

**ALASKA LEGISLATURE**

**2182**

**HOUSE and SENATE FINANCE COMMITTEE FILES, 2001 - 2002**

(SLIDE 16)

## **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 WHEN THE CBR WAS CREATED, THE ORIGINAL INTENT WAS THAT FUNDS COULD BE WITHDRAWN WITH A SIMPLE MAJORITY VOTE TO HELP COVER A BUDGET DEFICIT AS LONG AS CURRENT SPENDING DID NOT EXCEED THE PREVIOUS YEAR'S SPENDING, BUT A THREE-QUARTERS VOTE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 17)

## **Senate Finance Long-Range Fiscal Plan: The First Steps**

- 1) Maintain budget discipline by holding any General Fund spending increases to below increases in population and inflation
- 2) Continue to utilize outcome based budgeting to increase government efficiency
- 3) Fix the Constitution by passing SJR 23 and SJR 24
- 4) Adopt fiscal gap reducing legislation

BOTH THESE PROPOSED CONSTITUTIONAL AMENDMENTS HAVE ALREADY PASSED THE SENATE AND ARE SCHEDULED FOR HEARINGS IN THE HOUSE. OUR PLAN ALSO INCLUDES SEVEN OTHER FISCAL GAP REDUCING PROPOSALS, THREE OF WHICH HAVE ALREADY PASSED THE SENATE.

ALL TOGETHER, THE SAVINGS ASSOCIATED WITH THESE REFORMS GROW EXPONENTIALLY IN THE OUT YEARS TO FAR EXCEED THEIR PRESENT DAY VALUE OF OVER \$12 MILLION THE FIRST YEAR, GROWING TO OVER \$100 MILLION A YEAR WITHIN TEN YEARS.

ONCE AGAIN, WE DO NOT CONTEND THAT THIS LEGISLATION ALONE  
CONSTITUTES A COMPLETE PLAN, BUT THESE PROPOSALS ARE ALL 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

## SENATOR DAVE DONLEY'S JUNE 2001 STATE BUDGET REPORT

*This Year's Focus Was On Education Funding, Budget Discipline and the  
Development of a Long-Term Fiscal Plan*

As the Co-Chair of the Senate Finance Committee this year, it was my task to maintain fiscal discipline and build on the strong foundation of the Republican Five-Year Budget Plan which was completed last year. The Senate Republicans are committed to continuing Alaskans' enjoyment of the lowest state taxes in the nation.

Each year the legislature faces the challenging responsibility to develop a budget that addresses the critical needs of Alaskans while working to balance state spending and revenue. Accordingly, the Republican Majority maintained fiscal discipline while providing for the constitutional priorities of education, public safety and public health.

### **EDUCATION FUNDING: This was a historic year for education in Alaska!**

- ★ Total of over \$50 million increase in state funding of education
  - Over \$34 million increase in K-12 funding - largest increase in over 10 years
  - Doubled funding for Learning Opportunity Grants for exam preparation, supplies & books from \$6.1 million to \$12.2 million
  - Increased funding for pupil transportation, which reduces local property taxes
  - Increased funding and number of Charter schools
  - Increased funding for the University of Alaska by over \$16 million
  - Funded a large package for school construction - 3 new schools and 32 maintenance projects

### **FISCAL DISCIPLINE:**

**We continued budget discipline and began development of a new long-term fiscal plan.**

- ★ Continued results-based budgeting to ensure government fiscal accountability
- ★ Passed an operating budget that was \$60 million below the governor's request. This year's operating budget is more than \$7 million below last year's budget in total state funds, adjusted for population and inflation
- ★ The Senate passed two Constitutional Amendments to improve the budget process and encourage fiscal discipline.
  - SJR 23, proposed a new and effective constitutional spending limit
  - SJR 24, is an important reform of how the Constitutional Budget Reserve works
- ★ The Senate also passed three major cost saving proposals and began work on four others. These proposals are now before the Alaska State House
- ★ This year's state budget is simpler, easier to understand and more accurately represents spending than in past years

Co-Chair: Senate Finance Committee

Vice-Chair: Senate Judiciary Committee

Member: Legislative Budget and Audit Committee • Legislative Council

### **PUBLIC SAFETY FUNDING: Needed funding secured**

- ★ Increases funding for the Alaska State Troopers by \$1,560,000 and provides 6 more officers
- ★ Adds \$320,000 for Fish and Wildlife Protection to provide 2 more officers
- ★ Provides \$250,000 statewide for forensic crime lab support, funding three new positions including a DNA testing specialist
- ★ Allocates \$50,000 for Avalanche Safety Public Education
- ★ Increases training and benefits for Village Public Safety Officers (VPSOs) and improved probation services in rural Alaska
- ★ Authorized construction of new private prison to prevent prison overcrowding

### **PUBLIC HEALTH FUNDING: Essential services funded**

- ★ Increases to essential medical services
- ★ Adds \$700,000 to address Fetal Alcohol Syndrome efforts
- ★ Allocates \$3 million for Tobacco Prevention and Control
- ★ Provides \$225,000 for additional emergency service personnel
- ★ Funds additional statewide youth correction facilities necessary to fight juvenile crime

### **DEMOCRATS PROMOTE UNCONTROLLED SPENDING:**

★ Republican Majorities rebuked excessive Democratic spending proposals: During the 2001 legislative session, the Republicans rejected a total of \$246 million in amendments to increased spending for operating and capital budgets proposed by Democrats. General fund expenditures for the **operating budget would have increased by \$49.1 million and for the capital budget by \$196.9 million** had all these amendments **not been voted down by the Republican Majorities.**

Listed below are the costs of failed budget amendments offered by the Democrats since 1997

	<b>State General Fund Impact</b>		
	<u>Operating Budget</u>	<u>Capital Budget</u>	<u>TOTAL</u>
2002	49,128,650	196,870,851	245,999,501
2001	89,545,788	38,148,078	127,693,866
2000	101,137,840	22,006,666	123,144,506
1999	90,495,223	1,420,000	91,915,223
1998	34,407,015	5,719,314	40,126,329
1997	<u>14,135,690</u>	<u>2,193,322</u>	<u>16,329,012</u>
<b>TOTAL</b>	<b>378,850,206</b>	<b>266,358,231</b>	<b>645,208,437</b>

As the figures show, Alaska would be in far worse financial shape today had the Democrats controlled state spending during the last six years. In sharp contrast, the Republican Majorities improved Alaska's fiscal health by implementing general fund spending reductions totaling over \$175 million. When factoring in inflation and population growth, **state general fund spending has been reduced by over \$600 million.** The Constitutional Budget Reserve has grown from \$2.2 billion to \$2.6 billion and the Permanent Fund has grown from \$15.7 billion to \$25.3 billion.

All of this was accomplished without Governor Knowles' proposed massive new income tax, new general statewide taxes, reducing your Permanent Fund Dividends or using the Permanent Fund.



# Senator Dave Donley

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JUNE 1, 2001

## SENATOR DAVE DONLEY'S 2001 LEGISLATIVE REPORT

### **This Year's Focus Was On Education, Natural Gas Line and Budget Discipline**

Ensuring excellent education opportunities for Alaska's students was the Republican Majority's top priority this year. While the Republican Five Year Budget Plan completed last year has built a strong fiscal foundation; the state is still annually spending more than its revenues. Accordingly, the Republican Majority this year maintained fiscal discipline while providing for the constitutional priorities of education, public safety and public health. Additionally, work was needed to promote and prepare for a new Alaska gas line. The legislature met these challenges as follows:

#### **EDUCATION:**

**This was a historic year for education in Alaska!**

- ★ Total of over \$50 million increase in state funding of education
- Over \$34 million increase in K-12 funding
- Largest increase in the education funding formula in over 10 years (SB 174 sponsored by the Senate Finance Committee)
- Doubled funding for Learning Opportunity Grants for exam preparation, supplies & books from \$6.1 million to \$12.2 million
- Increased funding for pupil transportation, which reduces local property taxes
- Increased funding and number of Charter schools
- Fully funded the University of Alaska's requested funding increase of \$16 million
- Funded school maintenance and construction state-wide – 3 new schools and 32 maintenance projects
- ★ Added a property tax relief provision to the education foundation funding formula, providing property tax relief for Anchorage residents (SB 174 sponsored by the Senate Finance Committee)
- ★ Successfully dealt with the issues surrounding the new high school competency exam – extended the deadline for mandatory passage to 2004, to give time to align curriculum and exam – BUT maintained importance of the exam by recording results on students' transcripts
- ★ Passed new legislation to help with recruiting, hiring and retaining teachers: one allows subject matter teachers to be hired and the other smoothes the way for retired teachers to return to service

#### **NATURAL GAS LINE:**

**Legislation was passed to promote commercialization of Alaska's North Slope natural gas.**

- ★ Removed statutory impediments to a gas line right-of-way

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- ★ Made an "over the top" gas pipeline route out of the question as far as the State of Alaska is concerned
- ★ Approved legislation allowing the Department of Natural Resources (DNR) to enter into contracts to be reimbursed by oil and gas companies for work related to permitting a gas pipeline
- ★ Directed the commissioner of the Department of Revenue to prepare a report for the Legislature outlining options regarding the state's participation in owning or financing a gas pipeline project, and providing recommendations in these areas
- ★ Provided necessary funding for DNR and the State Pipeline Coordinator's office to prepare for a gas line project

#### **BUDGET DISCIPLINE:**

**We continued budget discipline and began development of a long-term fiscal plan.**

- ★ Continued results-based budgeting to ensure government fiscal accountability
- ★ Passed an operating budget that was **\$60 million below the governor's request**. This year's operating budget is more than **\$7 million below last year's budget in total state funds, adjusted for population and inflation**
- ★ Increased funding for essential services including: K-12 education, University of Alaska, public safety, Medicaid, subsidized adoption and foster care
- ★ The Senate passed two Constitutional Amendments to improve the budget process and encourage fiscal discipline
  - SJR 23 (sponsored by Senator Donley), proposed a new and effective **constitutional spending limit**
  - SJR 24 (sponsored by the Senate Finance Committee), is an important reform of how the Constitutional Budget Reserve works to **encourage fiscal discipline**.
- ★ The Senate also passed three major cost saving proposals and began work on four others, all sponsored by the Senate Finance Committee.
- ★ This year's state budget is simpler, easier to understand and more accurately represents spending than past years' budgets

#### **OTHER IMPORTANT LEGISLATIVE ACCOMPLISHMENTS:**

**The Legislature also adopted important new laws for Alaskans.**

- ★ **Increased municipal assistance** to reduce local property taxes
- ★ Provided \$4 million in **additional funding for Anchorage road maintenance**
- ★ Funded \$6 million for **improvements at the Port of Anchorage** to reduce the cost of consumer goods
- ★ **Helped fight drunk driving** by lowering the DWI Blood Alcohol Content to .08 percent
- ★ **Will ensure pay equity for women** by funding a study to determine if female state employees receive unfairly low wages compared to their male counterparts (SB 65 by Senator Donley)
- ★ **Increased the penalties for hate crimes** – the Senate passed legislation requiring juveniles sixteen years of age or older who commit serious, violent hate crimes to be tried as an adult. This legislation is currently awaiting hearings in the Alaska State House (SB 169 by Senator Donley)
- ★ Authorized construction of a new private prison to **solve prison overcrowding**
- ★ **Helped fight alcohol abuse** by increasing penalties for underage drinking and bootlegging
- ★ Provided new funding to assist in **suicide prevention efforts**
- ★ Increased training and salaries for Village Public Safety Officers to **improve rural public safety**
- ★ Passed reforms to **streamline insurance practices**
- ★ **Improved public health** providing essential treatment services for breast and cervical cancer patients

#### **PERSONAL NOTE:**

*Unfortunately the Anchorage news media, and especially the Anchorage Daily News, have failed to report on many of these accomplishments. The facts are the legislature accomplished a lot for the people of Alaska this session and Anchorage did very well.*

**Senator Dave Donley**

**Co-Chair Senate Finance Committee**

**Presentation on  
Long-Range Fiscal Plan**

**Republican Majority's**

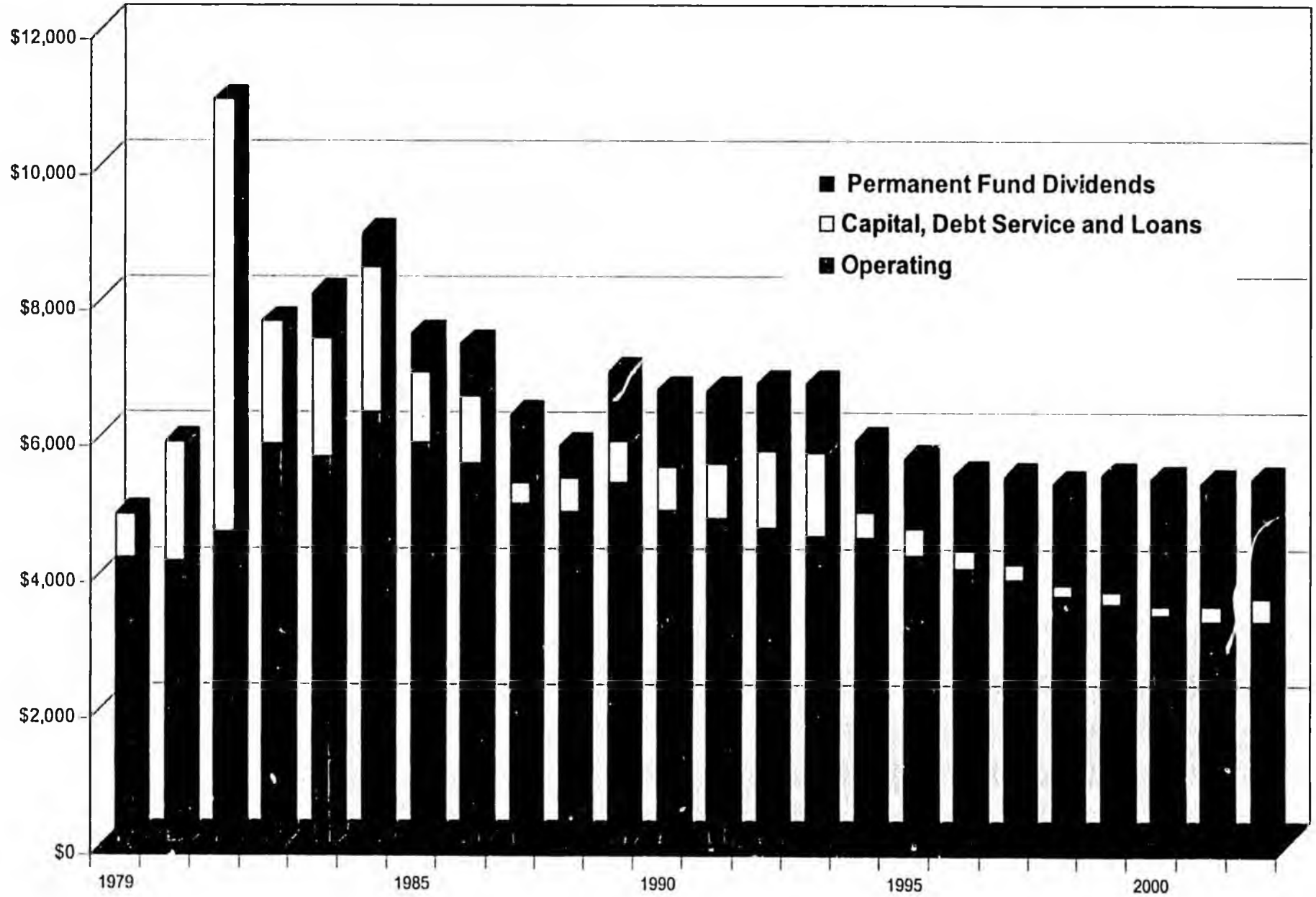
**Five Year Fiscal Plan**

**Was a Success**

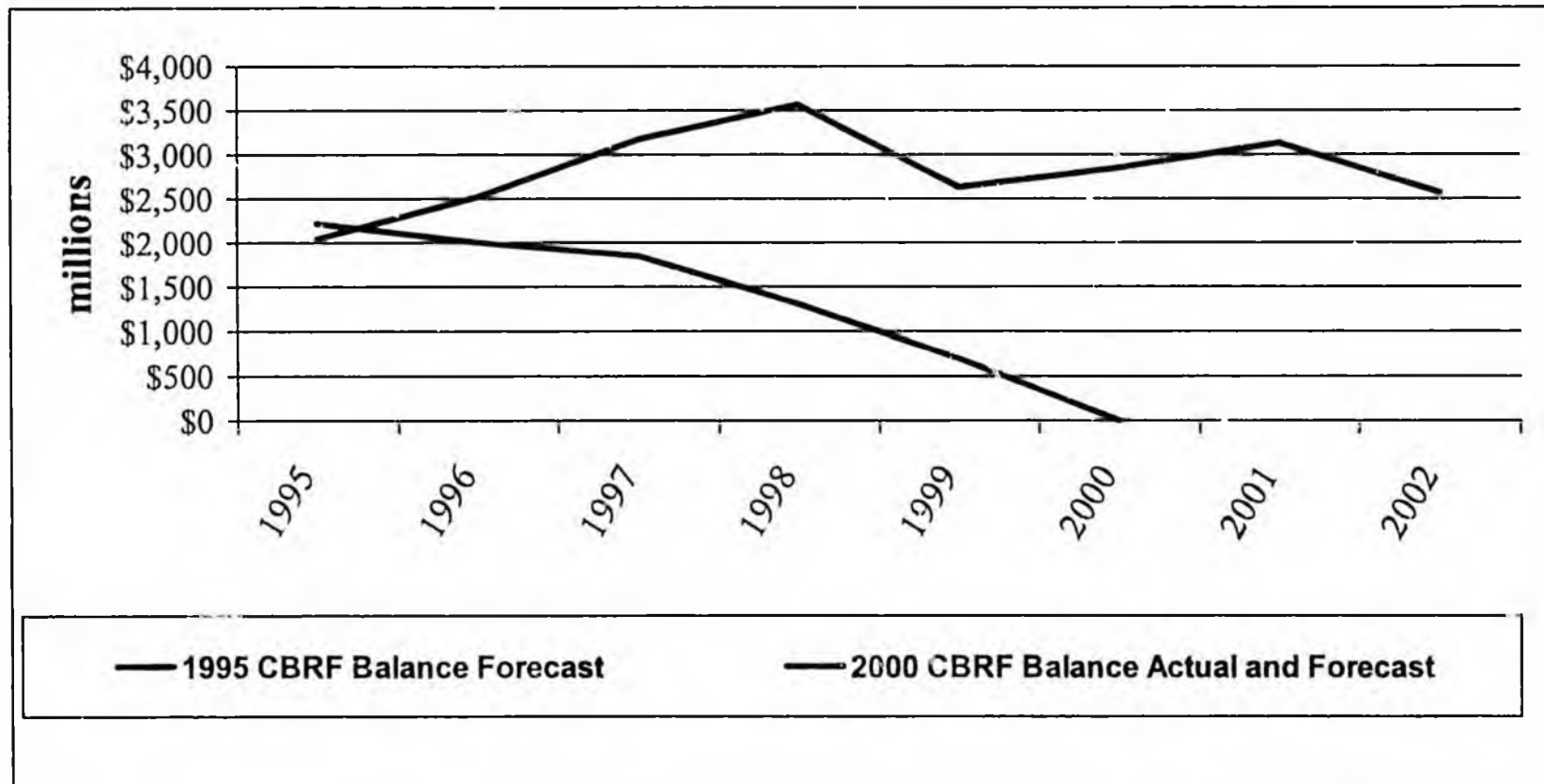
# State General Fund Per Capita Spending Is Going Down

- Per capita state general fund spending is currently about \$3800 per Alaskan. For state services, in today's dollars, that is \$921 less than in FY79 when the oil era began. Combined operating and capital general fund spending is \$1,186 less.
- However, when Permanent Fund dividends are added to general fund spending, the total is \$534 more per capita than FY79.

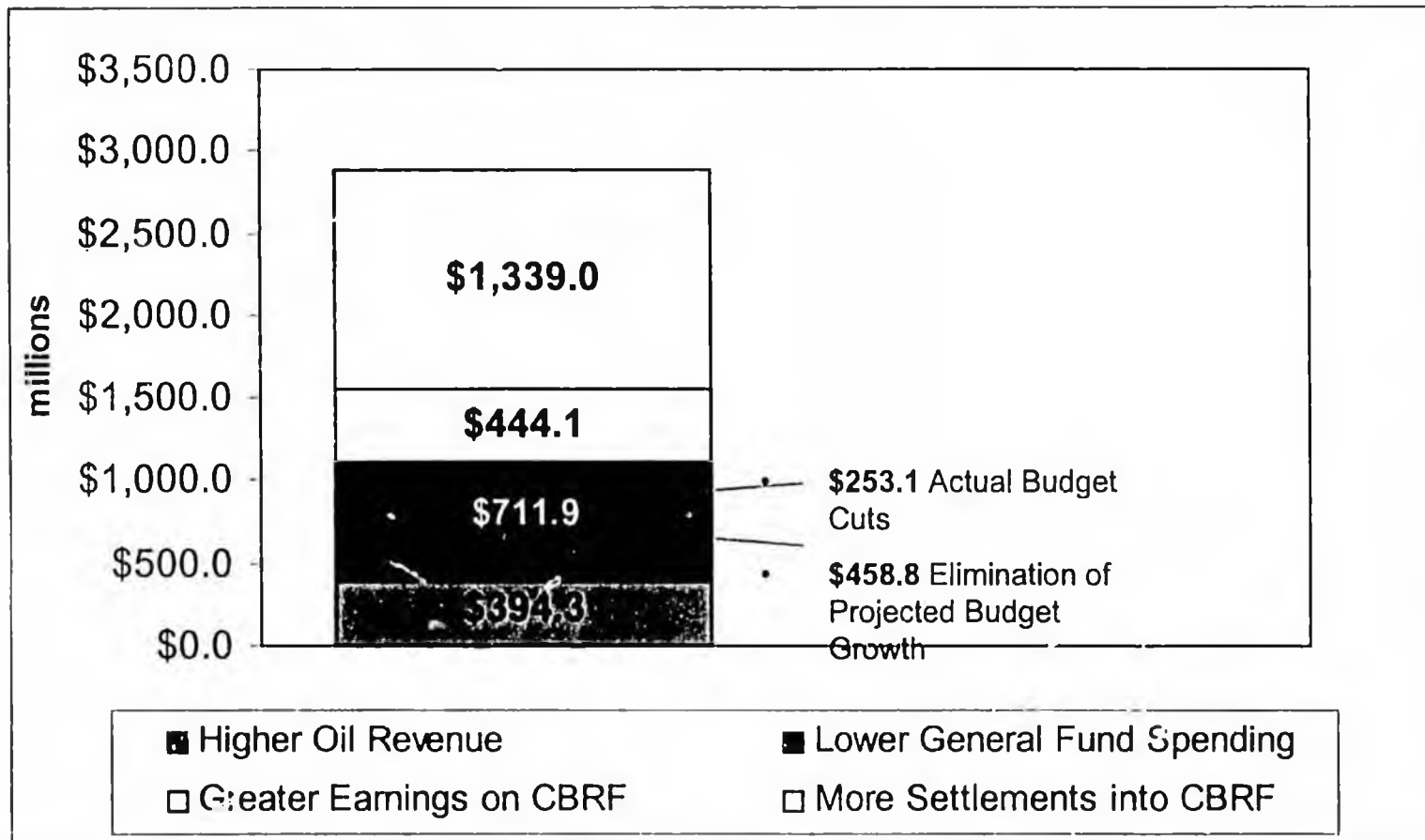
## Real Per Capita General Fund and PFD Spending FY1979 - FY2002



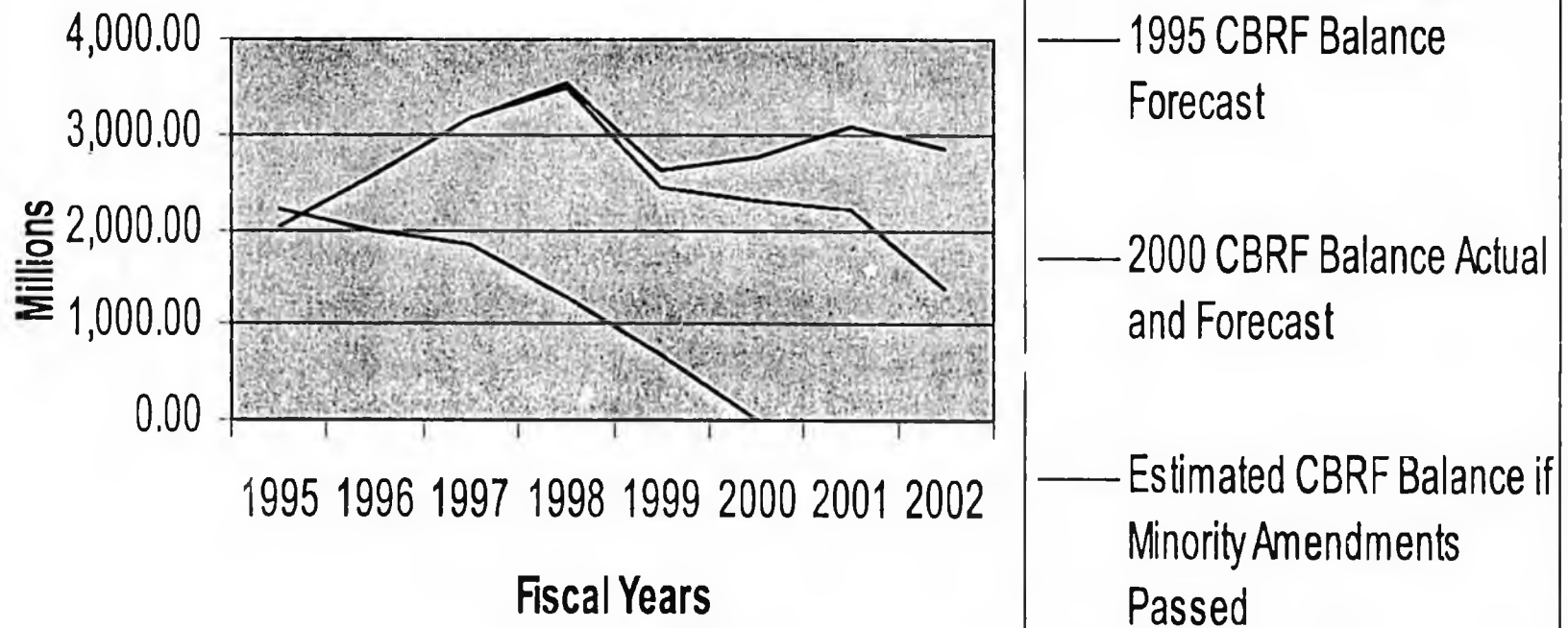
# CBRF: The View from Here



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



# CBRF: Impact of Minority Amendments



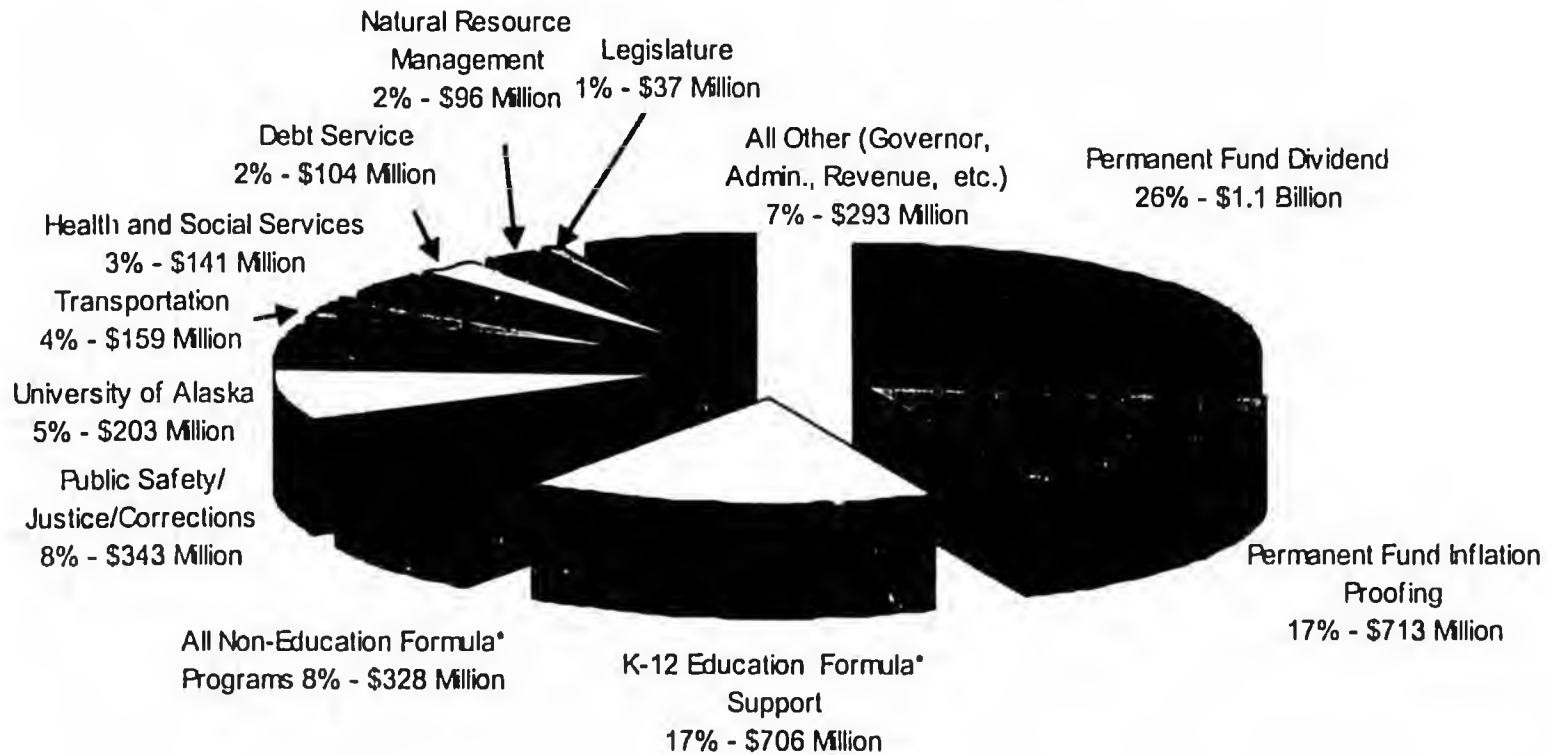
# Senate Majority Plan

- Protect the Permanent Fund
- Exercise budget discipline by holding any total state spending increases to below inflation and population increases
- Use results-based budgeting with Missions & Measures to continue our progress for a smaller, smarter state government
- Make constitutional and statutory systemic changes to reduce the fiscal gap as the first step in developing a new long-range fiscal plan

# State of Alaska Budget General Fund and Permanent Fund Spending

Fiscal Year 2002 - \$4.3 Billion

Where the money is being spent this year:



\*Formula programs are based in statute and guarantee a specific level of benefits to qualified recipients. Non-education formula programs include: Medicaid, Adult Public Assistance, Longevity Bonus, Revenue Sharing, Foster Care, Elected Officials Retirement, Shared Fisheries Business Tax and Temporary Assistance.

# **Senate Finance Long-Range Fiscal Plan: The First Steps**

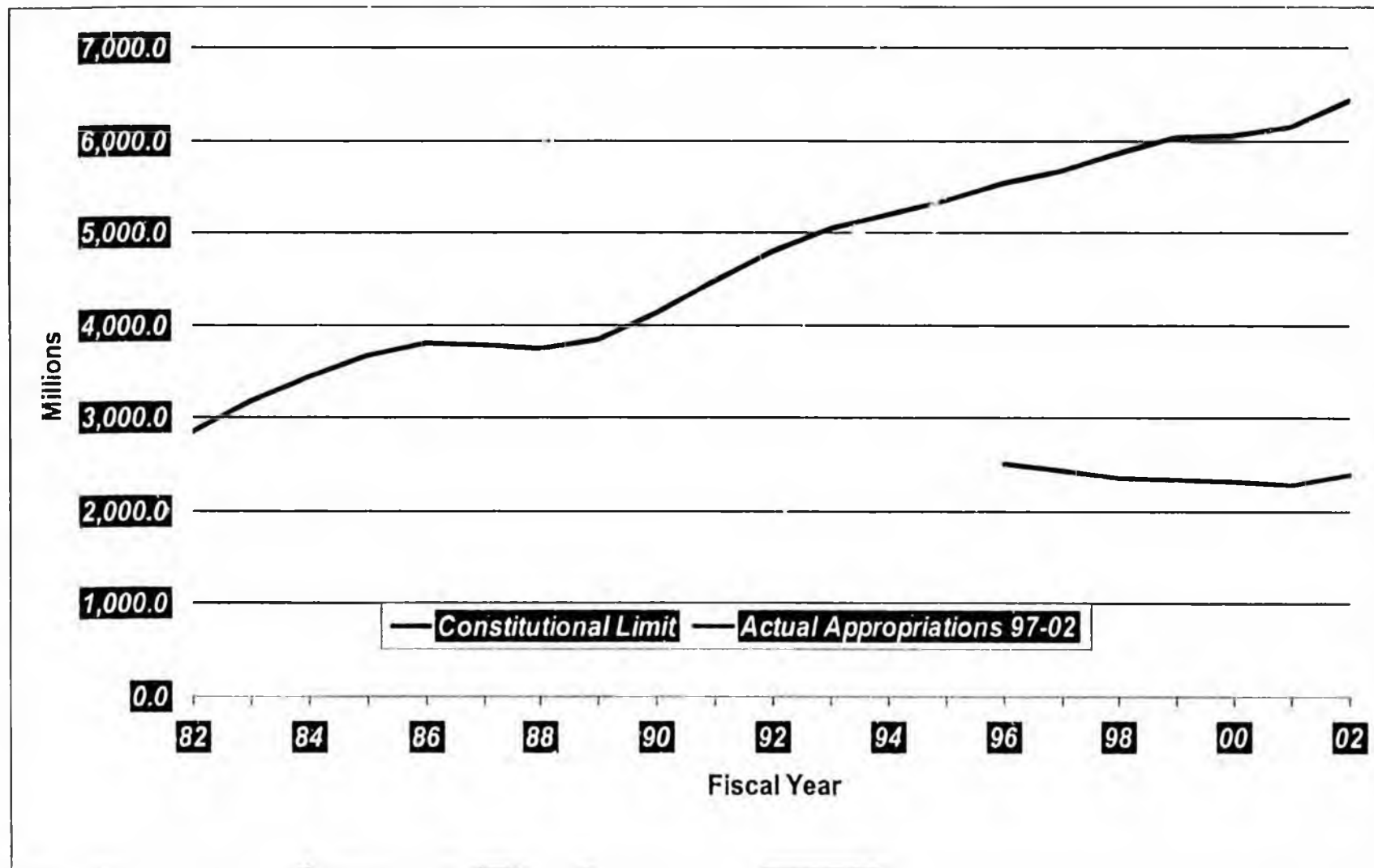
- 1) Maintain budget discipline by holding any General Fund spending increases to below increases in population and inflation
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- 3) Fix the Constitution by passing SJR 23 and SJR 24
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# **SJR 23**

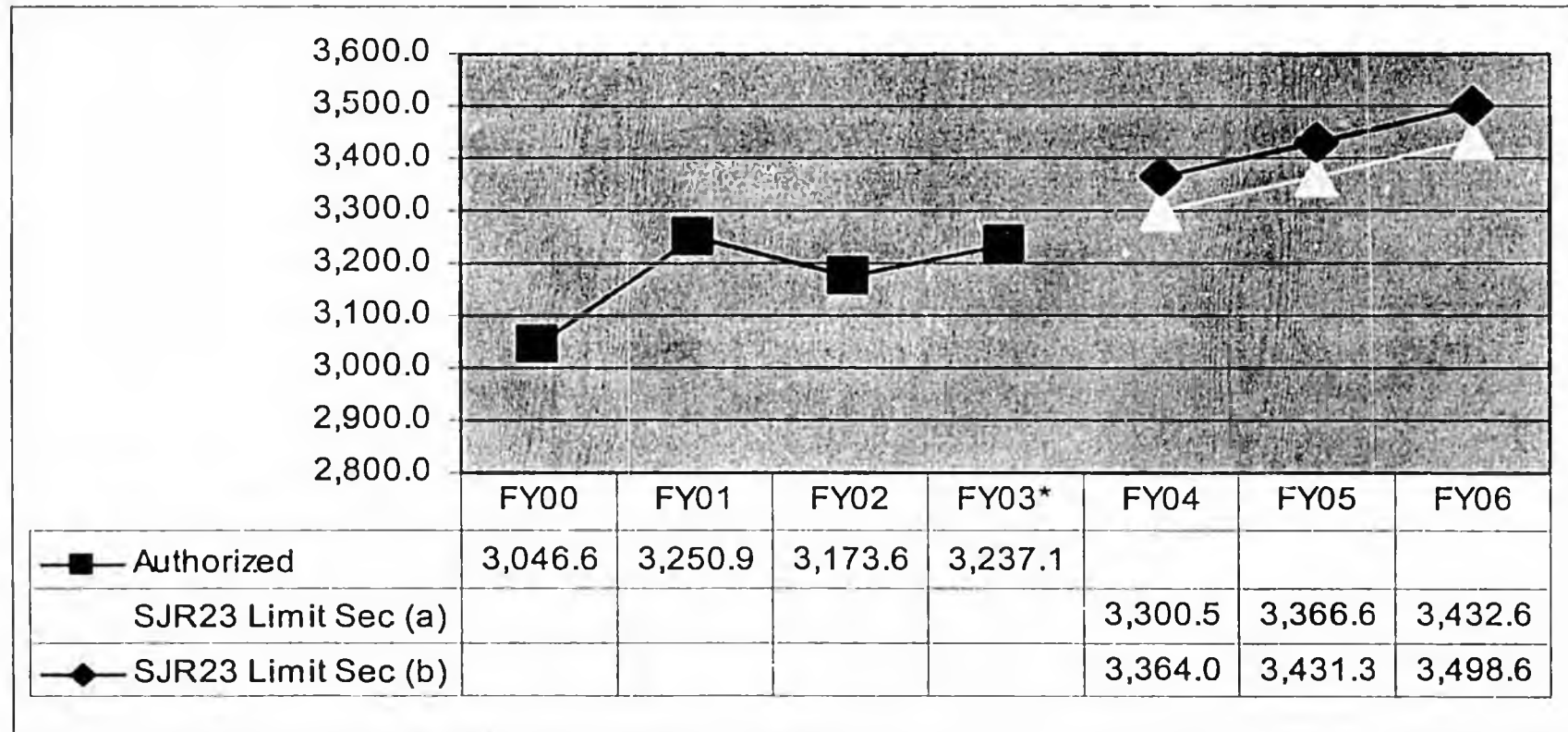
## **Reforming the Constitutional Spending Limit**

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

## 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

## **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?

# **Senate Finance Long-Range Fiscal Plan: The First Steps**

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# Per Capita Spending

Why does the Alaska spend more per capita than other states?

**Obvious reasons include:**

- Harsh climate
- Scattered communities
- Few economies of scale
- High transportation costs
- High cost of living

# Why does Alaska spend more per capita than other states?

- Other reasons may not be so obvious:

- Compared to other states the State of Alaska:

- provides services normally provided by counties or local governments-police, courts, jails, education, etc.
- Is responsible for managing vast resources.
- has an infrastructure that is not as developed, due to the short time span since statehood.
- has programs that other states don't--Permanent Fund dividends, Longevity Bonus, Pioneer Homes, Power Cost Equalization, etc.



# SENATOR DAVE DONLEY

ALASKA STATE LEGISLATURE

## The Long-Range Fiscal Plan

- I. Long Range Fiscal Plan Legislation of the Senate Majority
- II. Senate Finance Committee Long Range Fiscal Plan Legislation  
April 9, 2001
- III. Senate Finance Committee's Sponsor Statement for SB 180
- IV. Senate Finance Committee's Sponsor Statement for SB 181
- V. Senate Finance Committee's Sponsor Statement for SB 182
- VI. Senate Finance Committee's Sponsor Statement for SB 183
- VII. Senate Finance Committee's Sponsor Statement for SB 184
- VIII. Senate Finance Committee's Sponsor Statement for SB 185
- IX. Senate Finance Committee's Sponsor Statement for SB 186
- X. Senate Finance Committee's Sponsor Statement for SJR 24
- XI. Senate Finance Committee's Sponsor Statement for SJR 23

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Official Business

# Alaska State Senate

## Senate Finance Committee

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

### Long Range Fiscal Plan Legislation of the Senate Majority

Most Alaskans agree that development of a long-range fiscal plan is one of the greatest challenges facing our state.

As we begin to develop a new plan it is important to recognize that the Republican majority's Five-Year Plan, which we completed last year, built an excellent foundation for Alaska's long term financial health.

The Permanent Fund was protected and increased to over \$26 billion  
The Constitutional Budget Reserve will have a balance of over \$3 billion  
on 6/30/01.

We held the line against more than \$800 million of Governor Knowles' proposed spending increases and actually reduced general fund spending.

We implemented successful major government reforms for:

- Education Funding
- Welfare
- Reduced Bureaucracy / Merged State Departments
- Power Cost Equalization
- Underground Storage Tank Funding
- Relieved Corrections Overcrowding
- Increased University Funding

We also initiated results-based budgeting, and we increased non-oil revenue.

As we build on this tremendous progress and work toward a public statewide consensus on where we, as Alaskans, go from here. The Senate Majority intends to continue to:

1. Protect the Permanent Fund.
2. Exercise budget discipline by holding any total state spending increases to below inflation and population increases.
3. Use results-based budgeting with missions & measures to continue our progress for a smarter, smaller state government.
4. Make statutory systemic changes to reduce the fiscal gap as the first step in developing a new long-range fiscal plan.

Development of a new multi-year fiscal plan will take extensive study and assessment. This legislative package is just the first stage of a more comprehensive plan that can be developed over the interim. This is a two-year process and that will require a consensus approach to be successful.

Additional state revenue will be a needed element in a new long-range fiscal plan. But the first step in such a plan should be continued government reforms to create a more efficient and fairer state government. Only after such needed reforms should Alaskans be asked to consider any major new taxes.

As Republicans, we believe that before considering major new taxes on Alaskans, government should first be as well run as possible.

To help develop proposals to continue our successful efforts toward a smaller smarter state government, earlier this year we wrote every state commissioner of every state department and asked if they had any ideas for legislation to help improve state government efficiency and reduce the state's fiscal gap that hadn't already been introduced.

Not one made a single suggestion or request for such legislation. I repeat, Governor Knowles Commissioners did not have a single suggestion for statutory changes to help reduce the fiscal gap.

So we, without the help of any new ideas from the executive branch, have developed a package of fiscal reform legislation.

The Senate Finance Committee has introduced a package of legislation that continues the Republican Majority's commitment to fiscal responsibility and government reform before new taxes. This package presents the first step of a new long-range fiscal plan that has the potential of reducing the fiscal gap by over \$12,500,000 a year at first with reductions increasing to over \$100,000,000 within 10 years. Listed below are the topics of each bill along with the estimated savings of each bill.

1. SB 180 Updating Geographic Differential - Annual Savings would be \$183,300 for the first 6 years and \$312,000 each year thereafter.
2. SB 181 Eliminating AHFC 1 percent HALF subsidy - Annual savings of over \$500,000 per year could be available from AHFC to general fund.
3. SB 182 Requiring Proration of Benefit Payments - Annual savings depends on program funding levels in budget.
4. SB 183 Reforming Public Interest Litigant Attorney Fees - Annual savings would average \$117,100 per year at 25 percent savings.
5. SB 184 Allowing Local Contribution to Village Safe Water Program Projects - Annual savings of \$2,700,000 at a 5 percent local contribution rate could be realized.
6. SB 185 Reforming Power Cost Equalization (PCE) - Annual savings of \$9,000,000 per year could be realized.
7. SB 186 Municipal Bonding Capacity Cap - State revenue could increase by over \$100 million a year within ten years.

8. SJR 24 Constitutional Budget Reserve (CBR) – Promotes fiscal discipline and provides for a more efficient budgetary process by amending article IX, sec. 17 of the Alaska Constitution to clarify “the amount available for appropriation” which was improperly interpreted by the Alaska Supreme Court in *Halford v Cowper*. The Court’s decision distorts the true intent of the  $\frac{3}{4}$  vote and allows a small minority of legislators to “blackmail” the majority into increased spending each year. This change also repeals the so-called “sweep” provision, which if left unchanged would defeat the purpose of the amendment.
9. SJR 23 Constitutional Spending Limit - Replaces the clumsy, confusing and completely useless current constitutional appropriations limit with an effective and easy to understand limit. Provides a needed step to ensure future fiscal discipline and help limit growth in the State’s fiscal gap.

In contrast to the efforts of the Republican led majority to build a smaller and smarter state government, the governor and Democratic minority legislators regularly have proposed spending increases that by today would have wiped out our savings and required massive new taxes on Alaskans.

In order to finance this plan, the governor and some Democrats wanted to fund this spending spree by increasing taxes and spending Permanent Fund earnings. Together their tax proposals would have cost the citizens of Alaska in excess of \$275 million per year. Various proposals to spend Permanent Fund monies would have reduced the fund balance by over \$6.8 billion. A proposal to create a Municipal Dividend Fund would have depleted the earnings reserve account annually. If this proposal had been approved, in 1999 this would have removed \$1.26 billion from the Permanent Fund earnings reserve account.

In each year since the governor has taken office, either he or another member of his party, and in some years both, have introduced a state income tax. Unfortunately that tax and spend mentality may be starting to spread.

But numerous polls over the years tell us that Alaskans do not want the Permanent Fund’s assets diminished. In spite of this, the governor and minority Democrats have attempted to spend great amounts of Permanent Fund income. The attacks on the Permanent Fund have been to divert funds for the establishment of various dedicated funds to increase state spending. There has also been an attempt to divert part of the Permanent Fund earnings reserve account to the General Fund.

For Fiscal Year 2002 the governor’s proposed spending increases to the operating budget and democratic legislative proposals would increase annual general fund spending by \$237,550,000. These proposals are just in the first three months of the current legislative session. The Senate Finance Committee Long Range Fiscal Plan legislation package reforms programs that don’t make sense, are discriminatory (as evidenced by recent legislative reports) or updates constitutional provisions. This legislation has the potential of reducing the fiscal gap by over \$12.5 million in its first years, increasing to over \$100 million within 10 years simply by adopting sound public policy reforms.

Only through the constant efforts of the Republican led majority, has the state been able to maintain such a positive financial outlook. It is only through continued vigilant efforts that we will continue to reasonably limit state government growth and protect the citizens of Alaska from burdensome taxation. Attached is information about this legislation including a brief description and estimated savings to the state of each proposal and a copy of each bill.

DD/bc

## SENATE FINANCE COMMITTEE LONG RANGE FISCAL PLAN LEGISLATION

April 9, 2001

### 1. SB 180 Updating Geographic Differential

This proposal changes the method of calculation and brings cost-of-living payments in line with the equalization of the cost-of-living that has occurred statewide over the years. The current statutory formula has not been updated since June 1976 and unfairly discriminates against some state employees while unfairly benefiting others. Potential Savings would be \$183,300 for 1<sup>st</sup> 6 years, \$312,000 each year thereafter.

### 2. SB 181 Eliminating AHFC 1 percent HALF subsidy

This bill eliminates the statutory 1 percent below market rates for the Housing Assistance Loan Fund (HALF) program and replaces it with the standard market rate for AHFC home loans. Potential savings of over \$500,000 per year could be available from AHFC to the state general fund.

### 3. SB 182 Requiring Proration of Benefit Payments

Currently, most statutes require that payments be made at a prescribed level without reference to funding actually available in the budget. This bill would require program directors to prorate benefit payments over the entire fiscal year based on the available level of funding that a program receives. This would encourage greater accuracy and accountability in state budgeting. It will also encourage accountability on the part of program directors for the efficient management of their program. Potential savings depend on program funding levels in budget.

### 4. SB 183 Reforming Public Interest Litigant Attorney Fees

This bill makes public interest litigants subject to Court Civil Rule 82 regarding judgments for attorneys' fees, thus adopting a uniform standard for all litigants. It places them under the same guidelines regarding attorney's fees as all other litigants. Courts would continue to have the authority to award higher or full attorney fees when a court felt exceptional circumstances justified a higher award to a public interest litigant. Potential savings could average \$117,100 per year at 25 percent savings calculated on current fees paid out annually.

### 5. SB 184 Allowing Local Contribution to Village Safe Water Program Projects

Current statutes prohibit any local contribution in support of local water and sewer enhancements under this program. This bill would remove the barrier to local financial support of water and sewer construction costs under the VSW program. Potential savings of \$2,700,000 a year at a 5 percent local contribution rate could be realized.

### 6. SB 185 Reforming Power Cost Equalization (PCE)

This legislation revises the formula under which PCE subsidies are paid, making it a truly equitable program, and adjusts the maximum kilowatt-hours eligible for the subsidy to more accurately reflect power usage in PCE communities and encourage energy conservation. Potential savings of \$9,000,000 per year could be realized.

### 7. SB 186 Municipal Bonding Capacity Cap

This legislation implements a \$15,000 per resident limit on bond indebtedness. According to a recent court decision, current law does not limit the amount that a municipality may incur in bond indebtedness. This limit will provide a new fund source for the state's Revenue Sharing and Safe Communities programs. State revenue could eventually increase by over \$100 million as the North Slope Borough's current debt is paid down over the next ten years.

8. SJR 24 Constitutional Budget Reserve (CBR) – Promotes fiscal discipline and provides for a more efficient budgetary process by amending article IX, sec. 17 of the Alaska Constitution to clarify "the amount available for appropriation" which was improperly interpreted by the Alaska Supreme Court in Halford v Cowper. The Court's decision distorts the true intent of the 3/4 vote and allows a small minority of legislators to "blackmail" the majority into increased spending each year. This change also repeals the so called "sweep" provision, which if left unchanged would defeat the purpose of the amendment.

### 9. SJR 23 Constitutional Spending Limit

The existing constitutional appropriation limit, adopted by voters in 1981, has simply not worked. This constitutional amendment would adopt a simpler and stricter limit to restrain spending increases in future years. SJR \_\_ would more accurately reflect today's spending by lowering the existing appropriation limit. This amendment provides a needed step to ensure future fiscal discipline and help limit growth in the State's fiscal gap.



Official Business

# Alaska State Senate

## Senate Finance Committee

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

### Sponsor Statement

#### SB 180

**"An act implementing pay differentials based on geographic areas for certain employees and for members of the Alaska State Defense Force...."**

Senate Bill 180 changes the manner in which geographic differential payments for cost-of-living differences are determined for certain state employees. This legislation adopts the most current geographic differential report. The current statutory formula has not been updated since June 1976 and unfairly discriminates against some state employees while unfairly benefiting others. A similar bill was passed by the legislature in 2000 but was vetoed by the governor. This bill does not contain the provisions the governor cited as the reason for his veto of the 2000 bill.

Under this legislation current employees' are protected from a decrease in cost-of-living salary adjustment benefits as long as they remain in the same geographic area. However, these employees total pay will not increase until their total pay, including future salary adjustments, exceeds the amount the employee was receiving the day before the cost-of-living adjustment took effect, June 30, 2001.

The geographic differential calculation utilizes a percentage above a specific measurement baseline. In Alaska, Anchorage is the only federal measurement of the cost-of-living. Therefore, Anchorage is used as the baseline measurement for determining the cost-of-living in the various Alaska election districts and "out of state" locations. Previous legislation indicated these measures affect 316 employees in the executive branch of government not covered by union contract. Although there is a small cost in its first year, this legislation can save the State of Alaska an average of approximately \$183,333 per year for the next six years and \$312,000 each year thereafter. The adjustment also affects the compensation paid to members of the Alaska State Defense Force whenever they are called to active state service.

SB 180 purposely holds harmless other programs that use these statutory sections for calculation of revenue sharing cost-of-living adjustments. It also makes no change to the current differential applicable to state employees who work in another state.

Fiscal responsibility continues to be a top priority of the legislative majorities this session. These changes simply implement fair pay adjustments based on a new cost-of-living analysis. Some employees will actually see an increase in cost-of-living adjustments.

DD/bc

**SENATE BILL NO. 180**

**IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-SECOND LEGISLATURE - FIRST SESSION**

**BY THE SENATE FINANCE COMMITTEE**

**Introduced: 4/9/01  
Referred:**

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act implementing pay differentials based on geographic areas for certain state  
2 employees and for members of the Alaska State Defense Force; and providing for an  
3 effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 \* Section 1. AS 26.05 260(i) is amend to read:

6 (i) When active state service is authorized by the governor or by the adjutant  
7 general as the governor's designee, members of the Alaska State Defense Force are  
8 entitled to receive, for each day of active service under AS 26.05.070, pay and  
9 allowances as provided in this subsection. Pay is equal to that provided under  
10 AS 39.27.011 - 39.27.021 [AS 39.27.011 - 39.27.020] for equivalent assignments of  
11 state officials or employees, including adjustments under AS 39.27.025, if applicable.  
12 Allowances shall be paid to the same extent, in the same manner, and under the same  
13 conditions as provided for state officials and employees under AS 39.20.110 -  
14 39.20.170. However, pay or allowances are not authorized for training or community

1 service activities of members of the Alaska State Defense Force.

2 \* **Sec. 2.** AS 29.60.160(a) is amended to read:

3 (a) Payments to a municipality or other eligible recipient under AS 29.60.110  
4 - 29.60.130 shall reflect area cost-of-living differentials. Payments shall be based on  
5 the sum of per capita, per mile, and per bed or facility grants due each municipality or  
6 other recipient multiplied by the appropriate area cost-of-living differential. The area  
7 cost-of-living differential for each recipient shall be determined annually by election  
8 district under the provisions of former AS 39.27.020 and AS 39.27.030. Application  
9 of the area cost-of-living differential may not result in distribution of an amount less  
10 than the amount of the payment determined without reference to application of this  
11 section.

12 \* **Sec. 3.** AS 29.60.290(b) is amended to read:

13 (b) The area cost-of-living differential payable to each municipality under this  
14 section shall be determined annually by election district under the provisions of  
15 former AS 39.27.020 and AS 39.27.030. Except as provided in AS 29.60.300,  
16 application of the area cost-of-living differential may not result in a payment that is  
17 less than the minimum payment determined under (a) of this section. For purposes of  
18 this subsection, the election districts used are those designated by the proclamation of  
19 reapportionment and redistricting of December 7, 1961, and retained for the house of  
20 representatives by proclamation of the governor September 3, 1965.

21 \* **Sec. 4.** AS 39.27 is amended by adding a new section to read:

22 **Sec. 39.27.021. Pay differentials by election district and in other states**  
23 **and countries.** (a) The following pay differentials are approved as an amendment to  
24 the basic salary schedules provided in AS 39.27.011:

25 Percentage Pay	Geographic Areas
26 Differential	(Election Districts)
27 0	1, 2, 3, 4, 7, 8, 9, and 10
28 4	16a (Fairbanks South of the Arctic Circle 29 except the duty stations of Tok and Delta 30 Junction)
31 5	5

1	9	11
2	11	6
3	16	16b (the duty stations of Tok and Delta
4		Junction)
5	20	15b (the duty station of Nenana)
6	27	12 and 13
7	30	15a (Yukon-Kuskokwim except the duty
8		station of Nenana) and 19
9	34	18
10	38	14
11	42	16c (Fort Yukon - North of the Arctic
12		Circle) and 17.

(b) The basic salary schedule set out in AS 39.27.011 is amended for positions in other states to provide that those positions shall be compensated using a pay step differential of minus six pay steps.

(c) The director of the division of personnel shall establish salary differentials for positions in foreign countries. The differentials shall be adjusted annually, effective July 1, to maintain equitable relationships between salaries for positions in foreign countries and salaries for positions in Alaska.

\* Sec. 5. AS 39.27.030 is amended to read:

**Sec. 39.27.030. Cost-of-living survey.** Subject to an appropriation for this purpose, the director shall conduct a survey, at least every five years, to review the pay differentials established in AS 39.27.021 [AS 39.27.020]. The survey may address factors, as determined by the director, that are also relevant in review of state salary schedules, entitlement for beneficiaries of state programs, and payments for state service providers. The survey must reflect the costs of living in various election districts of the state, and Seattle, Washington, by using the cost of living in Anchorage as a base. [IN THIS SECTION, "ELECTION DISTRICT" HAS THE MEANING GIVEN IN AS 39.27.020(b).]

\* Sec. 6. AS 39.27.045 is amended to read:

**Sec. 39.27.045. Definitions [DEFINITION].** In AS 39.27.021 - 39.27.045

1 [AS 39.27.020 - 39.27.030],

2 (1) "director" means the director of the division of personnel;

3 (2) "election district" means an election district designated in the  
4 governor's proclamation of reapportionment and redistricting of December 7,  
5 1961.

6 \* Sec. 7. AS 39.35.675(d) is amended to read:

7 (d) In this section, "cost-of-living differential" means an adjustment to salary  
8 based on the cost of living in the geographic region where the employee works and  
9 includes a pay step differential under former AS 39.27.020 or a pay differential  
10 under AS 39.27.021.

11 \* Sec. 8. AS 44.31.020 is amended to read:

12 **Sec. 44.31.020. Duties of department.** The Department of Labor and  
13 Workforce Development shall

14 (1) enforce the laws, and adopt regulations under them concerning  
15 employer-employee relationships, including the safety, hours of work, wages, and  
16 conditions of workers, including children;

17 (2) accumulate, analyze, and report labor statistics;

18 (3) operate systems of workers' compensation and unemployment  
19 insurance;

20 (4) gather data reflecting the cost of living in the various election  
21 districts of the state upon request of the director of personnel under AS 39.27.030; in  
22 this paragraph, "election district" has the meaning given in AS 39.27.045  
23 [AS 39.27.020(b)];

24 (5) operate the federally funded employment and training programs  
25 under 29 U.S.C. 1501 - 1792b (Job Training Partnership Act); and

26 (6) administer the state's program of adult basic education.

27 \* Sec. 9. AS 39.27.020 is repealed.

28 \* Sec. 10. The uncodified law of the State of Alaska is amended by adding a new section to  
29 read:

30 **LIMITATION ON SALARY ADJUSTMENT FOR GEOGRAPHIC**  
31 **DIFFERENTIALS.** (a) The salary that an employee is receiving on June 30, 2001, may not

1 be reduced by application of a provision of sec. 4 of this Act so long as the employee remains  
2 in the same geographic area as set out in AS 39.27.021, enacted by sec. 4 of this Act. If an  
3 employee moves to another geographic area on or after July 1, 2001, the pay differential in  
4 AS 39.27.021, enacted by sec. 4 of this Act, applies to the employee's salary on the effective  
5 date of the move.

6 (b) If, on July 1, 2001, an employee's salary would have been reduced but for the  
7 provisions of (a) of this section, that employee's salary may not be increased by application of  
8 an adjustment to the salary schedules in AS 39.27.011 or a step increase until the application  
9 of the adjustment or increase to the reduced salary the employee would otherwise have been  
10 receiving as of July 1, 2001, results in an amount that meets or exceeds the salary that the  
11 employee was receiving on June 30, 2001.

12 \* Sec. 11. This Act takes effect July 1, 2001.



Official Business

# Alaska State Senate

## Senate Finance Committee

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

### Sponsor Statement

#### Senate Bill 181

#### **"Elimination of discriminatory 1 percent mortgage subsidy"**

SB 181 eliminates the statutory 1 percent below market rates for the Housing Assistance Loan Fund (HALF) program and replaces it with the standard market rate for AHFC home loans. AS 18.56.420 creates the HALF program to provide housing loans to residents in communities of less than 6500. AS 18.56.420 currently requires that these loans be at 1 percent below market rates. This loan program is managed by AHFC. The 1 percent discount on HALF loans costs the state on average over \$40,000 in lost income over the life of one of these loans. This legislation eliminates the 1 percent subsidy from the HALF program for the following reasons:

- 1) A September 2000 legislative audit concluded that the need for the program has been eliminated through other programs and private entities meeting the needs of homeowners.
- 2) If the 1 percent subsidy is eliminated from the HALF program, over a half-million dollars a year in additional AHFC earnings could potentially be made available to help balance the state fiscal gap.
- 3) Providing these low cost loans to borrowers who don't need the subsidy while denying such a subsidy to other less well off Alaskans is unfair discrimination.
- 4) Elimination of the subsidy will help to promote formation, consolidation and unification of local governments.

The HALF program was designed to help overcome certain barriers to home ownership in smaller Alaska communities such as high construction costs and a lack of private financing services. But according to a September 25, 2000 legislative audit, in the last 20 years most of these barriers have been removed. Other programs and private entities have moved in to meet the needs of rural homeowners. While the program tried to address allegedly higher costs, the audit found that building in smaller communities doesn't always cost more.

The 1 percent subsidized rate is being abused and is no longer necessary. In fiscal years 98 and 99 there were 1,026 HALF-subsidized loans made. During that two-year period the 1 percent subsidized loans were made to 166 borrowers with annual incomes **over \$100,000**. 74 percent of the loans made during this period were to borrowers in areas where home construction costs are **less than in the Anchorage area**. The average price of a home receiving a subsidized loan during this period was \$167,000. During this same period 148 loans were made for **amounts above \$200,000**. 11 loans were for amounts **greater than \$300,000**, the highest loan being for \$400,000. The 1 percent subsidy on that \$400,000 loan will cost the state **close to \$100,000 in lost income** over the life of that loan.

The HALF program was intended to give people a chance at home ownership when they didn't have other options. Now that those options are available, it appears that the program is being chosen for its lower discriminatory interest rate, not because it is the only way to get a home loan.

The recent legislative audit report indicated that "most barriers to home ownership financing have been overcome by changes in the private and governmental sectors...." Assuming that interest rates, loan volume, dollar value of loans and expenses remain the same as during FY 99 and FY 00, elimination of the HALF 1 percent subsidy could increase AHFC earnings by approximately \$540,000 in the first year, according to the report. If the subsidy program is eliminated, over a half-million dollars a year in additional AHFC earnings could be made available to help balance the state fiscal gap.

The HALF 1 percent subsidy as it currently exists simply does not make sense. Providing these low cost loans to borrowers who don't need the subsidy while denying such a subsidy to other Alaskans is unfair discrimination.

In addition, the discriminatory lower rate provided by the HALF 1 percent subsidy has had an unintended bad affect. The constitutionally created Local Boundary Commission report released in 1998 cited this program as a major impediment to the formation and consolidation of local government in Alaska. That report cited specific examples including that of opponents of the proposal to consolidate the City of Haines and the Haines Borough, who listed the loss of eligibility for the HALF 1 percent subsidy as a reason not to consolidate.

Another example is in the Kenai area where among residents who live along the boundary between the city and the borough, those who live in the borough get the 1 percent reduced home loans, while residents on the city side do not. It is this unfair discrimination that inhibits the efficient formation of local government. The state pursuant to the Alaska Constitution should be encouraging the formation and unification of local government not discouraging it.

It is clearly not good public policy to have a program that rewards rich and well off people in low cost construction areas with a special discriminatory subsidy that discourages formation and unification of local governments. For these reasons the HALF 1 percent subsidy should be eliminated.

DD/bc

**SENATE BILL NO. 181**

IN THE LEGISLATURE OF THE STATE OF ALASKA  
 TWENTY-SECOND LEGISLATURE - FIRST SESSION

BY THE SENATE FINANCE COMMITTEE

Introduced: 4/9/01

Referred:

**A BILL****FOR AN ACT ENTITLED**

1 "An Act making the interest rate for the Alaska Housing Finance Corporation's small  
 2 community housing mortgage loans the same as the interest rate on mortgage loans  
 3 purchased under the corporation's special mortgage loan purchase program from the  
 4 proceeds of the most recent applicable issue of taxable bonds before the origination or  
 5 purchase of the small community housing mortgage loans."

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 \* Section 1. AS 18.56.470(a) is amended to read:

8 (a) The interest rate on a mortgage loan originated or purchased in whole or in  
 9 part under AS 18.56.420 for small community housing is the same as [ONE  
 10 PERCENT LESS THAN] the interest rate, as determined under AS 18.56.098(f)(1) -  
 11 (4), on a mortgage loan purchased under AS 18.56.098(a) from the proceeds of the  
 12 most recent applicable issue of taxable bonds before the origination or purchase of the  
 13 mortgage loan originated or purchased under AS 18.56.420.



Official Business

# Alaska State Senate

## Senate Finance Committee

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

### Sponsor Statement

#### Senate Bill 182

**“Reducing certain payments to ensure continued payments for an entire fiscal year when funding at the statutory designated level is not appropriated”**

SB 182 recognizes the realities that funds may not always be available to fund individual benefit payments at the statutorily suggested level. If this were to occur, people who rely on these programs may receive benefits only until the available money runs out for that fiscal year. This situation would be unacceptable. SB 182 provides a contingency in the event that a funding shortage occurs in the future.

Currently, most statutes require that payments be made at a prescribed level without reference to funding actually available in the budget for that year. If a program does not receive funding at the statutorily suggested level, the only current option is to request a supplemental appropriation or shut a program down in the later months of the fiscal year. Senate Bill 182 would require program directors to prorate benefit payments over the entire fiscal year based on the available level of funding that a program receives. While this would reduce each payment, it would extend the payments over the full 12-month period, thus allowing the Legislature and Administration to respond to reductions in revenue and increases in program recipients in a simple and practical manner. This mechanism is no different than other state programs that provide benefits based on funds available.

This legislation will encourage greater accuracy and accountability in state budgeting. It will also encourage accountability on the part of program directors for the efficient management of their program.

This Senate bill specifically excludes loan programs, subsidies for hard-to-place children, retirement programs and programs for which other provisions of law address underfunding.

SB 182 provides a reasonable budgetary tool for the administration and legislature. It will provide a mechanism that may be needed to help deal with future fiscal challenges.

DD/bc

SENATE BILL NO. 182

IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-SECOND LEGISLATURE - FIRST SESSION

BY THE SENATE FINANCE COMMITTEE

Introduced: 4/9/01

Referred:

A BILL

FOR AN ACT ENTITLED

1 "An Act requiring reductions in payments to individuals under certain benefit  
2 programs if appropriations are not sufficient to fully fund the statutorily established  
3 levels of payments."

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

5 \* Section 1. AS 37.07.080(d) is amended to read:

6 (d) A state agency

7 (1) shall, if an appropriation made for a benefit program is not  
8 sufficient to fully fund all statutorily established levels of payments to individuals  
9 under that program, reduce the amount of payments to eligible individuals on a  
10 pro rata basis; in making the pro rata reductions required by this paragraph, the  
11 agency may not consider any potential supplemental appropriation for that  
12 program until the appropriation has been enacted; this paragraph does not apply  
13 to payments under AS 25.23.190 - 25.23.240, loan programs, state employee  
14 retirement benefit programs, or programs for which other provisions of law

1 address underfunding; and

2 (2) may not increase the salaries of its employees, employ additional  
3 employees, or expend money or incur obligations except in accordance with law and  
4 properly approved operations plan.



Official Business

# Alaska State Senate

## Senate Finance Committee

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

### SPONSOR STATEMENT

#### SENATE BILL 183

#### **"An Act relating to public interest litigants and attorney fees; and amending Rule 82, Alaska Rules of Civil Procedure"**

SB 183 makes public interest litigants subject to Court Civil Rule 82 regarding judgments for attorneys' fees, thus adopting a uniform standard for all litigants. Courts would continue to have the authority to award higher or full attorney fees when a court felt exceptional circumstances justified a higher award.

Through Alaska Supreme Court decisions, a doctrine known as the *Public Interest Litigant Doctrine* (PILD) has been established. This doctrine is not codified in law or set out in any court procedure. The courts apparently created the PILD as social policy to encourage private plaintiffs to advocate for issues that are deemed by the court to be "in the public interest."

Civil Rule 82 sets out a formula for the reimbursement of attorney fees to be collected by a prevailing party in a legal action. Court Civil Rule 82 limits attorney's fees recovery by prevailing litigants to 20 percent of the litigant's reasonable actual attorney's fees incurred on a case resolved without trial and 30 percent for those cases that go to trial.

PILD creates an exception to Civil Rule 82 by allowing the courts to classify a party as a "public interest litigant", thus allowing said party to collect **full**, reasonable, actual attorney fees if they prevail. And if they lose, the public interest litigant pays **none** of the prevailing party's attorney fees. Not even the innocent victims of violent crime who bring subsequent civil suit against criminals are allowed such generous attorney fees.

Additionally, SB 183 prevents legal fees being awarded to a litigant for claims on which they did not prevail. Such awards serve to promote spurious lawsuits, since plaintiffs know they will receive compensation for all costs even if they only win on one of several points. This problem was created by the recent Alaska Supreme Court Decision *Dansereau v. Ulmer* 955 P.2d 916 1998. Prior to *Dansereau v. Ulmer* lawyer fees for public interest litigants were only awarded for issues on which they prevailed. *Dansereau v. Ulmer* sets a precedent that allows courts to award the lawyer fees for all contested points even if the public interest litigants only prevailed on one point.

SB 183 includes a provision that gives the courts the flexibility to continue to follow the *Dansereau* case and/or award higher or full attorney fees when the court finds exceptional circumstances to justify a higher award.

SB 183 seeks to prevent awards of lawyer fees of \$150 or more an hour to special interest litigating organizations that have staff attorney's on salary for \$30 - \$40 per hour. When organizations are awarded such unnecessarily high lawyer fees they are able to utilize the embellished award to not only pay their in house lawyers but to also finance political and advocacy operations. It is wrong that the current system is being exploited in this way.

The Senate Finance Committee introduced SB 183 to make "public interest litigants" equally accountable for their lawsuits and to protect the state from having to pay excessive lawyer fees for frivolous public litigant cases. Based on claims paid in recent years this legislation could save the state hundreds of thousands of dollars annually.

A similar bill passed the State Senate in 2000. However, the legislation, sponsored by the Senate Finance Committee, failed to get a hearing in the House of Representatives.

## SENATE BILL NO. 183

IN THE LEGISLATURE OF THE STATE OF ALASKA  
 TWENTY-SECOND LEGISLATURE - FIRST SESSION

BY THE SENATE FINANCE COMMITTEE

Introduced: 4/6/01

Referred:

## A BILL

## FOR AN ACT ENTITLED

1 "An Act relating to public interest litigants and to attorney fees; and amending Rule 82,  
 2 Alaska Rules of Civil Procedure."

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

4 \* Section 1. AS 09.60.010 is amended to read:

5       Sec. 09.60.010. Costs and attorney fees allowed prevailing party. The  
 6 supreme court shall determine by rule or order the costs, if any, that may be allowed a  
 7 prevailing party in a civil action. Unless specifically authorized by statute or by  
 8 agreement between the parties, attorney fees may not be awarded to a party in a civil  
 9 action for personal injury, death, or property damage related to or arising out of fault,  
 10 as defined in AS 09.17.900, unless the civil action is contested without trial, or fully  
 11 contested as determined by the court. Attorney fees may only be awarded to or  
 12 against a public interest litigant as provided in Rule 82(g), Alaska Rules of Civil  
 13 Procedure, on the effective date of this Act.

14 \* Sec. 2. Rule 82(b), Alaska Rules of Civil Procedure, is amended by adding a new

1 paragraph to read:

2 (5) If the court chooses to vary an award of attorney's fees under (b)(3)  
3 of this rule by increasing the award beyond the amounts provided in (b)(1) or (2) of  
4 this rule, then the court shall apportion the attorney's fees by issue and may only award  
5 the increased fees for an issue the party prevailed upon unless the court finds  
6 exceptional circumstances to be present that require an increased award of fees  
7 without apportionment by issue.

8 \* **Sec. 3.** Rule 82, Alaska Rules of Civil Procedure, is amended by adding a new subsection  
9 to read:

10 (g) **Attorney's Fees for Public Interest Litigants.** Attorney's fees shall be  
11 awarded to or against a public interest litigant in the same manner as attorney's fees  
12 may be awarded to or against a non-public interest litigant under (b) of this section.

13 \* **Sec. 4.** The uncoded law of the State of Alaska is amended by adding a new section to  
14 read:

15 **CONDITIONAL EFFECT.** Section 1 of this Act takes effect only if secs. 2 and 3 of  
16 this Act receive the two-thirds majority vote of each house required by art. IV, sec. 15,  
17 Constitution of the State of Alaska.



Official Business

# Alaska State Senate

## Senate Finance Committee

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

### Sponsor Statement

#### SB 184

#### **"User contributions toward the cost of construction of certain water and sewer facilities"**

Water and Sewer projects funded through the "Village Safe Water Act" (VSW) program benefits villages with between 25 and 600 residents within a two-mile radius, a second or first class city with not more than 600 residents. The program is sustained through federal dollars and the Alaska Housing Finance Corporation (AHFC) dividend payment to the state.

Current statutes actually prohibit any requirement of a local contribution in support of local water and sewer enhancements under this program. SB 184 does not mandate that local communities benefited by this program contribute a certain amount for local enhancements. It does, however, remove the barrier to local financial support of water and sewer construction costs under the VSW program.

Eligible VSW projects receive 2/3<sup>rd</sup> of the funding from the federal government with the remaining 1/3<sup>rd</sup> supplied with state AHFC dividend funding. There are many more communities that do not receive requested funding than do receive funding in any given year. There is just not enough funding to support all the requests for VSW projects. Local contribution toward these programs will free up additional money in order to fund some of the requests that currently go unfunded each year. The FY 01 VSW appropriation was for \$13.0 million. If local communities contributed just 5 percent toward the cost, there would have been an additional \$2.7 million available to fund additional community requests.

With passage of this bill, the Department of Environmental Conservation will be encouraged to draft regulations creating a framework for local participation in water and sewer construction projects funded by the VSW program.

DD/bc

**SENATE BILL NO. 184**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTY-SECOND LEGISLATURE - FIRST SESSION**

**BY THE SENATE FINANCE COMMITTEE**

**Introduced: 4/9/01**  
**Referred:**

**A BILL**  
**FOR AN ACT ENTITLED**

1 "An Act relating to user contributions toward the cost of construction of certain water  
2 and sewage facilities."

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

4 \* Section 1. AS 46.07.040(a) is amended to read:

5 (a) The commissioner shall provide for the construction of facilities under this  
6 chapter, and is authorized to provide for the construction by contract or through grants  
7 to public agencies or private nonprofit organizations, or otherwise. A contribution  
8 toward the cost of the construction of a facility may [NOT] be required from its users.  
9 Construction under this section by contract is governed by AS 36.30 (State  
10 Procurement Code).



Official Business

# Alaska State Senate

## Senate Finance Committee

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

### SPONSOR STATEMENT SENATE BILL 185

An Act relating to the basis for determining eligibility for and the amount of power cost equalization payments; and providing for an effective date

Senate Bill 185 revises the formula under which PCE subsidies are paid, making it a truly equitable program, and adjusts the maximum kilowatt-hours eligible for the subsidy to more accurately reflect power usage in PCE communities and encourage energy conservation.

During the past twenty years, the State of Alaska has funded various programs subsidizing electrical rates in rural areas of the state. The goal of these programs is to provide affordable utility power to rural Alaskans. I agree with the general goal of the program, but even with recent reform, Power Cost Equalization as it currently exists is extremely generous and represents poor public policy.

Rates in some PCE-eligible communities are subsidized to below what many other Alaskans in non-PCE-eligible communities pay, and the program fails to do a good job of encouraging energy conservation. This is poor public policy and highly discriminatory against Alaskans who pay higher than PCE-subsidized rates.

Senate Bill 185 corrects these inadequacies and makes the program what its name implies—equal. The legislation first changes the manner in which the rates are calculated to make payments more equalized. Instead of basing payments on the average cost per kilowatt-hour in Anchorage, Fairbanks and Juneau, PCE payments are based on the highest cost per kilowatt-hour charged to a community that is not eligible for PCE. A review of 68 communities' residential electric rates for FY 00 indicates that numerous communities receiving PCE pay less for their power than those that do not receive PCE. Of the sampling's 41 communities that receive PCE, 26 pay less than individuals in Kodiak for power usage of 500 kWh per month. If the sampling is representative of all communities in the state, almost half of PCE-subsidized customers pay less for their power than customers of the Kodiak Electric Association.

Senate Bill 185 next encourages energy conservation by lowering the maximum number of subsidized kilowatt-hours per month from 500 to 400. A review of year 2000 usage reveals that the average kilowatt-hours used per month in communities eligible for PCE is 417 kWh. At the current 500 kWh level of subsidy, there is no incentive for these customers to conserve energy. By lowering the maximum to 400 kWh, individuals will still receive a subsidy for all the kWh needed to power their home.

This legislation also indirectly encourages everyone within the state to continue to find ways to generate cheaper, more cost-effective power. As the cost for power decreases in non-PCE-eligible communities, the power costs for PCE communities will automatically decrease as well. It is an equitable way to assist those hardest hit by the cost of power without providing them with special benefits denied to others.

Revising PCE to this more equitable formula is estimated to reduce required funding by approximately \$9 million. This eliminates the need for most of the Governor's FY 02 request to appropriate \$7.8 million to pay for PCE subsidies. Additionally, if the entire income of the Power Cost Equalization/Rural Electric Capitalization Fund is not needed to pay the subsidy each year, the fund will grow through interest income, making more income available in future years to help pay future PCE/REC needs.

**SENATE BILL NO. 185**

**IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-SECOND LEGISLATURE - FIRST SESSION**

**BY THE SENATE FINANCE COMMITTEE**

**Introduced: 4/9/01  
Referred:**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to the basis for determining eligibility for and the amount of power**  
2 **cost equalization payments; and providing for an effective date."**

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

4 **\* Section 1.** AS 42.45.100(a) is amended to read:

5 (a) The power cost equalization and rural electric capitalization fund is  
6 established as a separate fund for the purpose of

7 (1) equalizing power cost per kilowatt-hour statewide at a cost close to  
8 or equal to the highest cost per kilowatt-hour charged by a utility in the state that  
9 does not receive power cost equalization under AS 42.45.100 - 42.45.170 for sales  
10 to residential customers of 400 kilowatt-hours per month [MEAN OF THE COST  
11 PER KILOWATT-HOUR IN ANCHORAGE, FAIRBANKS, AND JUNEAU BY  
12 PAYING MONEY FROM THE FUND TO ELIGIBLE ELECTRIC UTILITIES IN  
13 THE STATE]; and

14 (2) making grants to eligible utilities under AS 42.45.180 to improve

1 the performance of the utility.

2 \* Sec. 2. AS 42.45.110(b) is amended to read:

3 (b) An eligible electric utility is entitled to receive power cost equalization

4 (1) for sales of power to local community facilities, calculated in the  
5 aggregate for each community served by the electric utility, for actual consumption of  
6 not more than 70 kilowatt-hours per month for each resident of the community; the  
7 number of community residents shall be determined under AS 29.60.020; and

8 (2) for actual consumption of not more than 400 [500] kilowatt-hours  
9 per month sold to each residential customer.

10 \* Sec. 3. AS 42.45.110(c) is amended to read:

11 (c) The amount of power cost equalization provided per kilowatt-hour under  
12 [SUBSECTION] (b) of this section may not exceed 95 percent of the power costs, or  
13 the average rate per eligible kilowatt-hour sold, whichever is less, as determined by  
14 the commission. However,

15 (1) during the state fiscal year that began July 1, 1999, the power costs  
16 for which power cost equalization were paid to an electric utility were limited to  
17 minimum power costs of more than 12 cents per kilowatt-hour and less than 52.5 cents  
18 per kilowatt-hour;

19 (2) during the state fiscal year beginning July 1, 2000, [EACH  
20 FOLLOWING STATE FISCAL YEAR], the commission shall adjust the power costs  
21 for which power cost equalization may be paid to an electric utility based on the  
22 weighted average retail residential rate in Anchorage, Fairbanks, and Juneau; however,  
23 the commission may not adjust the power costs under this paragraph to reduce the  
24 amount below the lower limit set out in (1) of this subsection; [AND]

25 (3) during each following state fiscal year, the commission shall  
26 adjust the power costs for which power cost equalization may be paid to an  
27 electric utility based on the highest cost per kilowatt-hour charged by a utility in  
28 the state that does not receive power cost equalization under AS 42.45.100 -  
29 42.45.170 for sales to residential customers of 400 kilowatt-hours per month; the  
30 commission may not adjust the power costs under this paragraph to reduce the  
31 amount below the lower limit set out in (1) of this subsection; and

1                    (4) [(3)] the power cost equalization per kilowatt-hour may be  
2                    determined for a utility without historical kilowatt-hour sales data by using kilowatt-  
3                    hours generated.

4                    \* **Sec. 4.** AS 42.45.110(d) is amended to read:

5                    (d) An electric utility whose customers receive power cost equalization under  
6                    AS 42.45.100 - 42.45.150 shall set out in its tariff the rates without the power cost  
7                    equalization and the amount of power cost equalization per kilowatt-hour sold. The  
8                    rate charged to the customer shall be the difference between the two amounts. Power  
9                    cost equalization paid under AS 42.45.100 - 42.45.150 shall be used to reduce the cost  
10                   of all power sold to local community facilities, in the aggregate, to the extent of 70  
11                   kilowatt-hours per month per resident of the community, and to reduce the cost of the  
12                   first 400 [500] kilowatt-hours per residential customer per month.

13                   \* **Sec. 5.** This Act takes effect July 1, 2001.



Official Business

# Alaska State Senate

## Senate Finance Committee

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

### Sponsor Statement for

### Senate Bill 186

### "Establishing a General Obligation Bond Limit for Local Governments"

SB 186 limits the amount of bonding exposure a local government may incur by placing a \$15,000 per resident ceiling on municipal general obligation bond debt. The March 23, 2001 Bullock v. State decision by the Alaska Supreme Court has necessitated this legislation. Over the next decade, this limitation will gradually add over \$100 million per year to the state general fund.

In 1973, the legislature adopted a statute that allows the state to levy a 20-mill property tax on property used for the exploration, production and pipeline transportation of oil and gas, known as AS 43.56 property. Municipalities may also tax this same AS 43.56 property using one of two methods made available in this state statute. Subsequently, the taxpayers (oil & gas companies) are allowed a credit against their state tax liability for the 20-mill state property tax for taxes paid to a municipality. For example, if a municipality levies a tax of \$9,000 on "43.56" oil and gas property, from which the state was to receive \$10,000 in taxes, the state would receive \$1,000, the difference between the two.

AS 43.56 was established to distribute oil and gas property tax revenues equally throughout the state even though the oil & gas properties are not similarly situated. It was the intent of AS 43.56 to prevent pockets of wealth in our state at the expense of other areas. However, the intent of this law (AS 43.56) has not been recognized by state agencies. This has cost the state general over \$100 million per year in income from the oil and gas property taxes.

SB 186 corrects this inequity by clearly establishing a per resident bond debt limitation of \$15,000 per resident.

Other than the North Slope Borough, every community in the state is far below the \$15,000 limitation set out in SB 186. In 2000, the North Slope Borough per resident debt is \$64,409. The next highest community is the City of St. Paul with per resident debt of \$13,318. The statewide average is \$2,873.

In 1999 Donald Bullock Jr. and the Ketchikan Gateway Borough filed suit to correct this inequity in a different manner by alleging that the state agencies have failed to enforce limitations on the municipal taxation of oil and gas related property under AS 43.56. However, on March 23, 2001 the Alaska Supreme Court ruled against their suit necessitating this legislation.

Senate Bill 186  
Sponsor Statement  
Page 2

SB 186 preserves the intent of the 1973 AS 43.46 oil and gas taxation legislation and distributes state revenues from oil and gas property taxation more equitably across the state to the benefit of all residents. This reasonable and prudent limitation on excessive municipal debt will eventually increase state revenues and help reduce the state fiscal gap by over \$100 million per year.

DD/jja

**SENATE BILL NO. 186**

**IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-SECOND LEGISLATURE - FIRST SESSION**

**BY THE SENATE FINANCE COMMITTEE**

**Introduced: 4/9/01**

**Referred:**

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act establishing a limit on the general obligation debt that may be authorized and  
2 issued by home rule and general law municipalities; and providing for an effective  
3 date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 \* **Section 1.** AS 29.10.200 is amended by adding a new paragraph to read:

6 (60) AS 29.47.185 and 29.47.305 (limitations on new or additional  
7 general obligation debt).

8 \* **Sec. 2.** AS 29.47 is amended by adding a new section to read:

9 **Sec. 29.47.185. Limitations on new or additional general obligation bonds.**

10 (a) A municipality may not incur new or additional general obligation bond debt for a  
11 purpose described in AS 29.47.180 or for another purpose for which a municipality  
12 may authorize and issue its general obligation bonds if the proposed new or additional  
13 general obligation bond debt, when added to the current total general obligation  
14 bonded indebtedness of the municipality, including the authorized but unsold bonds of

1 the municipality, would cause the total general obligation bonded indebtedness of the  
 2 municipality to exceed \$15,000 per capita based on the number of residents of the  
 3 municipality.

4 (b) For purposes of (a) of this section, the population of the municipality shall  
 5 be determined under AS 29.45.080(e) and 29.45.090(d).

6 (c) The limitation of (a) of this section applies to the entire general obligation  
 7 bonded indebtedness of a unified municipality or borough, whether incurred as  
 8 areawide debt, nonareawide debt, or debt involving a service area.

9 \* **Sec. 3.** AS 29.47 is amended by adding a new section to read:

10 **Sec. 29.47.305. Limitations on new or additional bonds to refund general**  
 11 **obligation bonds of the municipality.** (a) A municipality may not issue general  
 12 obligation refunding bonds if the general obligation refunding bond debt, when added  
 13 to the current total general obligation bonded indebtedness of the municipality,  
 14 including the authorized but unsold bonds of the municipality, would cause the total  
 15 general obligation bonded indebtedness of the municipality to exceed \$15,000 per  
 16 capita based on the number of residents of the municipality.

17 (b) For purposes of (a) of this section, the population of the municipality shall  
 18 be determined under AS 29.45.080(e) and 29.45.090(d).

19 (c) The limitation of (a) of this section applies to the entire general obligation  
 20 bonded indebtedness of a unified municipality or borough, whether incurred as  
 21 areawide debt, nonareawide debt, or debt involving a service area.

22 \* **Sec. 4.** This Act takes effect immediately under AS 01.10.070(c).



Official Business

# Alaska State Senate

## Senate Finance Committee

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

### Sponsor Statement for Senate Joint Resolution 24 "Proposing amendments to the Constitution of the State of Alaska relating to the budget reserve fund"

Senate Joint Resolution 24 would amend Article LX, sec 17 of Alaska's Constitution to promote fiscal discipline and provide a more efficient budgetary process. The purpose of SJR 24 is to restore the legislative intent of subsection (b). That section was intended to allow the legislature to fill a portion of the fiscal gap using funds from the Constitutional Budget Reserve (CBR) with a majority vote when the amount available for appropriation for a fiscal year is less than the amount available in the previous year.

The Alaska Supreme Court, in Hickel v Cowper, determined that "the amount available for appropriation" was improperly defined in statute. The Court improperly interpreted the true legislative intent of the  $\frac{3}{4}$  vote, which is now required to access the CBR. This has allowed a small minority of legislators to "blackmail" the majority into increased spending each year.

SJR 24 addresses this problem by clearly defining subsection (b), and allows the legislature to transfer the difference between *current year revenue* and *appropriations for the previous year* from the CBR to the General Fund (GF) without a  $\frac{3}{4}$  vote. Funds transferred from the CBR may be spent only as unrestricted GF. That is, the CBR couldn't be used to fill gaps in GF program receipts or in any of the fund codes the legislature classifies as "other." If current year appropriations exceed appropriations for the previous year, that gap will not be covered by the transfer from the CBR, but additional money can be appropriated from the CBR with a  $\frac{2}{3}$  vote, just as it is done now.

SJR 24 amends Article IX, sec 17 of Constitution by:

- reestablishing the trigger mechanism for accessing the CBR with a majority vote when:  
*Available money (this year) is less than Appropriations (this year)*  
The original trigger, declared invalid in Hickel v Cowper, was:  
*Available money (this year) is less than Appropriations (last year)*
- defining the CBR gap-filler provision (subsection b), which is not used because it was declared unconstitutional, as a transfer rather than an appropriation.
- defining money available for appropriation (it will exclude federal receipts, income of the Permanent Fund, and the CBR).
- specifying that money transferred from the CBR can be used only to replace unrestricted GF appropriations.
- repealing the repayment provision.

The existing trigger comparing revenue in the current year to appropriations in the prior year has little to do with determining whether a fiscal gap exists or how large it might be. The revised trigger is based on revenue and appropriations for the same fiscal year, making the comparison a valid indicator of a fiscal gap.

In addition, the original intent of using the CBR to fund no more than the level of appropriations for the prior year without a  $\frac{3}{4}$  vote is not changed under SJR 24.

Definitions of the terms "amount available for appropriation" and "amount appropriated" are the root of problems with interpreting the CBR provision. The revised language in SJR 24, in addition to the court decision, makes it clear that federal receipts, Permanent Fund earnings (PFDs, inflation proofing and excess income) and the CBR are excluded from both definitions, as are monies excluded from the existing "sweep" provision (subsection d).

Essentially, that leaves the GF fund group and many of the "other" fund codes subject to the trigger. However, transfers under the revised subsection (b) of SJR 24 can be used only to fund appropriations from the unrestricted general fund. The purpose of this limitation is to make sure that the CBR is not used when non-general fund receipts fall short of expectations. For example, the CBR could not be used to make up a shortfall in University tuition or Aerospace Corporation receipts without a  $\frac{3}{4}$  vote.

The transfer from the CBR is limited to prior year appropriations less the amount available for appropriation in the current year. If appropriations in the current year exceed appropriations in the prior year, only getting a  $\frac{3}{4}$  vote can fill that portion of the fiscal gap.

Money withdrawn from the CBR with a  $\frac{3}{4}$  vote can be used for any purpose.

SJR 24 also repeals the "sweep" provision because it can be reversed only with a  $\frac{3}{4}$  vote. Since the sweep reversal would be an annual requirement, failing to delete it would defeat the purpose of the proposed amendments to subsection (b).

**SENATE JOINT RESOLUTION NO. 24**

IN THE LEGISLATURE OF THE STATE OF ALASKA  
 TWENTY-SECOND LEGISLATURE - FIRST SESSION

**BY THE SENATE FINANCE COMMITTEE**

Introduced: 4/9/01

Referred:

**A RESOLUTION**

1 **Proposing amendments to the Constitution of the State of Alaska relating to the budget**  
 2 **reserve fund.**

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

4 \* **Section 1.** Article IX, sec. 17(a), Constitution of the State of Alaska, is amended to read:

5 (a) There is established as a separate fund in the State treasury the budget  
 6 reserve fund. Except for money deposited into the permanent fund under Section 15  
 7 of this article, all money received by the State after July 1, 1990, as a result of the  
 8 termination, through settlement or otherwise, of an administrative proceeding or of  
 9 litigation in a State or federal court involving mineral lease bonuses, rentals, royalties,  
 10 royalty sale proceeds, federal mineral revenue sharing payments or bonuses, or  
 11 involving taxes imposed on mineral income, production, or property, shall be  
 12 deposited in the budget reserve fund. Money in the budget reserve fund shall be  
 13 invested so as to yield competitive market rates to the fund. Income of the fund shall  
 14 be retained in the fund. Section 7 of this article does not apply to deposits made to the  
 15 fund under this subsection. Money may be transferred from the fund only as  
 16 authorized under (b) of this section and money may be appropriated from the fund

1           only as authorized under [(b) OR] (c) of this section.

2    \* Sec. 2. Article IX, sec. 17(b), Constitution of the State of Alaska, is amended to read:

3           (b) If the amount available for appropriation for a fiscal year is not sufficient  
4           to fully fund the amount appropriated for that year, money shall be transferred  
5           [LESS THAN THE AMOUNT APPROPRIATED FOR THE PREVIOUS FISCAL  
6           YEAR, AN APPROPRIATION MAY BE MADE] from the budget reserve fund and  
7           used to fund appropriations from the unrestricted general fund. However, the  
8           amount transferred [APPROPRIATED] from the fund under this subsection may not  
9           exceed the amount necessary, when added to other funds available for appropriation,  
10          to provide for total funding [APPROPRIATIONS] equal to the amount of  
11          appropriations made [IN THE PREVIOUS CALENDAR YEAR] for the previous  
12          fiscal year. For purposes of applying this subsection, amounts available for  
13          appropriation or appropriated from federal funds, income of the permanent  
14          fund, or this budget reserve fund may not be considered. For purposes of this  
15          subsection. "unrestricted general fund" shall be defined by law.

16    \* Sec. 3. Article IX, sec. 17(d), Constitution of the State of Alaska, is repealed.

17    \* Sec. 4. The amendments proposed by this resolution shall be placed before the voters of  
18    the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the  
19    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

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:jj

22-LS0734P  
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.

**SENATOR DAVE DONLEY'S  
SENATE FINANCE COMMITTEE  
LONG-RANGE FISCAL PLAN PRESENTATION  
OCTOBER 20, 2001**

**(SLIDE 1)**

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

**Presentation on  
Long-Range Fiscal Plan**

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

**(SLIDE 2)**

# Republican Majority's Five Year Fiscal Plan Was a Success

AS WE BEGIN WORK ON A NEW PLAN IT IS IMPORTANT TO RECOGNIZE THAT THE REPUBLICAN MAJORITY'S FIVE-YEAR PLAN, WHICH WE COMPLETED LAST YEAR, BUILT AN EXCELLENT FOUNDATION FOR ALASKA'S LONG TERM FINANCIAL HEALTH.

(SLIDE 3)

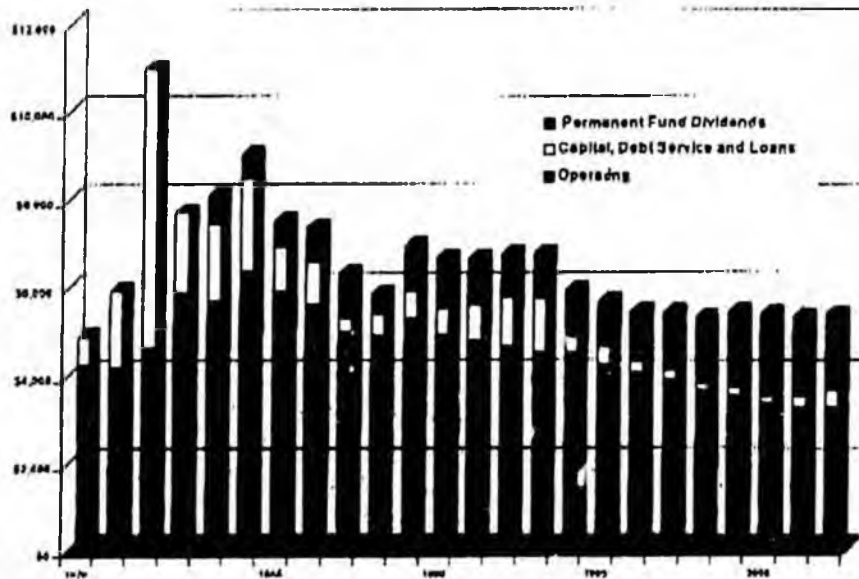
## State General Fund Per Capita Spending Is Going Down

- Per capita state general fund spending is currently about \$3800 per Alaskan. For state services, in today's dollars, that is \$921 less than in FY79 when the oil era began. Combined operating and capital general fund spending is \$1,186 less.
- However, when Permanent Fund dividends are added to general fund spending, the total is \$534 more per capita than FY79.

IN DEALING WITH THE FISCAL GAP, THE KEY IS GENERAL FUND SPENDING VERSUS REVENUE. TODAY REAL PER CAPITA SPENDING OF STATE GENERAL FUNDS IS SIGNIFICANTLY LESS THAN 1979.

(SLIDE 4)

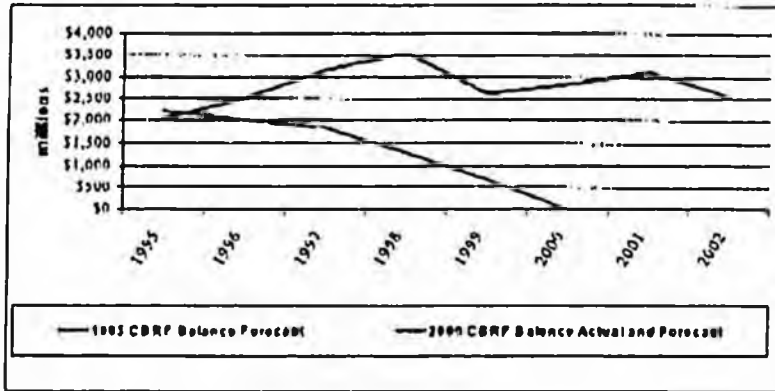
Real Per Capita General Fund and PFD Spending FY1979 - FY2002



UNDER THAT PLAN THE PERMANENT FUND WAS PROTECTED AND INCREASED BY \$5 BILLION TO OVER \$25 BILLION IN JUNE. CURRENTLY \$23.5 BILLION, 61% OF THAT INCREASE WAS BY DISCRETIONARY LEGISLATIVE ACTION.

(SLIDE 5)

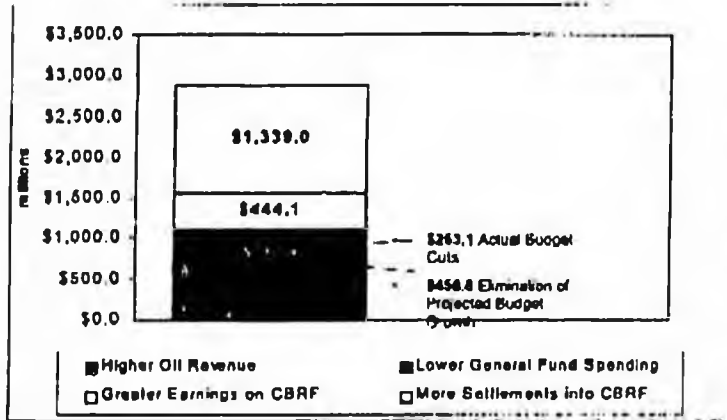
## CBRF: The View from Here



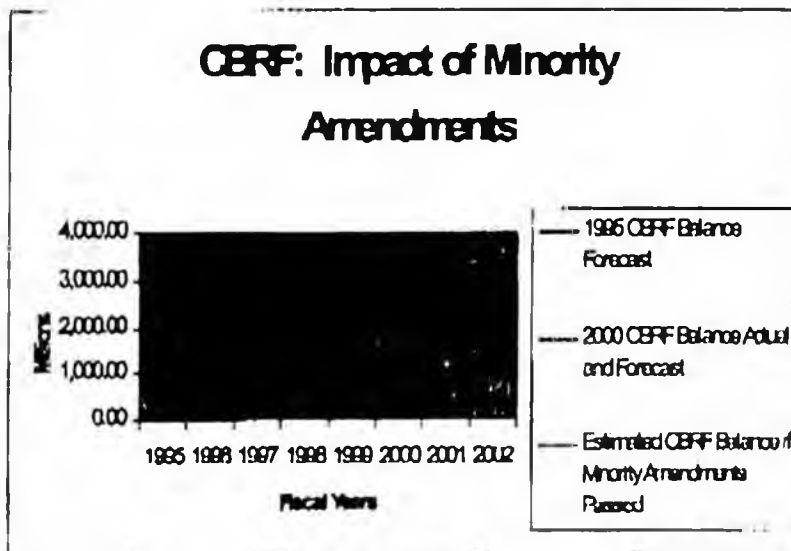
A VERY SURPRISING FACT TO MOST ALASKANS IS THAT OVER THE PAST FIVE YEARS, THE CONSTITUTIONAL BUDGET RESERVE, INCLUDING THE PCE ENDOWMENT, ACTUALLY INCREASED TO OVER \$3 BILLION IN JUNE.

(SLIDE 6)

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



(SLIDE 7)



7

WE HELD THE LINE AGAINST MORE THAN \$800 MILLION OF GOVERNOR KNOWLES' PROPOSED SPENDING INCREASES AND ACTUALLY REDUCED GENERAL FUND SPENDING.

WE IMPLEMENTED SUCCESSFUL MAJOR GOVERNMENT REFORMS INCLUDING:

- EDUCATION FUNDING REFORM
- WELFARE REFORM
- WE REDUCED STATE BUREAUCRACY AND MERGED STATE DEPARTMENTS
- REFORMED POWER COST EQUALIZATION
- UNDERGROUND STORAGE TANK FUNDING REFORM
- RELIEVED CORRECTIONS OVERCROWDING
- INCREASED FUNDING FOR THE UNIVERSITY OF ALASKA AND VOCATIONAL TRAINING

WE ALSO INITIATED RESULTS-BASED BUDGETING, AND WE INCREASED NON-OIL REVENUE.

(SLIDE 8)

## Senate Majority Plan

- Protect the Permanent Fund
- Exercise budget discipline by holding any total state spending increases to below inflation and population increases
- Use results-based budgeting with Missions & Measures to continue our progress for a smaller, smarter state government
- Make constitutional and statutory systemic changes to reduce the fiscal gap as the first step in developing a new long-range fiscal plan

**AS WE BUILD ON THIS TREMENDOUS PROGRESS AND WORK TOWARD A PUBLIC STATEWIDE CONSENSUS ON WHERE WE, AS ALASKANS, GO FROM HERE THE SENATE MAJORITY INTENDS TO CONTINUE TO:**

1. PROTECT THE PERMANENT FUND.
2. EXERCISE BUDGET DISCIPLINE BY HOLDING ANY TOTAL STATE SPENDING INCREASES TO BELOW INFLATION AND POPULATION INCREASES.
3. USE RESULTS-BASED BUDGETING WITH MISSIONS & MEASURES TO CONTINUE OUR PROGRESS FOR A SMARTER, SMALLER, SMARTER STATE GOVERNMENT.

4. MAKE CONSTITUTIONAL AND STATUTORY SYSTEMIC CHANGES TO REDUCE THE FISCAL GAP AS THE FIRST STEP IN DEVELOPING A NEW LONG-RANGE FISCAL PLAN.

AFTER FIVE YEARS OF ACTUAL REDUCTIONS IN GENERAL FUND SPENDING, THIS YEAR'S BUDGET INCREASED GENERAL FUND SPENDING. BUT IT IS STILL ALMOST \$60 MILLION BELOW THE GOVERNOR'S REQUESTS AND \$7 MILLION BELOW LAST YEAR'S LEVELS WHEN ADJUSTED FOR POPULATION AND INFLATION.

IF NOT FOR A MAJOR DECREASE IN ONE TIME FUNDS, INCREASED MEDICARE/MEDICAID COSTS, AND MAJOR INCREASES TO K-12 EDUCATION, THE UNIVERSITY OF ALASKA AND PUBLIC SAFETY, GENERAL FUND SPENDING WOULD HAVE GONE DOWN AGAIN THIS YEAR.

ADDITIONAL STATE REVENUE WILL BE A NEEDED ELEMENT IN A NEW LONG-RANGE FISCAL PLAN, BUT THE FIRST STEP IN SUCH A PLAN SHOULD BE CONTINUED GOVERNMENT REFORMS TO CREATE A MORE EFFICIENT AND FAIRER STATE GOVERNMENT. **ONLY AFTER SUCH NEEDED REFORMS SHOULD ALASKANS BE ASKED TO CONSIDER ANY MAJOR NEW TAXES.**

SO WHY DOES ALASKA CONTINUE TO SPEND MORE PER CAPITA THAN OTHER STATES?

(SLIDE 9)

## Per Capita Spending

Why does the Alaska spend more per capita than other states?

**Obvious reasons include:**

- Harsh climate
- Scattered communities
- Few economies of scale
- High transportation costs
- High cost of living

(SLIDE 10)

Why does Alaska spend more per capita than other states?

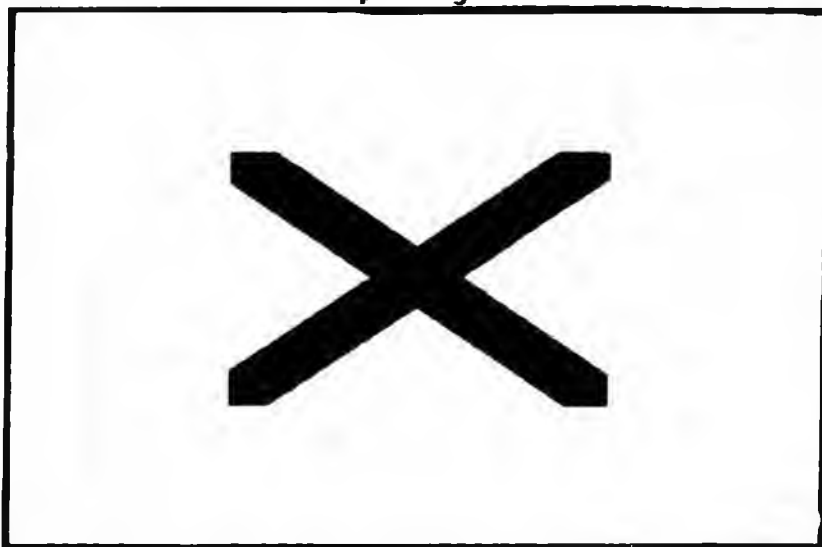
• Other reasons may not be so obvious:

– Compared to other states the State of Alaska:

- provides services normally provided by counties or local governments-police, courts, jails, education, etc.
- is responsible for managing vast resources.
- has an infrastructure that is not as developed, due to the short time span since statehood.
- has programs that other states don't-Permanent Fund dividends, Longevity Bonus, Pioneer Homes, Power Cost Equalization, etc.

(SLIDE 11)

**State of Alaska Budget General Fund and Permanent Fund  
Spending**



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

TO HELP DEVELOP PROPOSALS TO CONTINUE OUR SUCCESSFUL EFFORTS  
TOWARD A SMALLER SMARTER STATE GOVERNMENT, EARLIER THIS YEAR I  
WROTE THE COMMISSIONER OF EVERY STATE DEPARTMENT AND ASKED IF  
THEY HAD ANY IDEA FOR LEGISLATION TO HELP IMPROVE STATE  
GOVERNMENT EFFICIENCY AND REDUCE THE STATE'S FISCAL GAP.

NOT ONE MADE A SINGLE SUGGESTION OR REQUEST FOR SUCH LEGISLATION. I  
REPEAT, GOVERNOR KNOWLES COMMISSIONERS DID NOT HAVE A SINGLE