general election in 1982 approve the ballot proposition for the total cost to the State of providing for relocation of the capital, no additional voter approval of appropriations for that purpose within the cost approved by the voters is required under the 1982 amendment limiting increases in appropriations (art. IX, sec. 16).

**SECTION 27. RECONSIDERATION OF AMENDMENT LIMITING INCREASES IN APPROPRIATIONS.** If the 1982 amendment limiting appropriation increases (art. IX, sec. 16) is adopted, the lieutenant governor shall cause the ballot title and proposition for the amendment to be placed on the ballot again at the general election in 1986. If the majority of those voting on the proposition in 1986 rejects the amendment, it shall be repealed.

**SECTION 28. APPLICATION OF AMENDMENT.** The 1982 amendment limiting appropriation increases (art. IX, sec. 16) applies to appropriations made for fiscal year 1984 and thereafter.

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## STATEMENT IN FAVOR OF BALLOT MEASURE NO. 4

Ballot Measure No. 4 deserves the support of all Alaskans. It will prevent the continuation of excessive state spending which has been the pattern in recent years. This spending spree is the result of more projects and more programs. Inflation and population growth have not played a major role.

For example, in 1960, the state budget was \$41 million, the population was 226,000, and the Consumer Price Index 103. In 1980, state spending was \$1.14 billion, the population 400,000, and the Consumer Price Index stood at 290. In Fiscal Year 1982, state spending (not including appropriations to the Permanent Fund), was \$3.84 billion. Population and Consumer Price Index figures have not been published for 1982, but if it is assumed that during the 1980-82 period state population increased to 440,000 and the Consumer Price Index rose to about 350, then between 1960 and 1982, state population increased 94% while the Consumer Price Index increased by 239%. But state spending increased by an astounding 9,265% during this same period.

The passage of Ballot Measure No. 4 will halt that sort of runaway government growth by providing a constitutional limit on most items of state spending. The limit is set at \$2.5 billion each year, adjusted for the

changes in population and inflation. At least one-third of the expenditures must be for capital projects and loans, thus, the day-to-day operating budget of the State is held to two-thirds of the limit, or a maximum of \$1.66 billion, plus adjustments. Provisions are made for additional capital expenditures which are approved by the people and for other expenditures in the event of a disaster declared by the governor.

Although it is true that the Fiscal Year 1983 budget is less than Ballot Measure No. 4 would permit, this relatively austere budget was passed during a time of rapidly falling revenue projections. Had this restraint not been present, there is little reason to believe that the Legislature would have deviated from its past practices of excessive spending.

While Ballot Measure No. 4 is not perfect and does not provide for all the limitations one might want, nevertheless, it is the only constitutional spending limit available. Only by voting to accept this ballot measure can the people of Alaska show their determination to restrain spending by the Legislature and begin the road back to state fiscal responsibility.

—Kent Edwards, President  
Common Sense for Alaska, Inc.

## STATEMENT AGAINST BALLOT MEASURE NO. 4

Only the first two sentences of this measure apply to a spending limitation; the remainder list seven exceptions for spending above the limit, only two of which make much sense: 1) putting money in the Permanent Fund; and 2) spending to clean up a disaster. The remaining five exceptions are loopholes that give legislators and the governor the ability to continue excessive spending on: A) bond authorizations for capital projects; B) issuance of Permanent Fund dividends; C) general obligation bond payments; D) appropriations from revenue bond proceeds; and E) costs of the Capital Move, if passed. All five of these expenditures can be over the spending limit.

But let's back up to those first two sentences. The biggest abuses in government spending are in the area of "capital expenditures," otherwise called "pork". After each capital project is built, it carries operating and maintenance costs. Whatever of the one-third in the limit we spend for capital projects, we are automatically adding to the cost of doing the state's business (the other two-thirds). We cannot continually add to the state's responsibilities and expect the operating two-thirds of the budget to be covered by an increase in population and inflation. We will quickly reach the point where each project built will necessitate cuts in social or educational programs, or will cause a cut in maintenance, leaving our capital projects to decay.

As if this weren't bad enough, let's add in loophole "A", bond authorizations for capital projects. If one-third of the usable revenues aren't enough for desired

and needed capital projects, the Legislature can issue an authorization for the State to sell bonds to build the project. If the governor does not veto the authorization, you will be asked to approve the sale of bonds at a general election. When we sell bonds to get money for projects, we later pay back the buyers—with interest. In loophole "C" we don't even have to count that payback against the spending limit!

Nothing in this measure lays out which projects will be included in the one-third capital limit and which will be put before the voters. As a legislator, I would guess that pet projects of key legislators will be in the budget so they won't be as easily seen by the public. Projects of statewide importance—jails and schools—will be put on the ballot. Each approved project will further impact the operating budget causing a deeper cut in programs and operations.

In addition, there is no provision for declining revenues. This "spending limit" is before you under the assumption we will have increasing revenues each year. That is not likely. As revenues decline, we would be foolish to continue to allocate one-third of our available revenues for building and loans when we will have continually less revenue for operations. In such a case, the only way to maintain government operations would be to increase personal taxes and return to a personal income tax.

We need a spending limitation, but this isn't it.

—Sally Smith, Representative  
Alaska State Legislature



*Adopted  
10.19.01*

22-LS0734VP  
Cook  
9/4/01

**HOUSE CS FOR CS FOR SENATE JOINT RESOLUTION NO. 23( )**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-SECOND LEGISLATURE - SECOND SESSION**

BY

Offered:  
Referred:

Sponsor(s): SENATORS DONLEY, Halford, Ward, Taylor, Cowdery, Phillips, Austerman, Leman, Kelly

**A RESOLUTION**

1 Proposing amendments to the Constitution of the State of Alaska relating to an  
2 appropriation limit and a spending limit.

3 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 \* Section 1. Article IX, sec. 16, Constitution of the State of Alaska, is repealed and  
5 readopted to read:

6 Section 16. **Appropriation and Spending Limit.** (a) Appropriations made  
7 for a fiscal year shall not exceed by more than four percent the amount appropriated  
8 for the fiscal year two years preceding the fiscal year for which the appropriations are  
9 made. This subsection does not apply to

- 10 (1) an appropriation to the Alaska permanent fund;
- 11 (2) an appropriation of Alaska permanent fund income for a program  
12 that provides permanent fund dividends to State residents;
- 13 (3) an appropriation to meet a state of disaster declared by the  
14 governor as prescribed by law;
- 15 (4) an appropriation for the Alaska Railroad;
- 16 (5) an appropriation of State general obligation and revenue bond

1 proceeds;

2 (6) an appropriation required to pay obligations under general  
3 obligation bonds, revenue bonds, and certificates of participation issued by the State;

4 (7) an appropriation of money received from the federal government;

5 (8) a reappropriation of money already appropriated under an  
6 unobligated appropriation that is not void under Section 13 of this article;

7 (9) an appropriation of money for expenditure by a State agency to  
8 provide services to another State agency that has also received an appropriation of the  
9 same money; and

10 (10) an appropriation made under (b) of this section.

11 (b) An appropriation that exceeds the limit under (a) of this section may be  
12 made for any public purpose upon affirmative vote of two-thirds of the members of  
13 each house of the legislature. The total amount of appropriations under this subsection  
14 made for a fiscal year may not exceed two percent of the amount appropriated for the  
15 fiscal year two years preceding the fiscal year for which the appropriations are made.

16 (c) If appropriations for a fiscal year exceed the amount that may be  
17 appropriated under (a) or (b) of this section, the governor shall reduce expenditures by  
18 the executive branch for its operation and administration to the extent necessary to  
19 avoid spending more than the amount that may be appropriated under (a) or (b) of this  
20 section.

21 \* **Sec. 2.** Article XV, Constitution of the State of Alaska, is amended by adding a new  
22 section to read:

23 **Section 30. Reconsideration of Appropriation and Spending Limit.** If the  
24 2002 amendment relating to an appropriation and spending limit (art. IX, sec. 16) is  
25 adopted, the lieutenant governor shall place the ballot title and proposition for the  
26 amendment on the ballot again at the general election in 2006 and every six years  
27 thereafter unless it is rejected. If the majority of those voting on the proposition  
28 rejects the amendment, Section 16 of Article IX is repealed on the date the election is  
29 certified.

30 \* **Sec. 3.** The amendments proposed by this resolution shall be placed before the voters of  
31 the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the

1 State of Alaska, and the election laws of the state.



# Alaska State Senate

## Senate Finance Committee


Official Business

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

### MEMORANDUM

October 8, 2001

TO: House Judiciary Committee Members

FROM: Senator Dave Donley, Co-Chair   
Senate Finance Committee

RE: Committee Substitute to Senate Joint Resolution 23 (FIN)am "P" Version, "Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit and a spending limit"

I ask that you support the adoption of CS SJR 23 (FIN)am, the "P" version, as a House Committee Substitute and pass it from committee at your earliest convenience.

Briefly, this proposed constitutional amendment revises the existing appropriation limit (Article IX, Section 16) adopted in 1981.

The existing appropriation limit is too high, is unclear, and is not functioning as intended. The "P" version of SJR 23 would lower the appropriation limit to create an enforceable reasonable restraint, clarify how the limit is calculated, remove the non effectual one-third capital spending requirement and link future increases to the two previous year's spending levels rather than a single starting point amount.

The Senate Finance Committee believes adoption of an effective, reasonable constitutional spending limit to be an essential first step to developing any new long-range fiscal plan for the state.

Attached for your further information are the following documents:

- Committee Substitute to Senate Joint Resolution 23 (FIN)am "P" Version
- Existing Article IX, Section 16 of the Alaska Constitution
- Sectional Summary
- Sponsor Statement to CS SJR 23 (FIN)am
- Talking Points for CS SJR 23 (FIN)am
- Charts

DD:jjj

**Existing Provision  
Alaska Constitution  
Article IX, Section 16**

Section 9.16 - Appropriation Limit.

Except for appropriations for Alaska permanent fund dividends, appropriations of revenue bond proceeds, appropriations required to pay the principal and interest on general obligation bonds, and appropriations of money received from a non-State source in trust for a specific purpose, including revenues of a public enterprise or public corporation of the State that issues revenue bonds, appropriations from the treasury made for a fiscal year shall not exceed \$2,500,000,000 by more than the cumulative change, derived from federal indices as prescribed by law, in population and inflation since July 1, 1981. Within this limit, at least one-third shall be reserved for capital projects and loan appropriations. The legislature may exceed this limit in bills for appropriations to the Alaska permanent fund and in bills for appropriations for capital projects, whether of bond proceeds or otherwise, if each bill is approved by the governor, or passed by affirmative vote of three-fourths of the membership of the legislature over a veto or item veto, or becomes law without signature, and is also approved by the voters as prescribed by law. Each bill for appropriations for capital projects in excess of the limit shall be confined to capital projects of the same type, and the voters shall, as provided by law, be informed of the cost of operations and maintenance of the capital projects. No other appropriation in excess of this limit may be made except to meet a state of disaster declared by the governor as prescribed by law. The governor shall cause any unexpended and unappropriated balance to be invested so as to yield competitive market rates to the treasury.

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop, 3101

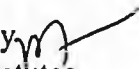
State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## MEMORANDUM

October 4, 2001

**SUBJECT:** Constitutional appropriation and spending limit; sectional summary for HCS CSSJR 23( ) (Work Order No. 22-LS0734\P; 9/14/01)

**TO:** Senator Dave Donley

**FROM:** Pamela Finley   
Revisor of Statutes

**Sec. 1. (a)** Rewrites the existing constitutional spending limit formula. With the exception of certain types of appropriations and reappropriations, provides that appropriations made for a fiscal year shall not exceed by more than four percent the amount appropriated for the fiscal year two years preceding the fiscal year for which the appropriations are made.

(b) Permits an appropriation that exceeds the limit to be made by affirmative vote of two-thirds of the members of each house, and establishes a limit on the amount of these types of appropriations.

(c) If appropriations for a fiscal year exceed the limits under (a) or (b), the governor is directed to reduce expenditures by the executive branch for its operation and administration to the extent necessary to avoid spending that exceeds the limits.

**Sec. 2.** The lieutenant governor is directed to place this proposition on the ballot again at the general election in 2006 and every six years thereafter unless it is rejected.

**Sec. 3.** The proposed amendments will be voted on during the 2002 general election.

PF:glc  
01-328.glc



# Alaska State Senate

## Senate Finance Committee

Official Business

Mail Stop 3100

State Capitol

Juneau, Alaska 99801-1182

**Sponsor Statement**

**for**

**Committee Substitute for Senate Joint Resolution 23 (FIN)am  
Including Explanation of Proposed "P" Version House Committee Substitute  
"Proposing amendments to the Constitution of the State  
of Alaska relating to an appropriation limit and a spending limit"**

The Senate Finance Committee believes adoption of an effective, reasonable constitutional spending limit to be an essential first step to developing any new long-range fiscal plan for the state.

Senate Joint Resolution 23 would amend Article IX, sec 16 of Alaska's Constitution by lowering the existing appropriation limit to better reflect Alaska's current revenue picture. Passage of SJR 23 would ensure a limit on the growth of state government and force the state to further reasonably reduce non-essential state spending.

The existing constitutional appropriation limit, adopted by voters in 1981, has not worked as anticipated and has never been effective in restraining state spending. A main reason for its failure is that the starting amount of \$2.5 billion was too high and its escalator factor based on population and inflation was too liberal. In fact, given the increases in inflation and population over the last 19 years, the general fund spending limit imposed by Article IX, Section 16 will be over \$6 billion. That is about \$3 billion more than general fund spending in the Fiscal Year 2000. SJR 23 would more accurately reflect today's spending by amending the existing appropriation limit.

SJR 23, as it passed the Senate, would allow the legislature to exceed the limit by no more than 1/2 of the annual increase in both population levels and the consumer price index. SJR 23 also contains a mechanism allowing the legislature to increase the base limit to 75% of the increase in population and inflation with a 2/3 vote of each house.

Working with Legislative Finance and Legal during the 2001 interim, we have developed a proposed committee substitute (P version).

The appropriation limit that the "P" version of SJR 23 proposes would be based on a non-cumulative amount appropriated from 2 years prior and would allow for up to a 2% increase per year (4% total) requiring a simple majority vote. An additional 2% may be appropriated bringing the total to 6%. This additional 2% would require a two-thirds vote of both houses.

If, for example 6% was appropriated for FY04, the FY06 limit would be based on the original 4% increase that passed with a simple majority, not the full 6%.

Sponsor Statement  
CS SJR 23 (FIN)am "P" Version  
October 8, 2001

If the amount appropriated exceeds the limit, the governor shall reduce expenditures by the executive branch for its operation and administration in order to bring expenditures back in line with the constitutional limit.

SJR 23 also removes the requirement that one-third of the budget be appropriated for capital expenditures. Over the years, several attorney general opinions have been written on the meaning of the constitutional limit; those opinions counter the plain English meaning of the language and have allowed the legislature and the administration to avoid this requirement. SJR 23 removes this arbitrary and superfluous requirement.

SJR 23 simplifies and clarifies exactly what spending counts towards the appropriation limit, something that is not clear in the existing constitutional language.

Without a meaningful constitutional amendment in place that limits the amount of state general fund expenditures, there is absolutely no guarantee that the state will restrain, let alone reduce, spending. SJR 23 would limit state spending and is a key component of any new long-range plan to ensure Alaska's long-term fiscal health.

DD/jja

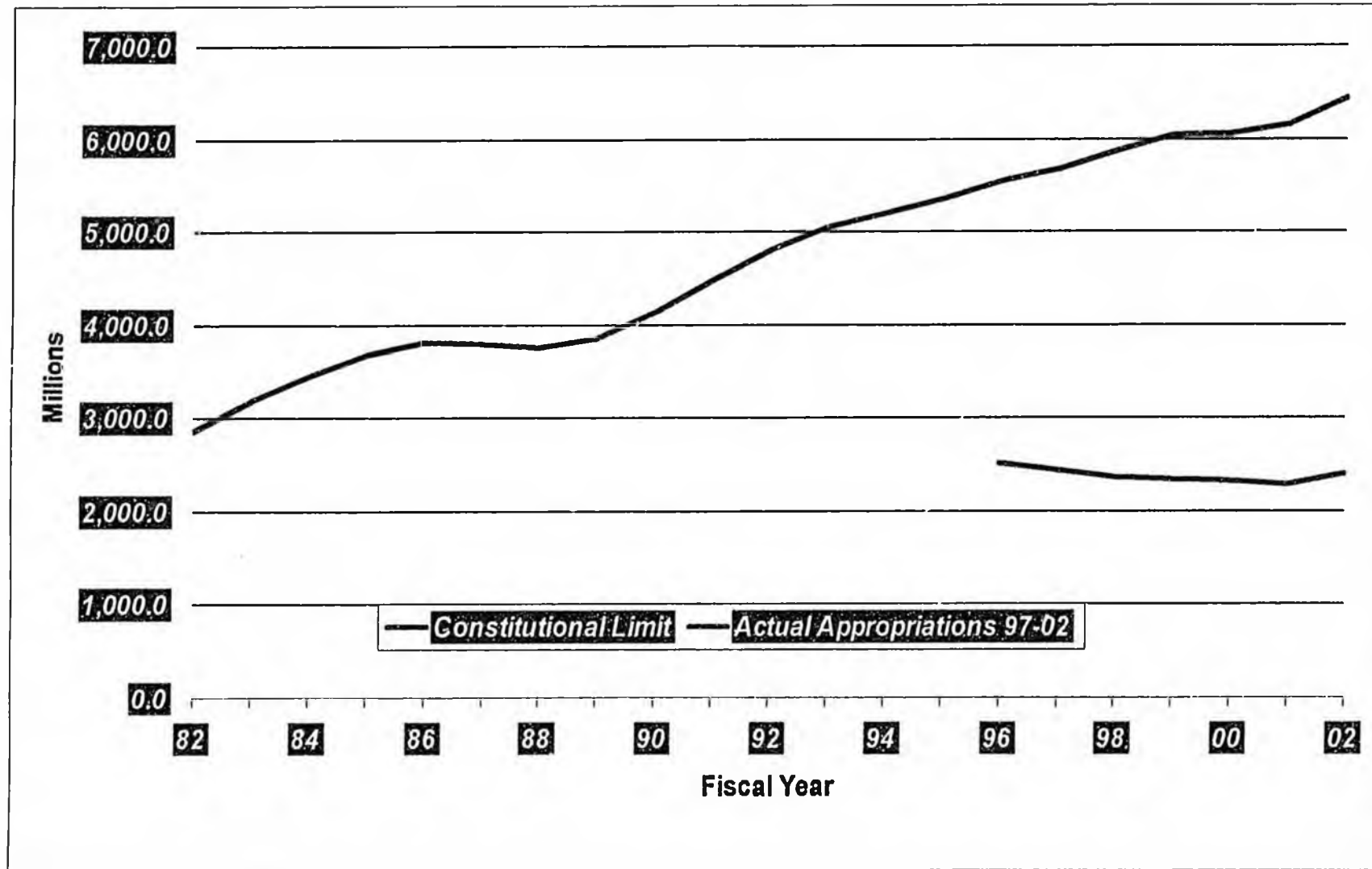


**Existing Constitutional Appropriation Limit  
vs. the "P" Version of SJR 23 Appropriation Limit  
(Includes explanation of charts)  
Prepared by Senator Donley's Office**

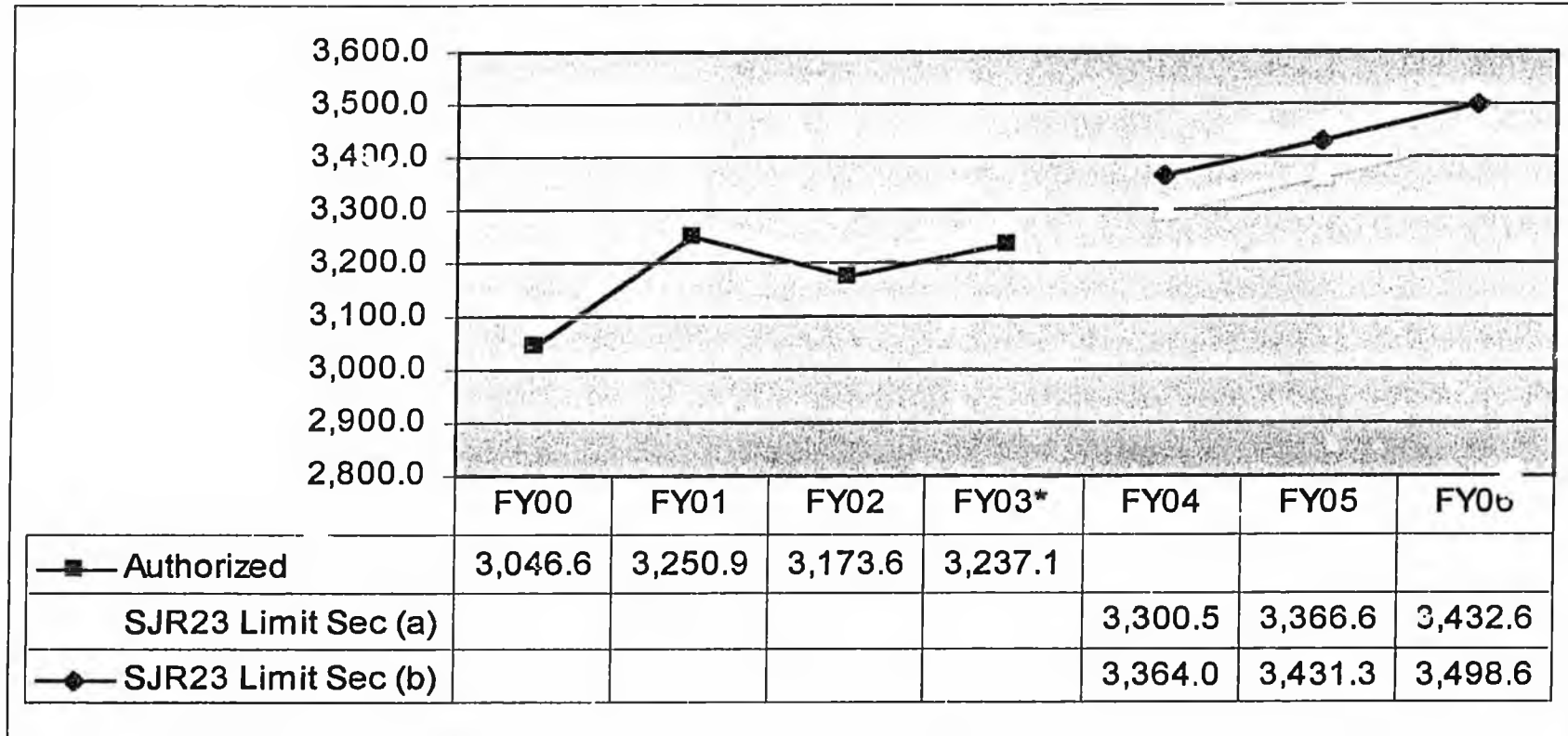
- A constitutional spending limit is a key component of any long-term fiscal plan
- Lowers existing appropriation limit to reflect the current budget situation
- The current appropriation limit, based on population growth and inflation rates, is addressed in Article 9, Section 16 of the Alaska Constitution which took affect December 24, 1982. The limit for FY02 is \$6.4 billion.
- The graph shows the existing spending limit based on numbers provided by OMB and includes actual GF appropriations for FY96 to FY02. It is obvious that the existing constitutional limit is obsolete since it allows for an FY02 appropriation of \$6.4 billion and the actual GF appropriated is only \$2.4 billion.
- Simplifies and clarifies exactly what spending counts toward the appropriation limit and more importantly, what does not.
- The following items are excluded from the limit:
  1. appropriations by the governor to meet a state disaster
  2. revenue bond proceeds
  3. principle & interest payments of general obligation bonds
  4. reappropriations
  5. interagency receipts (appropriations to one agency which are then paid to another agency for services)
  6. federal funds
  7. appropriations having to do with the Alaska railroad
  8. appropriations having to do with the permanent fund, including permanent fund dividends.
- The current limit excludes PFDs, revenue bond proceeds, general obligation bond principal/interest payments and **"money received from a non-State source in trust for a specific purpose. . ."** This is ambiguous.
- The appropriation limit that SJR 23 proposes would be based on a non-cumulative amount appropriated from 2 years prior and would allow for up to a 2% increase per year (4% total) requiring a simple majority vote. The chart assumes SJR 23 would be in effective for the FY04 budget process and would be based on the appropriated amount for FY02.
- An additional 2% may be appropriated bring the total to 6%. This additional 2% would require a two-thirds vote of both houses.

- If, for example 6% was appropriated for FY04, the FY06 limit would be based on the original 4% increase that passed with a simple majority, not the full 6%.
- If the amount appropriated exceeds the limit, the governor shall reduce expenditures by the executive branch for its operation and administration in order to bring expenditures back in line with the constitutional limit.
- Removes the requirement that 1/3 of the appropriations be used for capital projects. This is an arbitrary number and Attorney General Opinions have negated the original intent of the language, thus allowing the legislature and administration to currently avoid this requirement
- Alaska voters are given the opportunity after four years (2006) to reaffirm their wish to maintain this appropriation limit and again every six years after that. In the event they choose not to approve it, Article IX Section 16 is repealed and removed from the constitution.
- SJR 23 ensures a limit on state government growth and will encourage the state to reasonably reduce non-essential state spending.

# The Current Spending Limit vs Recent Appropriations



## Projected Appropriation Limits under SJR 23



\*FY03 Authorized budget estimated at 2% increase over FY02.

Sec (a) allows for up to a 4% increase over the amount appropriated 2 years prior.

Sec (b) states an additional 2% may be appropriated with a two-thirds vote of both houses.

**Not Included In SJR23 Limit:** Permanent Fund dividends, G.O. & revenue bond proceeds, reappropriations, duplicated funds, and funds from non-State sources.

All numbers taken from LFD Fiscal Summaries in Summary of Appropriations

## Comments on SJR 23 and Alaska Public Spending

Scott Goldsmith  
 Institute of Social and Economic Research  
 786-7720  
 10/18/01

### part 1. How do the inflation and population assumptions impact spending under SJR 23.

SJR 23 would establish a cap on state spending that grows at half the rate of inflation and population growth. The result is a gradual decline in real per capita spending. If passed into law the cap comes up for review periodically.

The rate of decline in real per capita spending is totally dependent upon the rate of inflation and population growth. If inflation is modest and population growth is slow, the erosion of spending will be small in a single year, although over time it will become large.

For example in case 1 below if population growth is at 1% and inflation is at 3%, levels consistent with recent experience, the budget can grow 2% and the real per capita spending cap falls 2% annually. After 10 years the real per capita budget has fallen to 82.2% of the base -- a decline of 17.8%.

<b>CASE 1.</b>	population	1.0%
	price level	3.0%
	combined	4.03%
	half	2.02% (allowable budget growth)

year	expend	pop	ex/pop	REAL PER CAPITA (2002\$)		
				expend	expend/ base yr ex	% decline from base
2002	\$3,100,000	625,000	\$4,960	\$4,960		
2003	\$3,162,465	631,250	\$5,010	\$4,864	98.1%	1.9%
2004	\$3,226,189	637,563	\$5,060	\$4,770	96.2%	3.8%
2005	\$3,291,196	643,938	\$5,111	\$4,677	94.3%	5.7%
2006	\$3,357,514	650,378	\$5,162	\$4,587	92.5%	7.5%
2007	\$3,425,168	656,881	\$5,214	\$4,498	90.7%	9.3%
2008	\$3,494,185	663,450	\$5,267	\$4,411	88.9%	11.1%
2009	\$3,564,593	670,085	\$5,320	\$4,325	87.2%	12.8%
2010	\$3,636,419	676,785	\$5,373	\$4,242	85.5%	14.5%
2011	\$3,709,693	683,553	\$5,427	\$4,159	83.9%	16.1%
2012	\$3,784,444	690,389	\$5,482	\$4,079	82.2%	17.8%

Inflation and population growth are outside the control of the state and they could be very different from the CASE 1 assumptions. In general, better economic times result in faster population growth, higher inflation, and perhaps the need for new or additional public spending.

For example in the decade of the 1970s the experience was as follows:

population growth	3.1% annually
inflation	7.6% annually

If that experience were to repeat in the next decade, under SJR 23 the budget could grow about 5.5% annually, but real per capita spending would fall 5.5% annually. After 10 years the real per capita budget would have fallen to 59% of the base -- a decline of 41%.

population	3.1%
price level	7.6%
combined	10.94%
half	5.47%

real per capita spending	
base year	\$4,960
10 years later	\$2,913
expend relative to base	59%
% loss	41%

part 2. **What is the link between population and state government programs?**

Some but not all programs are directly or indirectly tied to particular population groups. Consequently whether an increase in population directly results in an increase in required state expenditures depends upon the mix of population additions. One can think of numerous scenarios.

For example if population growth during this decade is slow, we can expect a relative increase in the young adults (17-29) and older adults (47+)

Furthermore some programs are tied not to population, but to economic conditions or other variables.

For example if growth in employment opportunities is limited then the demand for job training and other services could increase in spite of no growth in the population.

part 3. **What has been recent public expenditure experience of Alaska.**

Consider combined state and local government outlays from own sources  
(Everything except federal grants and Permanent Fund Dividend)

Real Per Capita Expenditures have been falling since the mid 80's (Graph 1)

Consider combined state and local government outlays including federal grants.

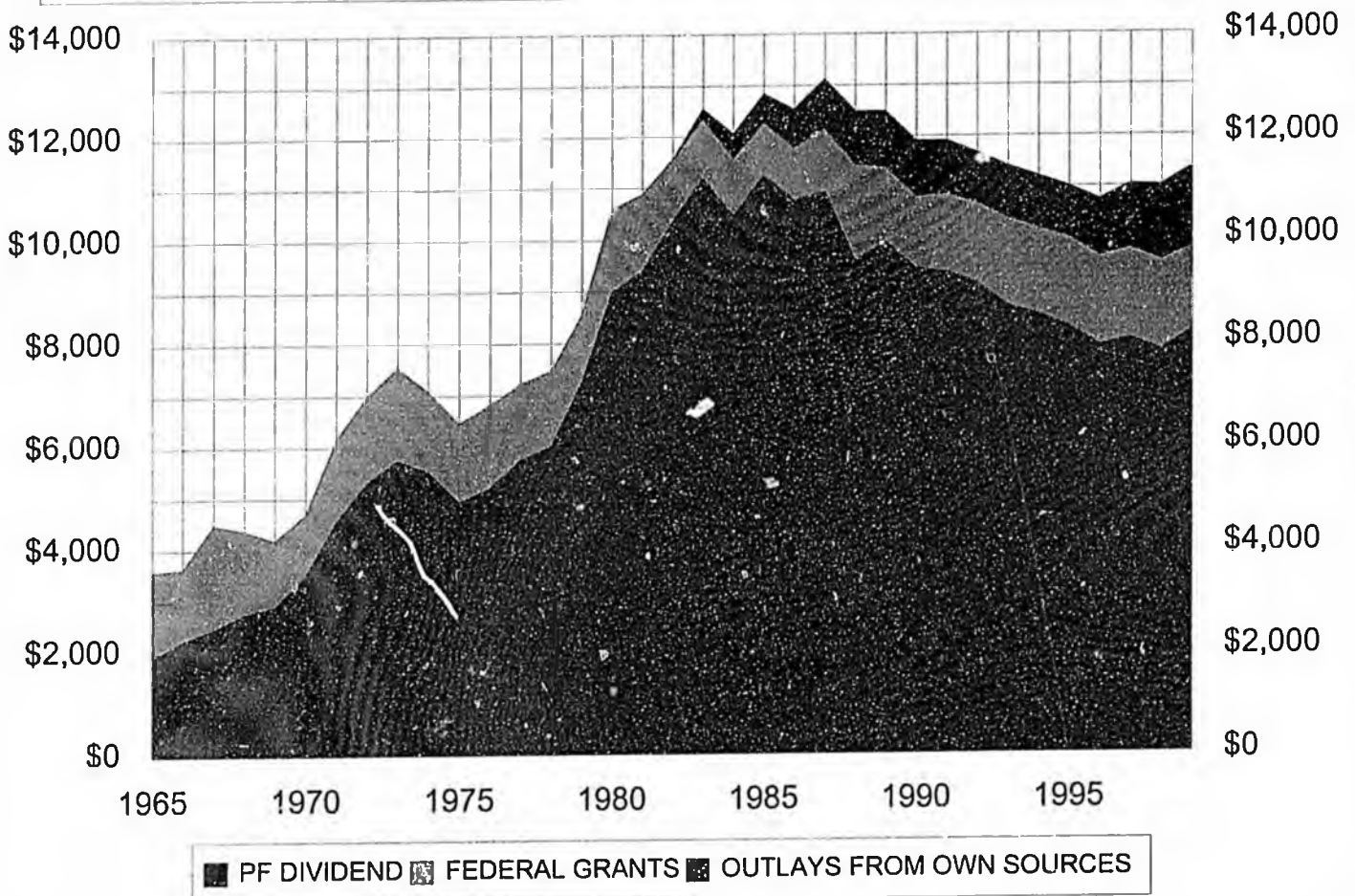
Real Per Capita Expenditures compared to the US average have been falling since the early 80's and are now at the comparative level of the mid 60's (Graph 2)

Source: US Department of Commerce

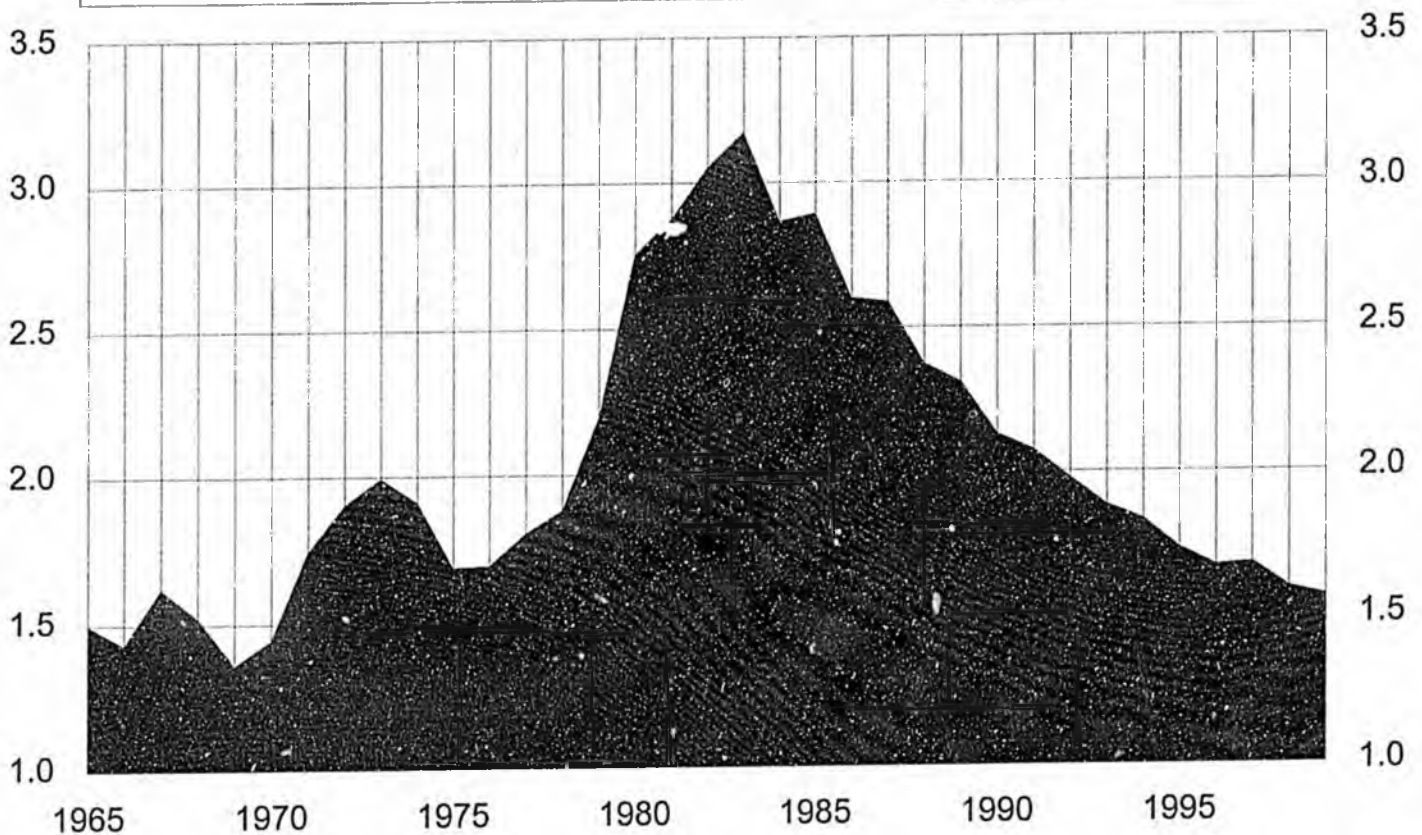
part 4. **What is the link between state income and public spending?**

For the US there is a positive relationship between income and public spending. That is, when personal income in a state increases--independent of population and the price level--public spending increases by about the same percentage. This suggests that as a state gets richer, its citizens choose to allocate a portion of the new wealth to public spending (Graph 3.).

### ALASKA STATE & LOCAL EXPENDITURES PER CAPITA 1998 \$



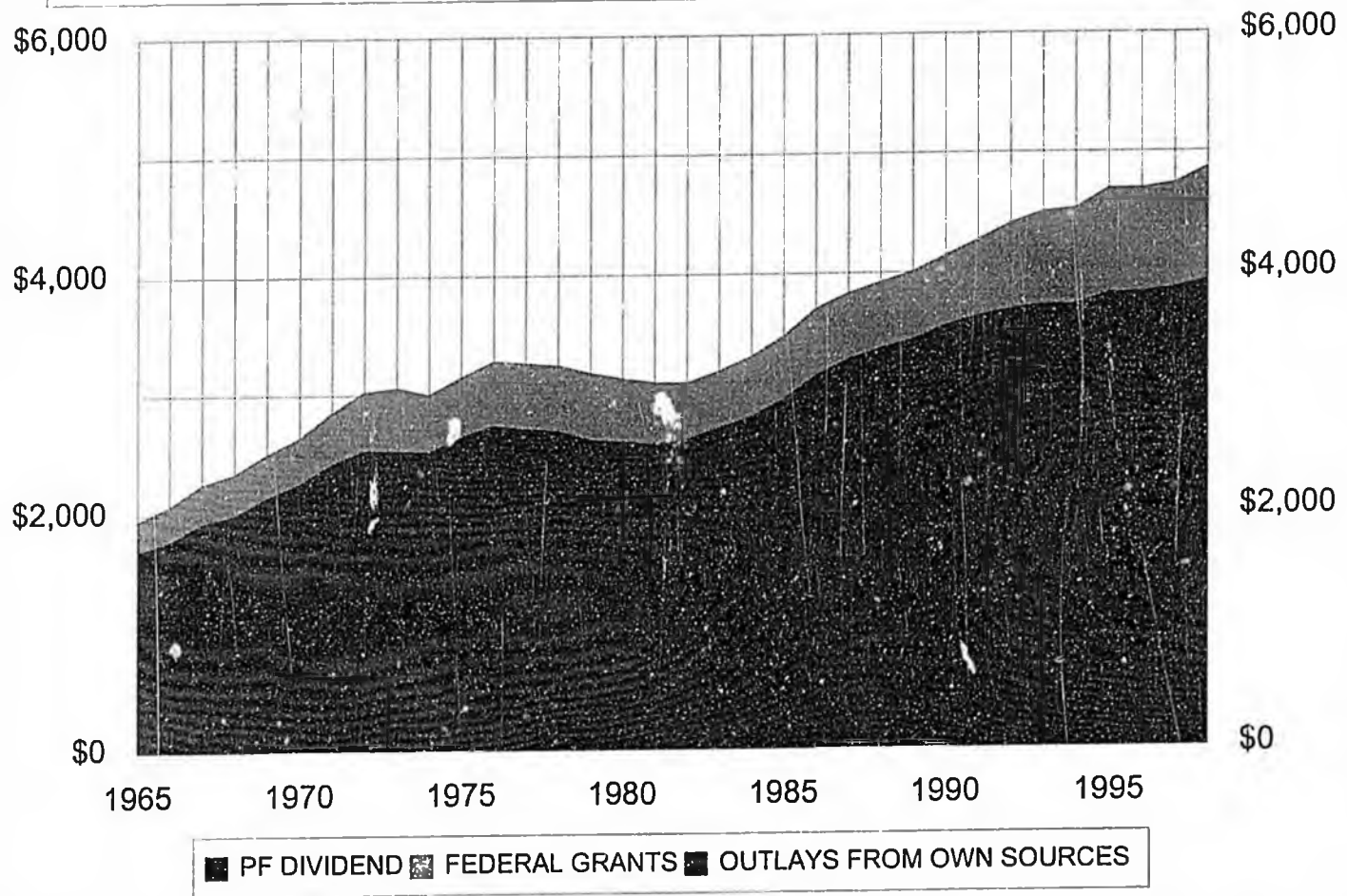
### ALASKA STATE & LOCAL OUTLAYS PER CAPITA TIMES THE NATIONAL AVERAGE--COLA ADJUSTED



SOURCE: US DEPT OF COMMERCE OUTLAYS  
TOTAL OUTLAYS NET DIVIDEND



### US AVG STATE & LOCAL EXPENDITURES PER CAPITA 1998 \$



# FISCAL NOTE

**STATE OF ALASKA**  
**2001 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: SJR 23  
 (S) Publish Date: 5/3/01

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected: OOG  
 Title: Constitutional Amendment relating to an BRU: Elective Operations  
appropriation limit and a spending limit Component: Elections  
 Sponsor: Senator Donley  
 Requester: Senate Finance Committee Component Number: 21

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual		1.5				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

FUND SOURCE	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
1002 Federal Receipts						
1003 GF Match						
1004 GF		1.5				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

**POSITIONS**

Full-time	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)  
 This figure includes the cost of providing information about this issue in the Official Election Pamphlet, as required by AS 15.58. If this measure requires the printing an 8-1/2 by 18 inch ballot, the cost will increase by \$22.0.

Prepared by: Gail Fenumial Phone 465-3935  
 Division: Division of Elections Date/Time 04/10/01 4:25PM  
 Approved by: Lieutenant Governor Fran Ulmer Date 04/10/2001  
 Agency: Office of the Lieutenant Governor

For distribution information, call the Governor's Legislative Office



FEB 11 2002

State Of Alaska  
Legislative Affairs Agency  
Kenai LIO  
145 Main St Lp, Ste 217  
Kenai, AK 99611  
907-283-2030

Date: 2-06-02

Please accept the enclosed original(s) of written testimony for the House Judiciary teleconference hearing that was scheduled on 2-06-02.

A copy of this testimony was transmitted to your committee via fax on 2-06-02 1:35pm.

Thank You,

Kathleen Eumans



# Alaska State Legislature

Please enter into the record my testimony to the House Judiciary  
committee name

Committee on SJR 23 dated, February 6, 2002  
bill # / subject

I support the idea of a constitutional limit on State spending. However I do not believe the proposed \$3.1 billion limit is realistic given the state population and ability to pay for a government of this size. Current proposed spending cost every man, woman, and child in this state over \$12,000. For a family of 4 that's over \$48,000! We need to think about this number for a minute and ask ourselves, "am I getting my money's worth from the government services provided"? Most Alaskan voters will say NO!

Some officials have suggested taxes as a means to support a government of this size. This might be a temporary solution to the budget problem, but will not even come close in the near future. There are simply not enough employed citizens in the entire state to shoulder revenues lost as oil production declines.

At current budget levels each working person in Alaska would need to pay over \$26,000 to fund State government once oil revenues are gone. I know there are Federal dollars coming into the State as "revenue", but where does this money come from. A lot will come from the same few taxpayers! In the future, how many working people will be able to afford living here with that much tax burden?

Please seriously consider eliminating all spending bills not mandated by the Alaska State Constitution, and fully funding those that are. Once we get to this point, we will all know what the budget cap should be. Until then, let's make the necessary cuts needed while we still have income available to fund future essential government services.

Please vote NO on SJR 23 in its current form.

Thank you.

Signed: Mike McBride  
Testifier

Self  
Representing (optional)

PO Box 6 Kenai, Alaska 99611-0006  
Address

(907) 776-5444  
Phone number

**SENATOR DAVE DONLEY'S  
HOUSE JUDICIARY COMMITTEE  
SJR 23 & SJR 24 PRESENTATION  
OCTOBER 19, 2001**

**(SLIDE 1)**

**Senator Dave Donley**  
Co-Chair Senate Finance Committee

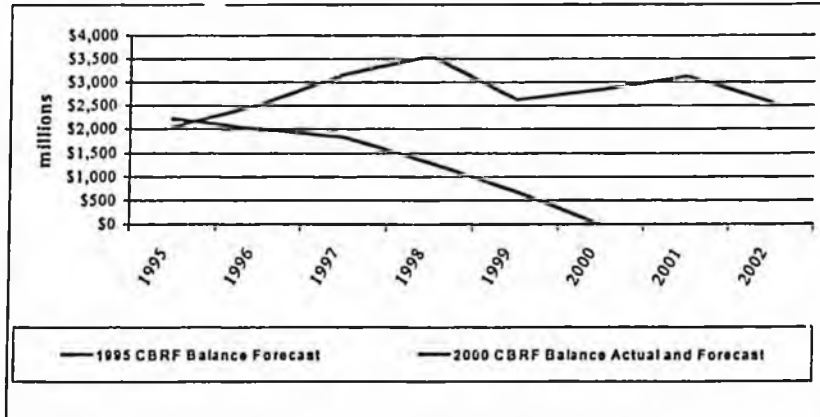
**SJR 23**  
**Reforming the**  
**Constitutional**  
**Spending Limit**

**SJR 24**  
**Restoring the**  
**Original Intent of**  
**the 1990 CBR**  
**Amendment**

**MOST ALASKANS AGREE THAT DEVELOPMENT OF A LONG-RANGE FISCAL PLAN  
IS ONE OF THE GREATEST CHALLENGES FACING OUR STATE.**

**(SLIDE 2)**

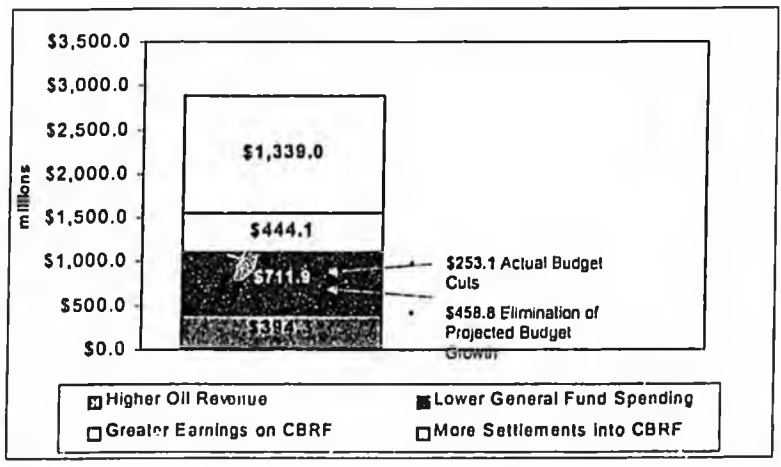
## CBRF: The View from Here



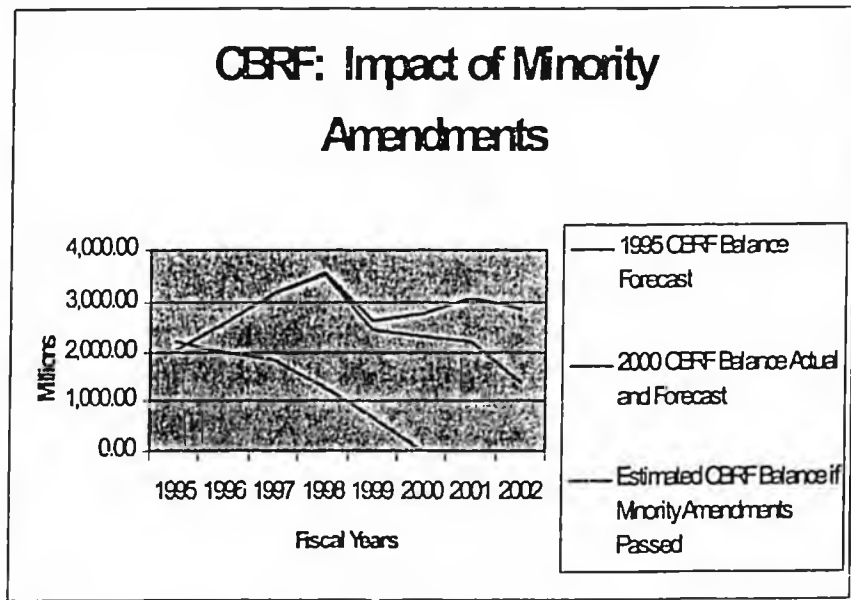
A VERY SURPRISING FACT TO MOST ALASKANS IS THAT OVER THE PAST FIVE YEARS, THE CONSTITUTIONAL BUDGET RESERVE, INCLUDING THE PCE ENDOWMENT, ACTUALLY INCREASED TO OVER \$3 BILLION IN JUNE.

(SLIDE 3)

### Why We Had More in the CBRF in FY 2000 than We Forecast in 1995



(SLIDE 4)



**THE SENATE MAJORITY BELIEVES THAT BEFORE CONSIDERING MAJOR NEW TAXES ON ALASKANS, GOVERNMENT SHOULD FIRST BE AS WELL RUN AS POSSIBLE.**

THE BASIS OF GOVERNMENT IN AMERICA IS OUR CONSTITUTIONS. WHEN WE START TO CREATE A NEW FINANCIAL PLAN WE NEED TO LOOK AND MAKE SURE THAT OUR STATE CONSTITUTION IS FUNCTIONING PROPERLY.

IT'S CLEAR THAT THERE ARE TWO PARTS OF OUR STATE CONSTITUTION THAT DEAL WITH FISCAL POLICY THAT ARE NOT FUNCTIONING PROPERLY. THEY ARE THE EXISTING CONSTITUTIONAL APPROPRIATION LIMIT AND THE EXISTING CONSTITUTIONAL BUDGET RESERVE PROVISION.

**(SLIDE 5)**



## **SJR 23**

# **Reforming the Constitutional Spending Limit**

- The current constitutional appropriation limit is not working
- The language is misleading
- The language is unclear
- The limit has grown too large

ONE THING WAS CLEAR FROM THE OVERWHELMING REJECTION IN SEPTEMBER 1999 OF THE LAST FISCAL PLAN PROPOSAL. . . .

ALASKANS DO NOT WANT TO GIVE GOVERNMENT A BLANK CHECK.

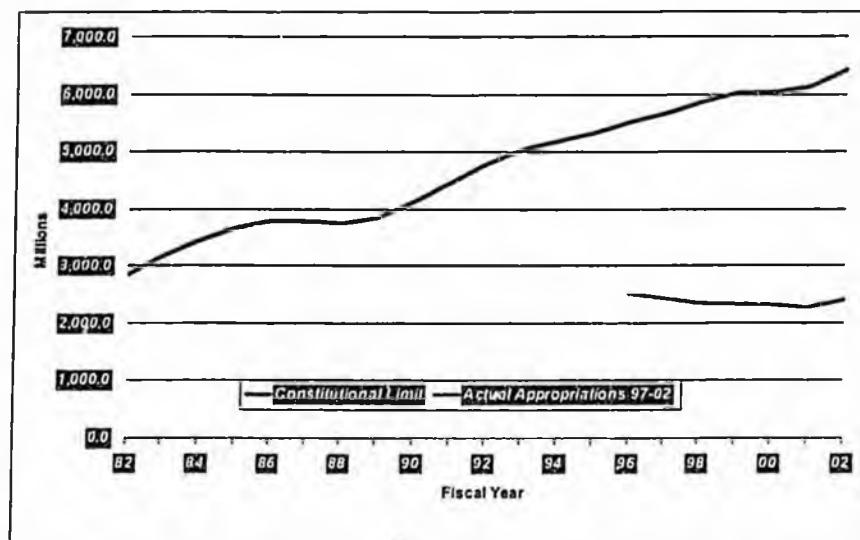
TO BE ACCEPTABLE TO THE MAJORITY OF ALASKANS, ANY NEW PLAN MUST START WITH REASONABLE LIMITS ON GOVERNMENT SPENDING.

THE FIRST STEP TO THE SENATE FINANCE COMMITTEE'S FISCAL PLAN IS EXACTLY THAT . . . .

TO LIMIT THE EXPANSION OF GOVERNMENT SPENDING THROUGH THE ADOPTION OF SENATE JOINT RESOLUTION 23 REVISING THE EXISTING CONSTITUTIONAL APPROPRIATION LIMIT.

**TALK ABOUT SLIDE 5 (SLIDE 6)**

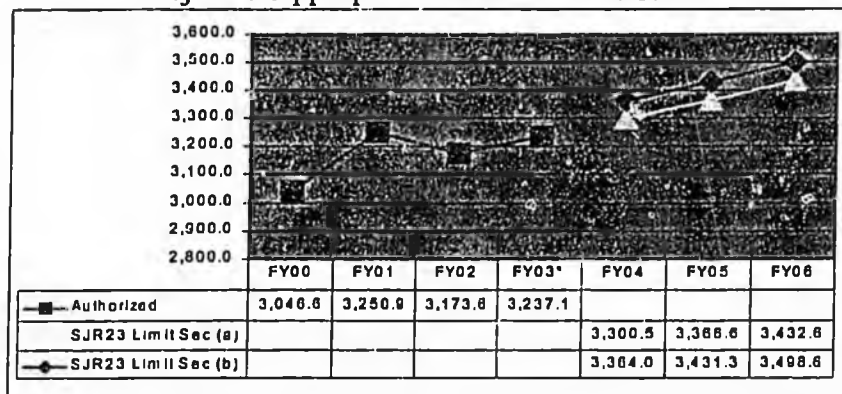
### The Current Spending Limit vs Recent Appropriations



THE EXISTING CONSTITUTIONAL APPROPRIATION LIMIT WAS ADOPTED BY THE VOTERS IN 1982. THIS PROVISION CURRENTLY LIMITS GOVERNMENT SPENDING TO ABOUT \$6 BILLION; HOWEVER, WE ONLY CURRENTLY SPEND ABOUT \$3 BILLION. THE ENORMOUS SIZE OF THE CURRENT APPROPRIATION LIMIT OCCURRED BECAUSE THE CONSTITUTIONAL PROVISION HAS A BUILT-IN ESCALATOR CLAUSE FOR INFLATION AND POPULATION. TO CORRECT THIS, THE PROPOSED COMMITTEE SUBSTITUTE PROPOSES TO BASE ANY ALLOWABLE INCREASES ON PREVIOUS YEAR'S BUDGETS AND TO LIMIT THOSE INCREASES TO ONLY 2 PERCENT. SJR 23 ALSO CLARIFIES WHAT IS AND IS NOT INCLUDED IN THE APPROPRIATION LIMIT.

(SLIDE 7)

## Projected Appropriation Limits under SJR 23



\*FY03 Authorized budget estimated at 2% increase over FY02.

Sec (a) allows for up to a 4% increase over the amount appropriated 2 years prior.  
Sec (b) states an additional 2% may be appropriated with a two-thirds vote of both houses.

Not Included in SJR23 Limit: Permanent Fund dividends, G.O. & revenue bond proceeds, reappropriations, duplicated funds, and funds from non-State sources.

All numbers taken from LFD Fiscal Summaries in Summary of Appropriations

IN REVISING THE EXISTING CONSTITUTIONAL APPROPRIATION LIMIT, WE ARE LEARNING FROM THE MISTAKES OF THE PAST. WE RECOGNIZE, HOWEVER, THAT CIRCUMSTANCES CHANGE. THAT'S WHY THE PROPOSED COMMITTEE SUBSTITUTE FOR SJR 23 CONTAINS A SPECIAL PROVISION TO HAVE VOTERS REVIEW IT AGAIN IN 4 YEARS AND THEN EVERY 6 YEARS THEREAFTER. IF IT IS NOT FUNCTIONING CORRECTLY, IF PEOPLE WANT TO SPEND MORE THAN THE LIMIT ALLOWS, OR IF WE SOLVE THE FISCAL CRISIS, ALASKANS CAN VOTE IT OUT OF THE CONSTITUTION.

(SLIDE 8)

## **SJR 24**

### **Restoring the Original Intent of the 1990 CBR Amendment**

- The CBR is functioning well as a fiscal shock absorber, but is not working as intended to control spending
- Small groups of legislators can force increased spending by withholding CBR votes
- Last year this budget blackmail increased spending by about \$150 million
- What will this cost grow to in future years?

THE CONSTITUTIONAL BUDGET RESERVE LANGUAGE OF THE CONSTITUTION IS WORKING WELL AS A FISCAL SHOCK ABSORBER, BUT IT IS NOT WORKING AS INTENDED TO CONTROL SPENDING.

THE CONSTITUTIONAL BUDGET RESERVE (CBR) WAS ESTABLISHED IN 1990, AND HAS BEEN USED TO HELP FILL THE GAP BETWEEN STATE REVENUES AND EXPENDITURES. WHEN THE CBR WAS CREATED, THE ORIGINAL INTENT WAS THAT FUNDS COULD BE WITHDRAWN WITH A SIMPLE MAJORITY VOTE TO HELP COVER A BUDGET DEFICIT AS LONG AS CURRENT SPENDING DID NOT EXCEED THE PREVIOUS YEAR'S SPENDING, BUT A THREE-QUARTERS VOTE OF THE LEGISLATURE WOULD BE NECESSARY TO WITHDRAW ANY FUNDS IN EXCESS OF THE PREVIOUS YEAR'S SPENDING.

IN 1994, THE ALASKA SUPREME COURT MISINTERPRETED THIS PROVISION TO REQUIRE A  $\frac{3}{4}$  VOTE TO WITHDRAW ANY FUNDS FROM THE CBR. THIS CREATES A SITUATION IN WHICH A SMALL GROUP OF LEGISLATORS CAN "BLACKMAIL" THE MAJORITY AND HOLD THE BUDGET. THESE LEGISLATORS CAN TRADE THEIR VOTES, WHICH ARE CRUCIAL TO WITHDRAW CBR FUNDS AND BALANCE THE STATE'S BUDGET, IN EXCHANGE FOR ADDITIONAL SPENDING.

**WE ESTIMATE THE COST THIS YEAR TO ACCESS THE CBR WITH A  $\frac{3}{4}$  MAJORITY VOTE TO BALANCE THE BUDGET WAS NEARLY \$150 MILLION.**

SENATE JOINT RESOLUTION 24 CORRECTS THIS BIZARRE IMBALANCE OF SPENDING POWER BY PROPOSING A CONSTITUTIONAL AMENDMENT THAT MAKES IT CLEAR A  $\frac{3}{4}$  VOTE IS NOT NECESSARY WHEN SPENDING DOES NOT EXCEED THE PREVIOUS YEAR'S.

IF THIS RESOLUTION PASSES, THE AMENDMENT WILL BE PLACED ON THE NEXT STATE GENERAL ELECTION BALLOT IN FALL 2002 FOR APPROVAL BY THE PEOPLE OF ALASKA.

**(SLIDE 9)**

## **SJR 23 Reforming the Constitutional Spending Limit**

## **SJR 24 Restoring the Original Intent of the 1990 CBR Amendment**

ONCE AGAIN, WE DO NOT CONTEND THAT THESE TWO CONSTITUTIONAL AMENDMENTS ALONE CONSTITUTE A COMPLETE PLAN, BUT THESE PROPOSALS ARE IN PLACE TO PASS NEXT YEAR AND THEY ARE AN EXCELLENT AND NECESSARY FIRST STEP FOR ANY COMPREHENSIVE NEW PLAN TO BE ACCEPTABLE TO THE MAJORITY OF ALASKANS.



# SENATOR DAVE DONLEY

ALASKA STATE LEGISLATURE

RECEIVED  
OCT 01 2001

DATE: September 28, 2001

TO: Representative Norm Rokeberg, Chair  
House Judiciary Committee  
Representative Scott Ogan, Vice Chair  
Representative John Coghill  
Representative Jeannette James  
Representative Kevin Meyer  
Representative Ethan Berkowitz  
Representative Al Kookesh

FROM: Senator Dave Donley *DB*

RE: October 19 Committee Meeting on SJR 23 and SJR 24

Thank you for scheduling a hearing on SJR 23 and SJR 24 on October 19. I ask that you consider adopting the attached blank committee substitute to SJR 23 in place of the existing version [CSSJR 23 (FIN) am].

The major change made in the draft CS is that rather than basing the spending limit on an index or combination of indices it is based upon actual appropriations for the fiscal year 2 years prior. For example, the spending limit for the FY 03 budget would be based upon actual appropriations made for FY 01. This provides a more accurate basis upon which to fund government services and allows budgeting entities to know with certainty the range of funds available so they can more easily prioritize their needs.

The other change made in the draft CS is language that excludes reappropriations and transfers of funds within appropriations (e.g. interagency receipts) from the limit. This insures that appropriations are not "double-counted" in determining the spending limit.

Both these changes were recommended by, and drafted in consultation with, the Legislative Finance division this summer.

I look forward to discussing this proposal in more detail at the October 19 meeting.

Co-Chair: Senate Finance Committee  
Vice-Chair: Senate Judiciary Committee  
Member: Legislative Budget and Audit Committee • Legislative Council