

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1 130 SCOMM 45: SPENDING LIMIT FILES. INCLUDING SJR 4. 1981

appropriations required to pay the
principal and interest on general obligation bonds,

HCS CSSJR 4(Fin) and H
HJR 57

money appropriated
to escrow accounts or otherwise to repay general obligation
bonds;

Gov's
bill

to money appropriated to pay principal and interest on general obligation bonds;
CSSJR 4(Fin)

money appropriated to escrow accounts or otherwise to
repay general obligation bonds;

CSSJR 4
(Jud)
HJR 5

SECTION 7. Nothing in this Article shall be construed
to impair the ability of the State to meet its obligations
with respect to existing or future bonded indebtedness.

St
Clemens

Court Orders

OK

money appropriated to meet increases in costs to the State resulting from court orders;

money appropriated to meet increases in costs to the State resulting from court orders or a transfer of authority or responsibility to the State from the federal government; /

Gov's
bill
CSSTRY
(Jud)
HJR 5

-) appropriations required for the purpose of complying with mandates of any court of competent jurisdiction and any appeal therefrom,

St. Chamber

or of legally binding mandates of the federal government (exclusive of payments mandated and not paid under the Alaska Native Claims Settlement Act) rendered after adoption of this Article, which, without discretion, require an expenditure for additional services or which unavoidably make the provision of existing services more costly.

St. Chamber

LOANS

money appropriated to capitalize loan funds,
but only if the money to subsidize these loans at below
market interest rates is appropriated separately under the
limitations; /

~~clerk~~ #
Gov's
bill

money appropriated to capitalize loan
funds, but the money to subsidize low interest loans must be appro-
priated separately and is subject to the limitations;

CS SJR 4
(Jud)
HJR 5

to money appropriated to capitalize loan
funds, but only if the money to subsidize these loans at below market
interest rates is appropriated separately under the limitations; *

CS SJR 4
(FIN)

and excepting appropriations made for the purpose of loans to
be made by the State, /

HJR 4

St. Chamber

loan funds or indebtedness funds,

or to appropriations to other funds that produce income at market rates (draft)

Capital

money appropriated by two-thirds of each house
to construct capital improvements, whether of bond proceeds
or otherwise, where the appropriation for the capital
improvements is approved by the voters;

Gov's
bill

money appropriated
to construct capital improvements, whether of bond proceeds or other-
wise, where the appropriation for the capital improvements is approved
by the voters;

CSSJR4
(Jud)
HJR 5

money not to exceed \$1,500 per capita appropriated by the affirmative
vote of two-thirds of the membership of each house, whether of bond
proceeds or otherwise, to construct capital improvements;

CS SSR 4
(FIN)

and excepting appropriations for capital improvements.

SJR 3

appropriations for capital improvement
projects in an amount not to exceed 25%
of the appropriations limit for each fiscal
year; or

St. Chamber

appropriations required to pay the
principal and interest on general obligation bonds,

HCS CS SJR4
(FIN) am H

Other related concepts: see extraordinary majority needed for exemption; single
purpose, single appropriation

Money in Trust

OK

SECTION 17. EXEMPTIONS FROM APPROPRIATION LIMITATIONS. The limitations on increases in appropriations established in Section 16 of this article do not apply to money received in trust for a specific purpose; /CS SJR 4 (Fin) am

The limitations on increases in appropriations do not apply to money ^{from another} received in trust for a specific purpose;

Gov's
bill

- (iii) benefit payments from retirement, unemployment insurance, and disability insurance funds;

St. Chamber

money received in trust from a non-state source for a specific purpose (draft)
beneficial trusts established by a non-state source for a specific purpose (draft)

membership of each house and approved by the governor to meet disasters of natural or human origin which are declared by the governor.

-1-

CSSJR 4(Fin) am

or money appropriated by
a vote of two-thirds of the membership of each house and

approved by the governor to meet disasters of natural or
human origin which are declared by the governor.

money appropriated as a reserve for
disasters of natural or human origin or other emergencies;

HJR 5

CSSJR 4
(Jud)

or money appropriated by a vote of
two-thirds of the membership of each house and approved by the governor
to meet disasters of natural or human origin which are declared by the
governor.

CSSJR 4
(Jud)

HJR 5

to money
appropriated by a vote of two-thirds of the membership of each house
and approved by the governor to meet disasters of natural or human
origin which are declared by the governor.

CS SJR 4 (FIN)

Core law - Disaster family clear
emergency - large grey area for
it interpretation

~~EMERGENCY~~

An appropriation in excess of this limit shall not be made unless a state of emergency is declared to exist, as provided by law. The appropriation limit for each of the three years following the declaration of emergency shall be adjusted equally so that the total appropriations for the year of the emergency and the succeeding three years do not exceed the appropriations which could have been made under this section if no emergency had been declared. The limit on rate of growth of appropriations for each year shall be calculated without regard to a declared emergency or the subsequent three-year adjustment.

HJR4
SJR3
State
Chamber

No appropriation in excess of this limit may be made unless a state of emergency is declared by the governor as provided by law.

HSCSSJR4
(Fin) 2M H

Investments

St. Chamber

in-
vestments (or authorizations to invest)
funds of the State, in accounts at
banks or savings and loan associations
or in liquid securities;

or to appropriations to other funds that produce income at market rates (draft)

MISCELLANEOUS

money appro- CSSTP4 + HJR5
(Jud)

appropriated to coincide with increases in user fees;

money derived from one-quarter of the income from those contributions made to the permanent fund which exceed the minimum required by this constitution:

CSSTP4
(Jud)
HJR5

Revenues received

by the State in excess of the amount appropriated in compliance with this article during a fiscal year shall be distributed to the taxpayers of the State as provided by law. No appropriation is required for a distribution under this section within the succeeding fiscal year.

STP3
state
chamber

The governor shall cause any unappropriated balance to be invested at market rates. HJR 57

SECTION 22. INCREASED COSTS TO POLITICAL SUBDIVISIONS. No general law requiring increased expenditures by a political subdivision shall become effective unless the legislature has provided that the State pay the amount of increased cost to the political subdivision.

STP3

- (i) discretionary subventions made pursuant to Sections 5(a)(i)(ii) of this Article; *he = transfers of authority to local governments*
- (ii) refunds of taxes;

St.
Chamber

appropri-

ations to other funds that produce income at market rates. Income from appropriations excepted from the appropriation limitation shall be returned to the general fund and is subject to the appropriation limita-

CSSTP4 (Jud)

Money appropriated under any exception prescribed by
Section 17 of this article shall not be included in the base for deter-
mining the allowable increase from year to year. *CS SJR 4 (Fin) AM,*
CS SJR 4 (Fin)

.. Money appropriated under any exception
prescribed by section 17 of this article shall not be
included in the base for determining the allowable increase
from year to year. *Governor's Bill-proposed + HJR 5*

Override of Spending Limitation

The legislature may, by affirmative vote of two-thirds of the membership of each house, make appropriations in excess of this limit by enactment of appropriation bills limited to a single item of appropriation for a single purpose but the excess appropriations, if any, shall not be included in calculating the limit for the next fiscal year. / HJR 57

The legislature may, by affirmative vote of two-thirds of the membership of each house, make an extraordinary appropriation without regard to the appropriation limitation under Section 16 of this article, but each extraordinary appropriation shall be limited to a single item of appropriation for a single purpose. Each extraordinary appropriation shall be subject to the provisions regarding vetoes in Sections 15 and 16 of Article II, except that a three-quarters vote of the membership of each house shall be required to override a veto of an extraordinary appropriation. The governor may not propose an extraordinary appropriation in the budget submitted under Section 12 of this article. Extraordinary appropriations shall not be included in calculating the appropriation limitation for the next fiscal year. Draft CS SJR 4 (FIN)

**PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.**

APPROPRIATION LIMITATIONS: Except for appropriations to the Alaska Permanent Fund and appropriations ~~xxxx~~ of money received from a non-state source in trust for a specific purpose, appropriations from the treasury for a fiscal year for the operating expenses of government shall not exceed \$1. ⁷ by more than the cumulative change in federal indexes of population and inflation, as defined by law, since July 1, 1981. ~~xxxxxxx~~ 30% of the adjusted base may be appropriated for additional purposes. No other appropriation in excess of this limit may be proposed by the governor or approved by the legislature unless to meet a state of disaster declared by the governor as prescribed by law. The governor shall cause any unappropriated balance to be invested so as to yield competitive market rates to the treasury.



Alaska State Legislature

HOUSE CALENDAR

OFFICIAL BUSINESS OF THE HOUSE

ONE HUNDRED FIFTY-EIGHTH DAY

Thursday

Chaplain: Intern Perry C. Francis
Resurrection Lutheran Church

June 18, 1981
Convenes: 10:00 a.m.

SECOND READING OF HOUSE BILLS

- HB 318 "An Act relating to the control of bee disease."
-Resources report w/CS(Res) (same title), p. 1753
- Resources Fiscal Note, H. Supplement No. 49
-Finance w/CS(Res), p. 2052

SECOND READING OF SENATE BILLS

- SB 392 "An Act continuing the existence of the Board of
am Governors of the Alaska Bar Association and amending
the statutes relating to the practice of law in the
state; and providing for an effective date."
-Judiciary report w/HCS(Jud) (new title), p. 2008:
HCS(Jud): Continuing the existence of the
Board of Governors of the Alaska Bar Association
and amending the statutes relating to the
practice of law in the state; amending Alaska
State Supreme Court Bar Rule 2; repealing
section 3 of Alaska State Supreme Court Bar
Rule 2 and section 7 of Alaska State Supreme
Court Bar Rule 3; effective date
- SB 422 "An Act amending grant limits for certain programs
of the Department of Community and Regional Affairs;
and providing for an effective date."
-C&RA report, p. 1753
-Finance report, p. 2008

SECOND READING OF SENATE RESOLUTIONS

- CS
SCR 13 Relating to the preservation of the House of
(SA) Wickersham.
- SJR 47 Relating to the extension of the Voting Rights Act.
am -State Affairs report, p. 1853

except that appropriations may be made in excess of this limit for capital improvements of the same type in a separate bill for each type of capital improvement and the legislature may approve ~~without increase~~ each bill by a two-thirds vote of each house. To override a veto on a bill for capital improvements in excess of the appropriation limit requires a three quarters vote of each house.

except that the Governor may propose appropriations in excess of this limit for capital improvements of the same type in a separate bill for each type of capital improvement and the legislature may approve without increase in the amount of appropriation each bill by a two thirds vote of each house. To override a veto on a bill for appropriations for capital improvements in excess of the appropriation limit requires a three quarters vote of each house.



Alaska State Legislature

HOUSE CALENDAR

OFFICIAL BUSINESS OF THE HOUSE
ONE HUNDRED FIFTY-NINTH DAY

Friday

Chaplain: Intern Perry C. Francis
Resurrection Lutheran Church

June 19, 1981
Convenes: 10:00 a.m.

Recessed to 5:15 p.m.

SECOND READING OF HOUSE BILLS

Passed
27-12
eff.
Intent adopted

CS HB 565 (FIN) "An Act establishing an Alaska Silver Anniversary Commission; and providing for an effective date."
-Finance report w/CS(Fin) (same title), p. 2239
-Finance Letter of Intent, p. 2239

SECOND READING OF SENATE BILLS

Passed
29-9
eff.
Dec 19 + 20
See B(35-4)

HCS CSSB 29 (Jud) "An Act relating to nuclear materials."
-Resources report w/HCS(Res) (new title), p. 597:
HCS(Res): Nuclear materials and extremely hazardous wastes effective date
-Judiciary report w/HCS(Jud) (new title), p. 2005:
HCS(Jud): Hazardous wastes and to nuclear and radioactive facilities and materials; eff date
-Judiciary Fiscal Note, H. Supplement No. 53
-Finance w/HCS(Jud), p. 2235
-Finance Fiscal Note, H. Supplement No. 59

Passed
31-5
eff.

CS SSSB 36 (Rls) "An Act establishing the Citizens' Advisory Commission on Federal Management Areas in Alaska; and providing for an effective date."
-Resources report, p. 1429
-Finance report, p. 2236
-Finance Fiscal Note, H. Supplement No. 59

Passed
34-0
eff.

CSSB 100 (Jud) "An Act relating to mentally ill persons; and providing for an effective date."
-Judiciary report, p. 2005
-Finance report, p. 2236
-Finance Fiscal Note, H. Supplement No. 59

SECOND READING OF SENATE RESOLUTIONS

515

CS SJR 4 (Fin)am Proposing an amendment to the Constitution of the State of Alaska relating to limitations on appropriations of state money.
-Finance report w/HCS(Fin) (new title), p. 2234
HCS(Fin): Proposing an amendment to the Constitution of the State of Alaska relating to limiting increases in appropriations

Citations on back

Passed
38-1
Reconsideration
HB 187 - went back to 3.4 am

CSSB 390(FIN)

HCSB 392 (Jud) H

LANGUAGE

federal index for inflation and population change as defined by law

EXCEPT

the governor may propose a single appropriation for a single project in excess of this limit and the legislature may approve it by a two-thirds vote of each house

appropriations for capitalization of loans may be made in excess of the limit so long as the interest rate is either at competitive rates or the difference between the competitive rate and the rate charged is appropriated ~~from~~ under the appropriation limitation

~~No appropriation~~

No other appropriation in excess of this limit may be proposed by the governor or approved by the legislature except to meet a state of disaster as declared by the governor.

appropriations of funds received as a beneficial trust established by a non-state source for a specific purpose

The governor shall cause any unappropriated funds to be invested at competitive rates

Income from appropriations excepted from the appropriation limitation shall be returned to the general fund and subject to the appropriation limitation.

OR Income from appropriations excepted from the appropriation limitation shall be exempted from the appropriation limitation.

Original sponsor: Rules/Governor

IN THE SENATE

BY THE FREE CONFERENCE COMMITTEE

FREE CONFERENCE CS FOR SENATE JOINT RESOLUTION NO. 4

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWELFTH LEGISLATURE - FIRST SESSION

Proposing an amendment to the Constitution of the State of Alaska relating to limiting increases in appropriations.

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

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

SECTION 16. APPROPRIATION LIMITATIONS. Except for appropriations to the Alaska permanent fund, appropriations required to pay the principal and interest on general obligation bonds, and appropriations of money received from a non-state source in trust for a specific purpose, appropriations from the treasury for a fiscal year shall not exceed \$2,000,000,000 by more than the cumulative change ^{in a Federal index of} ~~in~~ population and inflation, as defined by law, since July 1, 1979. The governor may propose bills for appropriations in excess of this limit for capital

improvements of the same type in separate bills for each type of capital improvement, and the legislature may delete, replace or add capital improvements to a bill proposed by the governor, so long as they are of the same type as the capital improvements proposed in the governor's bill and the total amount of appropriation is not increased. The legislature may approve each bill by a two-thirds vote of each house. To override a veto on a bill of appropriations for capital improvements in excess of the appropriation limit requires a three-quarters vote of each house. No other appropriation in

legislature unless to meet a state of disaster declared by the governor as prescribed by law. The governor shall cause any unappropriated balance to be invested so as to yield competitive market rates to the treasury.

* Sec. 2. The amendment proposed by this resolution shall be placed before the voters of the state at the next general election in conformity

kind. The legislature may delete, replace or add capital improvements to a bill proposed by the governor, so long as they are *similar in kind to* ~~of the same type as~~ the capital improvements proposed in the bill by the governor and the total amount of appropriation in the bill is not increased. The legislature may approve each bill by a two-thirds vote of the membership of each house.



Alaska State Legislature

HOUSE CALENDAR

OFFICIAL BUSINESS OF THE HOUSE

PROPOSED

SUPPLEMENTAL CALENDAR

ONE HUNDRED FIFTY EIGHTH DAY

SECOND READING OF HOUSE BILLS

- HB 187 "An Act relating to the penalty on tax."
-Judiciary report w/CS(Jud) (same title), p. 598
-Finance report w/CS(Jud), p. 1431

SECOND READING OF SENATE BILLS

- SB 83 "An Act restricting the authority of the Department
am of Natural Resources to regulate certain activities
in state recreation areas; and providing for an
effective date."
-Resources report w/HCS(Res) (new title), p. 1958:
HCS(Res): Restricting the authority of the
Department of Natural Resources to regulate
certain activities in the Chena River State
Recreation Area; effective date
-Judiciary report w/HCS(Jud) (new title), p. 2175:
HCS(Jud): Restricting the authority of the
Department of Natural Resources to regulate
certain activities in the Chena River State
Recreation Area; effective date
- CSSB 390 "An Act establishing a medical facilities special
(Fin) bond guarantee account in the Alaska Medical Facility
Authority; and providing for an effective date."
-Finance report, p. 2067
-Finance Fiscal Note, House Supplement No. 54

SECOND READING OF SENATE RESOLUTIONS

- SJR 27 Requesting the federal government to increase its
efforts to account for American servicemen still
missing in Southeast Asia.
-State Affairs report, p. 2156
- SJR 29 Requesting the United States Postal Service to
construct a new post office building for Dillingham.
-State Affairs report, p. 1622
- SJR 31 Requesting the United States government to honor the
unidentified dead from the Vietnam war at the Tomb
of the Unknown Soldier in the national cemetery at
Arlington, Virginia.
-State Affairs report, p. 2156

COMMITTEE REPORT FCC SJR 4

- ¶ This report reflects the agreement and understanding of committee members regarding the content of the proposed constitutional amendment.
- ¶ Regarding the base figure of \$2 billion, the attached information indicates the budgetary items considered in the establishment of the base. It should be noted that the committee approved the concept of a variety of governmental services and public needs competing under the spending limitation for funding. For this reason, the operating budget, capital items, loan subsidies, permanent fund dividends, and new legislation are all incorporated under the appropriation limitation.
- ¶ The base is to be adjusted to reflect changes in Alaska's population and inflation rate. The committee considered a greater degree of specificity in establishing the constitutional definition of the measures of population and inflation change but rejected this approach on the basis of consistency with existing constitutional language. However, it is the committee's intention that the expression of this definition in statutory language reflect an established and widely accepted formulation that is not subject to pressures to change either the formula or the agency political conducting the survey, so as to preserve the integrity of the base figure and the intent to limit expenditures of state funds. The committee further understands that in setting a "cumulative" figure, any one year's appropriation might be below the allowable appropriation without jeopardizing the ability of subsequent legislatures to appropriate at the maximum allowable by the formula.
- ¶ Regarding the exceptions to the expenditure limitation, there was universal agreement that appropriations to the permanent fund should be exempted from the limitation. Similarly, the committee agreed that payments for debt service on general obligation bonds of the state should be exempted in order not to jeopardize the state's bonding capability. It is also understood that the appropriation limitation does not limit the existing ability of the legislature, Governor, and people of the state to offer, approve and vote in favor or disapproval of bond propositions. This constitutionally provided for process remains unchanged by the amendment offered by the committee.
- ¶ Regarding the exemption of "money received from a non-state source in trust for a specific purpose," the committee excluded this item to specifically distinguish it from "appropriations from the treasury." It is intended that the words represent those funds which might be received by the state from a variety of outside sources for specific purposes. ~~For example, a personal testamentary bequest for a chair at the university~~

The amendment excludes, among other things, money received in trust for a specific purpose. This is a term of art derived from the case law on the subject of appropriations and refers to a fairly wide variety of revenues which each state obtains from a variety of ^{outside} sources to be used for a given purpose and which cannot be used for another purpose. The revenues range from paying a boiler inspector's travel expenses to endowing a chair at the University of Alaska, and they include federal revenues for fish and game, health and social services, and other categorical grants; international airport revenues and revenues from other enterprise funds dedicated to the payment of revenue bonds; money paid into the workers' compensation and unemployment insurance funds; and money received by an agency to perform a service for the grantor on a matter which the legislature has authorized the agency to handle. In each instance, the state receives the money in a manner in which there is no discretion to be exercised in selecting the purpose for which it can be used.

However, it is clearly the intention of the committee to exclude the possibility of state funded endowments as an appropriate exemption.

*Op costs - as part of AS
bond issue
leg. to cover refusal of cap to voters*

SECTION 16. APPROPRIATION LIMITATIONS. The amount of state money the governor may request and the legislature may appropriate during a fiscal year shall not exceed the amount of \$ billion beginning July 1, 1980 by more than the change in a federal index of inflation and population for the state as defined by law. Money appropriated under any exception prescribed by section 17 of this article shall not be included in the base for determining the allowable yearly increase.

SECTION 17. EXCEPTIONS FROM APPROPRIATION LIMITATIONS. The limitations on increases in appropriation do not apply to appropriations to the Alaska permanent fund, appropriations of funds received as a beneficial trust from a non-state source for a specific purpose, appropriations requested by the governor for a single ~~appropriation~~ for a single project and approved by two-thirds of the members of each house, appropriations to meet the legal obligations of the state resulting from court orders, appropriations required to pay the principle and interest on general obligation bonds of the state, and appropriations for the capitalization of loans, so long as the interest rate is competitive or the difference between the competitive rate and the rate charged is appropriated ~~separately~~ ~~separately~~ under the appropriation limitation. No other appropriation in excess of this limitation may be proposed by the governor or approved by the legislature except to meet a state of disaster as declared by the governor, *as defined by law.* The governor shall cause any unappropriated funds to be invested at competitive rates. Income from appropriations excepted from the appropriation limitation shall be returned to the general fund and subject to the appropriation limitation.

added to pop & infl. change

PROPOSED FCC SUBSTITUTE FOR SJR 4

by FREEMAN

Spending limit
SECTION 16. ~~APPROPRIATION LIMITATIONS~~. Except for

appropriations to the Alaska permanent fund, appropriations required to pay the principal and interest on general obligation bonds, ~~appropriations to general accounts~~, appropriations to pay obligations of the state resulting from court orders and appropriations of funds received in trust for a specific purpose, appropriations from the general fund for a fiscal year shall not exceed \$ _____ by more than the ^{*change*} ~~cumulative~~ population and inflation, ^{*since July 1980*} as defined by law, except that the governor may propose a single capital appropriation ^{*for a single project*} in excess of this limit and the legislature may approve it by a two-thirds vote of ^{*the members of*} each house. No other appropriation in excess of this

limit may be proposed by the governor or approved by the legislature unless a state of emergency is declared by the governor as defined by law.

unless to meet a state of disaster as declared by the Gov.

oral - natural

Blank \$ -

single capital appropriation
\$ -
Project

operating capital
Loans

\$2.55
1.9
- 125 al. serv *oral*
+ 500 loans
+ 100 ¹⁵⁰ new leg
+ 275 cap
2.65
Any un

shall be invested so as to yield to the treasury

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

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE JOINT RESOLUTION NO. 4

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - FIRST SESSION

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

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

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

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

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

6/24/81

TO: REP. MONTGOMERY

FROM: MARGO WARING *WW*

Senator Sturgulewski asked me to give you these copies of the amendment.

We just had Legal Services (Berrier) re-draft the bill.

This version is exactly the same as the one approved yesterday by the committee except that:

1. the \$2 billion is now \$2,000,000
2. Line 19 is divided into two sentences by placing a period after 1979, deleting "except that" and capitalizing the "t" to read "The".

Everything else is the same.

FCC

HCS CS SJR 4 (Finn) am H

DRAFT
Law

45 #
6/23/81
#5371

now practice
of set capet
legisl could
change specify
if not spect.

1030

3867

SECTION 16. APPROPRIATION LIMITATIONS. Except for appropriations to the Alaska permanent fund, appropriations required to pay the principal and interest on general obligation bonds, and appropriations of money received from a non-state source in trust for a specific purpose, appropriations from the treasury for a fiscal year shall not exceed \$2 billion by more than the cumulative change in population and inflation, ^{as defined by law,} since July 1, 1980, ~~as defined by law,~~ except that the governor may propose appropriations in excess of this limit for capital improvements of the same type in separate bills for each type of capital improvement, and the legislature may approve ^{without amendment, ~~as to vote of each~~} each bill ~~by the affirmative vote of~~ ^{two-thirds of the membership of each house.} No other appropriation in excess of this limit may be proposed by the governor or approved by the legislature unless to meet a state of disaster declared by the governor as prescribed by law. The governor shall cause any unappropriated balance to be invested so as to yield competitive market rates to the treasury.

10-2 + copies
Mortg

2 changes
bill last night

6/24 9 AM

Original sponsor: Rules/Governor

1 IN THE SENATE

BY THE FREE CONFERENCE COMMITTEE

2 FREE CONFERENCE CS FOR SENATE JOINT RESOLUTION NO. 4

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - FIRST SESSION

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

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

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

12 SECTION 16. APPROPRIATION LIMITATIONS. Except for appropriations
13 to the Alaska permanent fund, appropriations required to pay the princi-
14 pal and interest on general obligation bonds, and appropriations of
15 money received from a non-state source in trust for a specific purpose,
16 appropriations from the treasury for a fiscal year shall not exceed
17 \$2,000,000,000 by more than the cumulative change in population and
18 inflation, as defined by law, since July 1, 1979. The governor may
19 propose bills for appropriations in excess of this limit for capital
20 improvements with each bill confined to capital improvements that are
21 similar in kind, and the legislature may approve, without amendment,
22 each bill by a two-thirds vote of the membership of each house. No
23 other appropriation in excess of this limit may be proposed by the
24 governor or approved by the legislature unless to meet a state of
25 disaster declared by the governor as prescribed by law. The governor
26 shall cause any unappropriated balance to be invested so as to yield
27 competitive market rates to the treasury.

28 * Sec. 2. The amendment proposed by this resolution shall be placed
29 before the voters of the state at the next general election in conformity

1 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-
2 tion laws of the state.

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4j #
6/23/81

#5371

Revised
Language
by Deques

SECTION 16. APPROPRIATION LIMITATIONS. Except for appropriations to the Alaska permanent fund, appropriations required to pay the principal and interest on general obligation bonds, and appropriations of money received from a non-state source in trust for a specific purpose, appropriations from the treasury for a fiscal year shall not exceed \$2 ^{000,000,000} ~~billion~~ by more than the cumulative change in population and inflation, since July 1, 1980, ¹⁹⁷⁹ ~~as defined by law~~, except that the governor may ^{propose bills for} ~~propose~~ appropriations in excess of this limit for capital improvements ^(with each bill limited to capital improvements which are similar in kind) ~~of the same type in separate bills for each type of capital improvement~~, and the legislature may approve, ^{without amendment,} each bill by ^a ~~the affirmative vote of~~ two-thirds ^{vote} of the membership of each house. No other appropriation in excess of this limit may be proposed by the governor or approved by the legislature unless to meet a state of disaster declared by the governor as prescribed by law. The governor shall cause any unappropriated balance to be invested so as to yield competitive market rates to the treasury.

DRAFT
Law

4j. #
6/23/81
#5371

SECTION 16. APPROPRIATION LIMITATIONS. Except for appropriations to the Alaska permanent fund, appropriations required to pay the principal and interest on general obligation bonds, and appropriations of money received from a non-state source in trust for a specific purpose, appropriations from the treasury for a fiscal year shall not exceed \$2 billion by more than the cumulative change in population and inflation, ^{as defined by law, 1979,} since July 1, 1980, ~~as defined by law, except that~~ The governor may propose ^{bills for} ~~appropriations~~ in excess of this limit for capital improvements ^{with each bill confined to one} ~~of the same type in separate bills for each type of capital improvement,~~ ^{types of capital improvement without amendment,} and the legislature ^{may} ~~may~~ approve, each bill by ^{the affirmative vote of} ~~the affirmative vote of~~ two-thirds ^{vote} ~~of the membership of~~ each house. ^{which are similar in kind,} No other appropriation in excess of this limit may be proposed by the governor or approved by the legislature unless to meet a state of disaster declared by the governor as prescribed by law. The governor shall cause any unappropriated balance to be invested so as to yield competitive market rates to the treasury.

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W—ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF—STATE CAPITOL

JUNEAU 99801

COMPARISON OF GENERAL APPROPRIATIONS ACT APPROPRIATIONS GENERAL FUND

The following table shows the fiscal year-to-year dollar and percentage increase (decrease) in General Fund appropriations contained in the General Appropriations Acts.

GENERAL FUND APPROPRIATIONS				Year-to-Year Increase/Decrease	
<u>Fiscal Year</u>	<u>Operating</u>	<u>Capital</u>	<u>Total</u>		
1960	\$28,126,346	\$ 3,137,988	\$ 31,264,334	\$ 14,521,984	46.4%
1961	37,795,908	7,990,410	45,786,318	7,150,107	15.6
1962	46,151,097	6,785,328	52,936,425	11,611,855	21.9
1963	57,713,070	6,835,210	64,548,280	14,548,450	22.5
1964	70,942,330	8,154,400	79,096,730	(3,750,355)	-4.7
1965	74,397,375	949,000	75,346,375	10,777,625	14.3
1966	84,120,600	2,003,400	86,124,000	7,678,250	8.9
1967	92,503,800	1,298,450	93,802,250	10,003,650	10.7
1968	101,997,200	1,808,700	103,805,900	20,299,300	19.6
1969	121,834,600	2,270,600	124,105,200	29,987,400	24.2
1970	152,076,000	2,016,600	154,092,600	160,027,900	103.9

COMPARISON OF GENERAL APPROPRIATIONS ACT APPROPRIATIONS -
GENERAL FUND

PAGE 2

GENERAL FUND APPROPRIATIONS				Year-to-Year Increase/Decrease	
<u>Fiscal Year</u>	<u>Operating</u>	<u>Capital</u>	<u>Total</u>		
1971	\$252,966,400	\$61,154,100	\$314,120,500	\$(22,016,500)	-7.0
1972	283,683,000	8,421,000	292,104,000	38,302,000	13.1
1973	318,771,100	11,634,900	330,406,000	22,577,000	6.8
1974	345,462,400	7,520,600	352,983,000	104,001,200	29.5
1975	444,575,100	12,409,100	456,984,200	96,579,800	21.1
1976	537,346,300	16,217,700	553,564,000	125,625,300	22.7
1977	668,278,100	10,911,200	679,189,300	118,570,000	17.5
1978	768,009,800	29,750,100	797,759,900	106,385,700	13.3
1979	880,653,500	23,492,100	904,145,600	138,287,300	15.3
1980	955,630,700	86,802,200	1,042,432,900	818,209,300	78.5
1981	1,493,207,800	367,434,400	1,860,642,200		

FY 81 APPROPRIATIONS SUMMARY

<u>APPROPRIATION CATEGORY</u>	<u>APPROPRIATED BY THE LEGISLATURE</u> <u>GENERAL FUND</u>	<u>TOTAL</u>	<u>ENACTED (Less Governor's Vetoes)</u> <u>GENERAL FUND</u>	<u>TOTAL</u>
General Appropriations Act				
Operating	\$1,192,252,852	\$1,575,260,652	\$1,186,634,200	\$1,569,398,800
New Legislation	314,704,600	317,208,500	306,573,600	308,900,000
Capital	374,849,300	832,210,300	367,434,400	779,655,100
	<u>1,881,806,752</u>	<u>2,724,679,452</u>	<u>1,860,642,200</u>	<u>2,657,953,900</u>
Loan Funds (Secs. 1-13)	699,335,000	699,335,000	696,335,000	696,335,000
Misc. Front Sec- tions (14-49)	<u>8,304,000</u>	<u>24,291,000</u>	<u>8,304,000</u>	<u>8,304,000</u>
TOTAL	\$2,589,445,752	\$3,448,305,452	\$2,565,281,200	\$3,362,592,900
Special Appropriations (See (1) below)	<u>\$1,385,497,923</u>	<u>\$1,447,028,923</u>	<u>\$1,374,738,231</u>	<u>\$1,428,084,231</u>
GRAND TOTAL	\$3,974,943,675	\$4,895,334,375	\$3,940,019,431	\$4,790,677,131

- (1) "Special Appropriations" are those appropriations not included in the General Appropriations Act which were passed as separate measures during the 1980 legislative session and enacted into law.

BOND MEASURES

General Obligation Bonds	\$328,500,000
Alaska Power Authority Revenue Bonds	\$358,890,000

FY 80 APPROPRIATIONS SUMMARY

	<u>Enacted into Law</u>		<u>Assumed Full Funding</u>	
	<u>General Fund</u>	<u>Total</u>	<u>General Fund</u>	<u>Total</u>
General Appropriations Act				
Operating (1) (2)	\$915,278,168	\$1,258,000,559	\$952,548,900	\$1,300,637,600
New Legislation	3,081,800	3,425,700	3,081,800	3,425,700
Capital	<u>86,802,200</u>	<u>192,113,100</u>	<u>86,802,200</u>	<u>192,113,100</u>
TOTAL	\$1,005,162,168	\$1,453,539,359	\$1,042,432,900	\$1,496,176,400
Special Appropriations Acts (3)	<u>19,887,559</u>	<u>20,795,559</u>	<u>19,887,559</u>	<u>20,795,559</u>
GRAND TOTAL	\$1,025,049,727	\$1,474,334,918	\$1,062,320,459	\$1,516,971,959

- (1) The operating figures in "assumed full funding" differ from the figures as passed by the Legislature in that they reflect full year funding for the Natural Resources, Administration of Justice, Transportation and General Government categories instead of partial year funding as contained in the General Appropriations Act.
- (2) The single numeric item veto from this year's legislation was the veto of the reduction of an amount in Section 15 of the General Appropriations Act (Chapter 80, SLA 1979). The net effect of this veto was to increase General Fund appropriations by \$265,000, the amount originally reappropriated in subsection (b) of Section 15.
- (3) "Special Appropriations" are those appropriations not included in the General Appropriations Act which were passed as separate measures during the 1979 legislative session and enacted into law.

REVENUE BOND AUTHORIZATIONS

Alaska Power Authority	\$140,000,000
Fairbanks Int'l Airport	<u>8,500,000</u>
TOTAL	\$148,500,000

FY 79 APPROPRIATIONS SUMMARY

	<u>Passed by the Legislature</u>		<u>Vetoed</u>	<u>Signed by the Governor</u>	
	<u>General Fund</u>	<u>Total</u>	<u>General Fund</u>	<u>General Fund</u>	<u>Total</u>
General Appropriations Act					
Operating ⁽¹⁾	\$877,629,600	\$1,158,639,400	\$17,315,200	\$860,314,400	\$1,141,255,500
New Legislation ⁽²⁾	29,704,500	33,237,300	9,365,400	20,339,100	23,814,500
Capital	40,312,700	370,192,400	16,820,600	23,492,100	353,014,400
TOTAL:	\$947,646,800	\$1,562,069,100	\$43,501,200	\$904,145,600	\$1,518,084,000
Special Appropriation Acts ⁽³⁾	<u>188,475,849</u>	<u>218,405,549</u>	<u>20,961,436</u>	<u>167,514,413</u>	<u>197,444,133</u>
GRAND TOTAL:	\$1,136,122,649	\$1,780,474,649	\$64,462,636	\$1,071,660,013	\$1,715,528,513

- (1) The operating figures in this summary differ from the figures as passed by the Legislature in that the summary figures reflect full year funding for the Department of Transportation instead of three-quarters of a year contained in the General Appropriations Act.
- (2) The new legislation figures in this summary differ from the figures as passed by the Legislature in that the summary figures reflect reductions resulting from the failure of certain measures to pass or failure of their substance to be incorporated in some other measure.
- (3) "Special Appropriations" are those appropriations not included in the general appropriations act which were passed as separate measures during the 1978 legislative session and enacted into law.

BOND AUTHORIZATIONS

General Obligation Bonds	\$1,241,000,000
Revenue Bonds	<u>329,400,000</u>
TOTAL:	\$1,570,400,000

FY 78 APPROPRIATIONS SUMMARY

	<u>Passed by the Legislature</u>		<u>Difference Gen. Fund</u>	<u>Signed by the Governor</u>	
	<u>General Fund</u>	<u>Total</u>		<u>General Fund</u>	<u>Total</u>
General Appropriations Act					
Operating	\$761,631,100	\$1,017,969,800	(\$ 5,714,400)	\$755,916,700	\$1,012,252,000
New Legislation ⁽¹⁾	14,687,900	17,090,700	(2,594,800)	12,093,100	14,042,900
Capital	47,492,100	75,276,800	(17,742,000)	29,750,100	57,516,800
TOTAL:	\$823,811,100	\$1,110,337,300	(\$26,051,200)	\$797,759,900	\$1,083,811,700
Special Appropriation Acts ⁽²⁾	\$ 27,255,500	\$ 27,255,500	(\$ 5,908,400)	\$ 21,347,100	\$ 21,347,100
GRAND TOTAL:	\$851,066,600	\$1,137,592,800	(\$31,959,600)	\$819,107,000	\$1,105,158,800

(1) The final figures differ from the figures as passed by the Legislature in that they reflect reductions resulting from the failure of certain legislation to pass.

(2) "Special Appropriations" are those appropriations not included in the general appropriations act which were passed as separate measures during the 1977 legislative session and enacted into law.

The appropriations passed by the Legislature were based upon the following assumptions:

\$652.7 million would be the general fund balance available for appropriation as of 7/1/77 (Executive Budget fiscal 1978, Budget & Management, page 6).

\$854.0 million would be the anticipated general fund revenues available for appropriation during fiscal year 1978 (Revenue Sources FY 76 - 78, Department of Revenue, pages 18 & 19).

SENATE FINANCE

EXPENDITURE LIMITATION ISSUES

WHAT SHOULD BE USED AS THE BASE?

Should we pick a FY budget? What should be exempted from the budget? Should they be the same items exempted from the ceiling or others? If the base is too low, how will agencies handle budget cutbacks? If there are few ceiling exemptions, should the base contain room for innovative new programs (Energy Center, Delta Barley, Etc.)? How will the base account for assistance/revenue sharing for local governments? Should a number be used instead of a base year to allow for adjustments of, for example, income tax refunds, etc. If so, what should the number be?

WHAT FORMULA SHOULD BE USED TO CALCULATE INCREASES?

Should the formula for calculating the increase be a cumulative index applying to a single original base, or should the formula apply as an adjustment to the previous year's actual appropriation?

Should the formula be tied to population growth as well as inflation? Are there alternative indices?

Should the formula have a factor which will reduce the real per-capita spending limit overtime (such as only using .95 of the annual CPI increase)?

WHICH APPROPRIATIONS AND EXPENDITURES SHOULD BE COVERED BY THE LIMITATION?

Should the limit apply to both state and federal funds?

Should increases in user fees be covered? If exempted, what oversight should be available to keep increases reasonable?

Most likely revenue bonds should be excluded, but should General Obligation Bonds? Bond debt service?

Should capital projects be excluded and, if so, how can we manage the operating budget impacts of capital projects?

Should loan capitalization be excluded?

There is agreement that contributions to the Permanent Fund should be excluded, but should Permanent Fund dividends? Should arrangement be made for the possibility of the State losing the law suit, if so of what sort? Should a portion of permanent fund income (or real income) be exempted? Should the Permanent Fund be the only recipient of "surplus" funds, and if so, how can this be insured?

If the base is very inclusive, then the exemptions should be very limited. If the base is restricted, what level of exemptions are reasonable?

Should provision be made for exceeding the limit? If so, should it be by legislative vote--by what majority? Should a referendum be provided for? If provision is made for exceeding the limit, what should be voted on--single appropriations or multiple ones? If provision is made for exceeding the limit, should there be a special prohibition against voting to exceed the limit on items which had previously been appropriated within the limit?

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

June 23, 1981

MEMORANDUM

TO: Honorable Al Adams
House Finance Committee

FROM: Milt Barker, ^{MB} Fiscal Analyst
Legislative Finance Division

SUBJECT: Total General Fund Appropriations (Revised)

Estimated general fund appropriations that will be passed by the Legislature this session are (\$ millions):

General Appropriations Act (FCCS HB 50)		\$2622.8
Operating	1774.1	
Capital	764.4	
Fiscal Notes (excludes HB 4)	84.3	
Loans		425.8
AHFC mortgages	222.0	
AHFC mobile homes	18.0	
AHFC rural mortgages	20.0	
AHFC rural rental mortgages	5.0	
Non-conforming housing	40.0	
Dept. of C&ED loan funds	46.8	
Agriculture loan fund	14.0	
Medical facilities guarantee	52.0	
AIDA reserve funds	8.0	
Special Appropriations		2926.4
Permanent Fund	1800.0	
\$1000 per capita municipal grants	405.3	
Hydro	536.8	
Fish Pack Loans	40.0	
Other	144.3	
Debt Service		128.5
HB 460 Revenue Loss		9.1
Supplementals		<u>238.6</u>
		\$6351.2

6/23/81

The most recent estimate of the Department of Revenue of the amount of liquid general funds available for appropriation is \$5,746.4 million.

Total general fund appropriations exceed liquid funds available by \$604.8 million.

Illiquid general funds available for appropriation are \$320.9 prior to July 1, 1981 and \$380.0 on or after that date due to the lapse of approximately \$60 million appropriated in the 1980 session to the fish processing loan guarantee account.

No possibility of revenue loss on petroleum tax legislation is accounted for in this memo.

MBB:pw

**PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT**

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

June 1, 1981

MEMORANDUM

TO: Honorable Hugh Malone
House Finance Committee

FROM: Milt Barker, ^{MB} Fiscal Analyst
Legislative Finance Division

SUBJECT: General Funds Available for Appropriation

Based on revised petroleum revenue estimates contained in this memo, Legislative Finance estimates the liquid general funds available for appropriation this session to be:

<u>Estimate</u>	<u>Available for Appropriation (\$ millions)</u>	<u>Reduction from March 1981 Estimate of \$6,061.6 (\$ millions)</u>
High	\$5,648.5	(413.1)
Medium	5,165.2	(896.4)
Low	4,959.7	(1,109.9)

Generally, these reduced estimates result from Saudi Arabian oil production in excess of world demand. The Saudis are doing so in an effort to force other OPEC producers to unify their prices and adopt an index for future price increases. The Saudis are concerned about the effect of upward spiralling prices on long-term demand.

The failure of the Saudis to achieve their goals at last week's meeting of OPEC means there will be continued overproduction by the Saudis and consequent softness in oil markets for some undetermined period of time. The market softness will be magnified by liquidation of inventories until such time as expectations of price declines are reversed.

There are several indications that some immediate reductions may be anticipated in Alaskan oil prices:

- 1) the spot market for comparable oil is tumbling as shown in Chart I (attached);
- 2) posted prices in the U.S. have generally been reduced \$2 in May;
- 3) the first April figure for Alaskan royalty oil sales has been reported by Exxon and shows a decrease of \$1.45 from March;
- 4) Alpetco is rumored to have offered Alaskan royalty oil for sale on the West Coast at \$3 under the market;

The informal OPEC plan that seems to have developed is that the OPEC moderates will freeze their prices at their current \$36 per barrel minimum price until the Saudis, at \$32 per barrel, catch up. How long the Saudis take to do this depends on when current demand for oil firms up and Saudi judgements about whether oil prices are now so high as to radically alter long-term demand.

Assumptions

The difference between the high, medium, and low estimates are attributable to assumptions about three factors:

- 1) the timing and amount of movement in Saudi oil prices;
- 2) the spread between Alaskan and Saudi prices (see Chart I);
- 3) the difference between Gulf Coast and West Coast prices for Alaskan oil. ^{1/} (see Chart II);

Specifically, the cases assume the following:

- 1) High estimate
 - a) Saudi official price for Arabian Light moves from \$32 to \$34 in July 1981 and to \$36 in January 1982;
 - b) the spread between the Alaskan delivered price and the official price for Arabian Light narrows by \$2 in May 1981;

^{1/} In estimating the effect of increasing spreads between Gulf Coast and West Coast prices for Alaskan crude it is assumed that 900,000 barrels per day of North Slope production goes to the West Coast and 600,000 barrels per day to the Gulf Coast. Increasing spreads are assumed to occur through reductions of prices on the West Coast due to re-emergence of the "West Coast oil glut." The difference in tanker costs to these two markets forms a ceiling on potential reductions in West Coast prices.

- c) the spread between Gulf Coast and West Coast prices for Alaskan oil increases \$1 in May 1981;
- 2) Medium estimate
 - a) Saudi official price for Arabian Light moves from \$32 to \$34 in January 1982;
 - b) the spread between the Alaskan delivered price and the official price for Arabian Light narrows by \$2 in May 1981 and is eliminated in July 1981;
 - c) the spread between Gulf Coast and West Coast prices for Alaskan oil increases by \$1 in May 1981 and by another \$1 in July 1981;
- 3) Low Estimate
 - a) Saudi official price for Arabian Light remains at \$32 through FY 82;
 - b) the spread between the Alaskan delivered price and the official price for Arabian Light narrows by \$2 in May 1981 and is eliminated in July 1981; Alaskan crude falls below the official Saudi price by \$1 in January 1982;
 - c) the spread between Gulf Coast and West Coast prices for Alaskan crude increases by \$1 in May 1981, by another \$1 in July 1981, and by another \$1 in January 1982.

All the cases assume that the Saudis are willing and able to reduce their production to the extent necessary to sustain the price of Arabian Light at the assumed levels. In the event that this is not possible due to either Saudi budgetary pressures or falling world oil demand (see attached Wall Street Journal articles "Oil and the Saudi Fairy Tale" and "Oil-Pricing Blunders Now Have Saudis in a Jam"), State revenues could fall far below the amounts estimated in the high, medium and low cases.

MBB:pw

Attachments

TABLE I
GENERAL FUNDS AVAILABLE FOR APPROPRIATION
(\$ Millions)

	<u>Table II Estimates</u>			<u>Dept. of Revenue March 1981 Estimate</u>	<u>Difference</u>		
	<u>High</u>	<u>Medium</u>	<u>Low</u>		<u>High</u>	<u>Medium</u>	<u>Low</u>
<u>FY 81</u>							
Royalty (Net of Permanent Fund)	1128.7	1128.7	1128.7	1085.4	43.3	43.3	43.3
Severance	1179.7	1179.7	1179.7	1169.9	9.8	9.8	9.8
Petroleum Corporate Income Tax	767.6	767.6	767.6	839.3	<u>(71.7)</u>	<u>(71.7)</u>	<u>(71.7)</u>
TOTAL					(18.6)	(18.6)	(18.6)
<u>FY 82</u>							
Royalty (Net of Permanent Fund)	1513.8	1329.0	1236.6	1671.5	(157.7)	(342.5)	(434.9)
Severance	1487.9	1297.5	1202.3	1640.3	(152.4)	(342.8)	(438.0)
Petroleum Corporate Income Tax	1176.1	1068.0	1050.1	1260.5	<u>(84.4)</u>	<u>(192.5)</u>	<u>(210.4)</u>
TOTAL					(394.5)	(877.8)	(1083.3)
TOTAL FY 81 and FY 82					(413.1)	(896.4)	(1101.9)

Amount Available for Appropriation (Liquid General Funds)

March 1981 Dept. of Revenue Estimate	6061.6	6061.6	6061.6
Current Legislative Finance Estimate	5648.5	5165.2	4959.7

TABLE II
PROJECTED PETROLEUM REVENUES
FY 81 and FY 82
(\$ Millions)

	North Slope			Cook Inlet	Kuparuk	TAPS	Field Cost Settlement	Royalty Auction	Total		
	High	Medium	Low						High	Medium	Low
<u>FY 81</u>											
Royalty	1414.6	1414.6	1414.6	60.4	—	—	30.0	—	1505.0	1505.0	1505.0
Severance	1152.9	1152.9	1152.9	26.8	—	—	—	—	1179.7	1179.7	1179.7
Petroleum Corporate Income Tax	759.3	759.3	759.3	23.3	—	187.2	(2.8)	—	767.6	767.6	767.6
<u>FY 82</u>											
Royalty	1800.9	1554.5	1431.3	113.8	24.0	—	-	79.7	2018.4	1772.0	1648.8
Severance	1425.9	1235.5	1140.3	43.4	18.6	—	—	—	1487.9	1297.5	1202.3
Petroleum Corporate Income Tax	971.8	827.6	803.7	73.2	9.8	191.1	—	—	1176.1	1068.0	1050.1

- Sources:
1. North Slope royalty, severance, and income tax figures based on: production, prices, and field costs in Table III; severance tax ELF factors from Table 5 of "Fiscal Analysis of the Proposed Backstop Tax Legislation", May 1981, prepared for Department of Revenue by Gregg Erickson; and income tax deductions other than royalty and severance from "Erickson", Table 9.
 2. Cook Inlet, Kuparuk, and TAPS figures from Tables 12, 10 and 11 of "Erickson".
 3. Field cost settlement at 42¢ per barrel on 979 million barrels of pre-1980 production and 55¢ per barrel on 277 million barrels of production for first half of calendar 1980 compared to company charges of 64¢ per barrel.
 4. Royalty auction of 85,000 barrels per day during FY 82 at an average bonus over prevailing value of \$2.57.
 5. Income Tax total is the estimated collections for the fiscal year. For FY 81, the total is estimated at 4/3 the actual collections for the first nine months of the fiscal year. The FY 82 total is 3/4 of the estimated income tax liability for FY 82 plus 1/4 of the estimated income tax liability for FY 81.

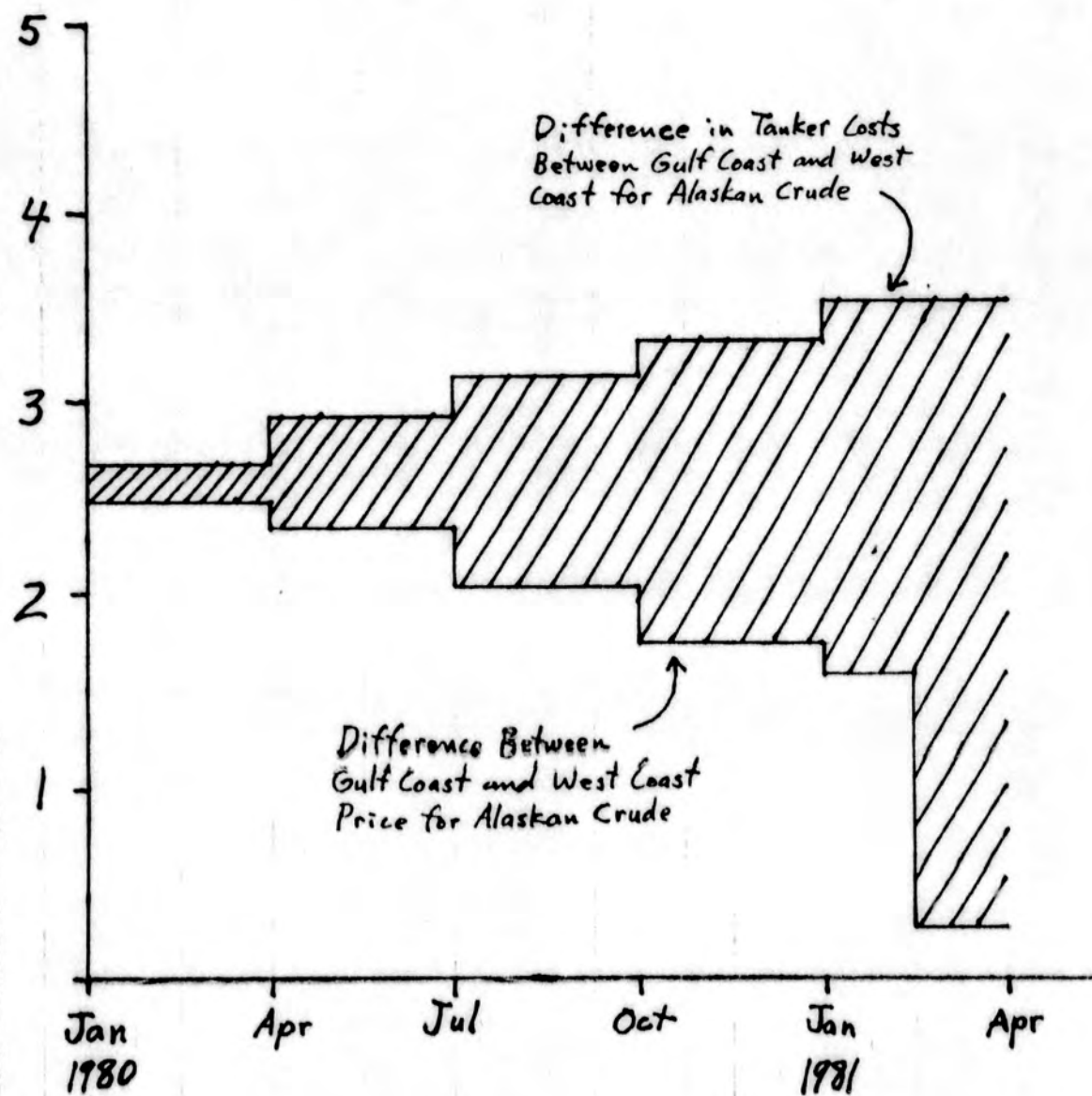
TABLE III
NORTH SLOPE CRUDE
ACTUAL AND PROJECTED PRODUCTION AND PRICES
FY 81 and FY 82

	Actual ^{1/}			Projected				Field Costs
	Production (Millions of Barrels)	Royalty Price	Field Cost	Production (Millions of Barrels)	Royalty High	Price Medium	Low	
<u>FY 81</u>								
July	46.9	\$15.43	\$.55					
August	47.0	16.49	.55					
September	45.5	17.19	.55					
October	46.2	16.94	.55					
November	44.0	17.48	.55					
December	46.7	19.57	.55					
January	46.9	21.62	.62					
February	42.8	25.34	.62					
March	<u>47.5</u>	25.91	.62					
Total	413.7							
Weighted Average		\$19.53	\$.57					
April - June				133.8	\$24.18	\$24.18	\$24.18	\$.62
Total FY 81				547.5				
FY 81 Weighted Average					20.67	20.67	20.67	.58
<u>FY 82</u>								
July-September				136.9	25.31	21.71	21.71	.62
October-December				136.9	25.31	21.71	21.71	.62
January-March				136.9	27.31	23.71	20.11	.67
April-June				<u>136.9</u>	27.31	23.71	20.11	.67
Total FY 82				547.6				
FY 82 Weighted Average					\$ 26.31	\$ 22.71	\$ 20.91	\$.65

^{1/} Actual data from Division of Minerals and Energy Management, Alaska Department of Natural Resources

Potential Reduction in West Coast Price for Alaskan Crude
Which Would Yield the Same Wellhead Price as Gulf Coast Sales
(Shaded Area)

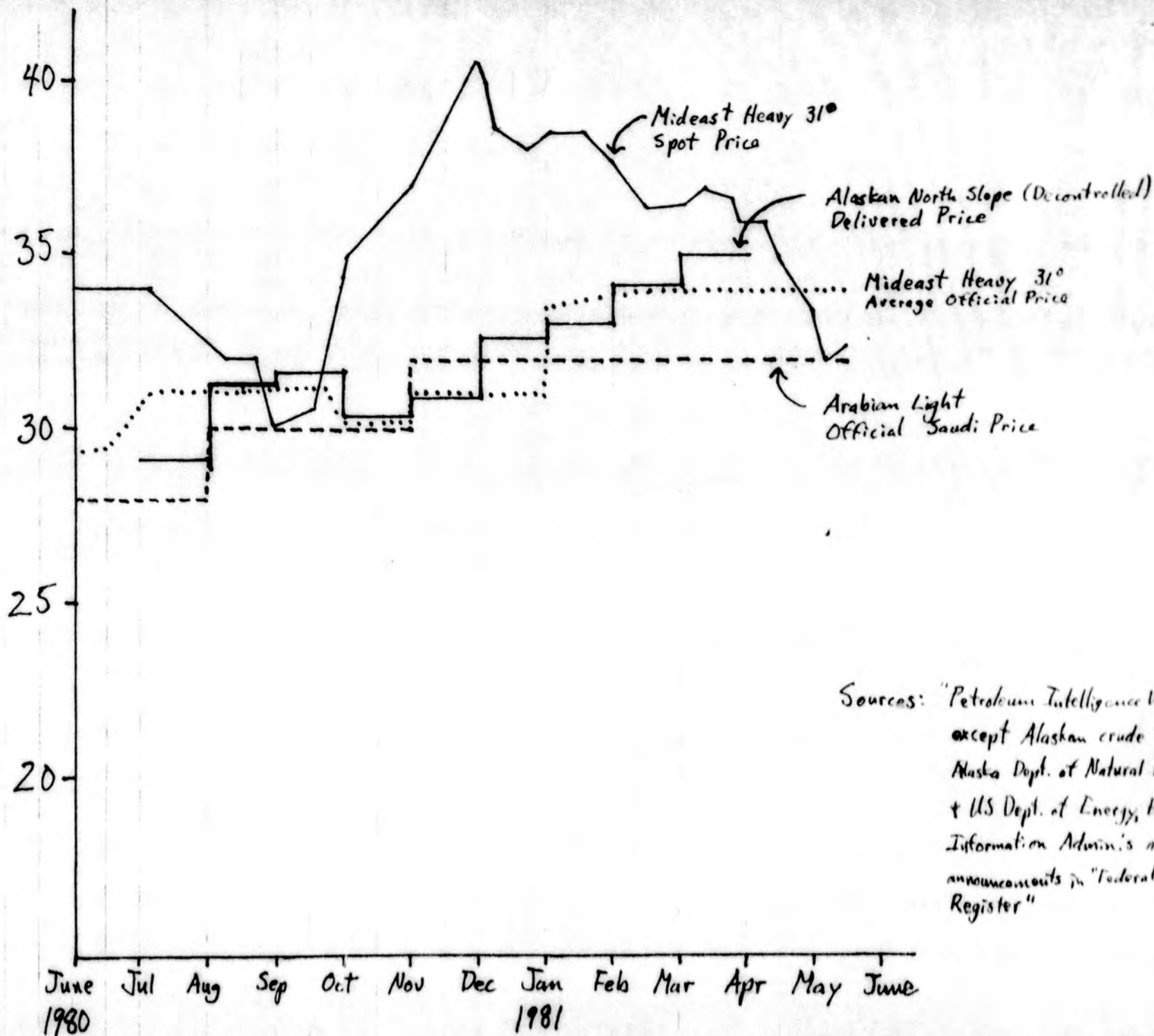
\$ / Barrel



Source: Petroleum Intelligence Weekly
March 16, 1981

Oil Prices

\$/Barrel



Sources: "Petroleum Intelligence Weekly" except Alaskan crude from Alaska Dept. of Natural Resources & US Dept. of Energy, Energy Information Admin.'s monthly announcements in "Federal Register"

Oil and the Saudi Fairy Tale

By ELIZABETH KANOVSKY

It is widely believed that Saudi Arabia has been doing the West a favor by sustaining its oil production at a high level of 10.3 million barrels a day and that by granting this favor the Saudis have created the world's current glut of crude oil. This grateful attitude toward the Saudis derives in great part from the fear that the Saudis will make good on their often-stated threat to use the "oil weapon" by cutting the country's oil production to 5 mbd.

What seems to undergird the persistence of these notions is the apparent belief that Saudi Arabia is a country unlike any other, that it is a sort of fairy tale land in which Arab princes sit in grand palaces amidst bags of gold. One of the nice things about fairy tales is that one never has to look too closely at what is going on in the rest of the kingdom. Perhaps it is time to look clearly at the kingdom of Saudi Arabia.

Saudi Arabia is an underdeveloped country. The Saudi population, well aware of the oil revenue flowing into the country and of their rulers' opulence, have strong expectations of higher living standards. Since under the existing regime there is no prospect of income redistribution from the haves to the have-nots, the Saudi solution has been simply to buy the country's way into the developed world.

Saudi Arabia is a casebook study of a country whose expenditures chase — and push — its revenues. Its recently available budget figures indicate the Saudis' plan to spend \$90 billion during their current fiscal year, which began earlier this month. If these Saudi expenditure figures hold, their spending will have increased almost five-fold since fiscal 1976 (during its 1975-80 development plan, Saudi spending actually overshot planned figures by about 50%).

Large-Scale Spending

After the Iranian revolution, some observers said the Saudis would realize that such large-scale spending tends to augment destabilizing social forces and that the Saudis would curtail spending. But in an interview with this paper last January the Saudi minister of planning said, "The problems in Iran weren't caused by economic development, but by the lack of it. . . . I don't think our development has been too fast. . . . If I had to do it over again, I would do it the same way."

Saudi Arabia's development began in earnest with the second development plan of 1975-80, which called for total expenditures of \$142 billion, an average annual outlay of \$28 billion.

What ensued was an influx of foreign contractors and a foreign labor force to build the plan's projects—roads, ports, airports, electric power plants, water desalination, telephones, schools, hospitals and so forth. The bureaucracy mushroomed. There were huge and expensive imports of military equipment and the construction of "military cities." Social welfare programs were expanded.

Various industries have been established, or are in process, and a special government commission was set up with a mandate to develop two major industrial complexes—in Jubail on the east coast and in Yanbo on the west coast. A 1979 U.S. congressional report estimated that the costs of construction in Saudi Arabia were 2.5 to 3 times those in the U.S.

The Saudi authorities were eager to persuade large multinationals to come in as partners in these ventures, to benefit from their managerial, technical and marketing expertise. But before 1979 (the year in

which the Saudis shifted extremely attractive multinational identities in the companies), this strand in the Saudi strategy was snatched or what has been one of the most difficult and costly drags on the country's development—its labor force.

The Saudi population and its potential labor force are small. Unofficial estimates of the population indicate about four million Saudis. Because women are almost completely excluded from the labor force, the potential force is about one million. And this includes the armed forces, internal security and the huge bureaucracy.

Thus, the authorities have laid the greatest emphasis on the development of capital-intensive industries, which require a high level of technical and managerial skill. Though individual Saudis have acquired education and administrative and

Saudi Arabia's many financial 'needs' will do what the record shows they have always done — rise rapidly. And there is only one source for satisfying those needs—oil revenue.

managerial competence, they are few in number. In this respect Saudi Arabia is similar to many other developing countries: Its huge oil revenues and the system they have created provide powerful disincentives to acquiring the sort of skills that enhance a country's long-term productive capacity.

The Saudis have built technical schools in the hope that Saudi youth would pass out of them and into industrial jobs for on-the-job training with foreign technicians, but few Saudis are interested. Far more lucrative alternatives exist for capable Saudis: One can enter government service and use "connections" for private gain, join business ventures with foreigners or act as middlemen for foreigners seeking contracts (Saudi laws require business ventures to have majority Saudi ownership, thus the need for local partners).

Determined to push forward with their development programs, the Saudis are increasingly dependent on a large, growing foreign labor force—unskilled and semi-skilled workers from the poor Arab countries, Asia and Africa. According to the director general of the Saudi labor ministry, three-fourths of the labor force was foreign by the end of 1979. Back in 1975 Saudi planners said that by 1980 only 35% of the labor force would be foreign. As with their spending plans, it was an optimistic projection.

Apprehensive about these foreigners, the Saudis from time to time apprehend and expel tens of thousands of Muslims from poor countries, who enter as pilgrims and stay illegally, looking for jobs. The result of such measures is an upsurge in wage rates for laborers, another expense.

At the same time, the reluctance of highly skilled personnel, mainly from the West, to live in Saudi Arabia requires foreign contractors to pay three to four times the going rates in the U.S.

The country's work force difficulties put into serious question the viability of its diversification plans, and the Saudi leadership knows it. "The problem now in Saudi Arabia," the deputy minister of industry has said, "is manpower." Current plans call for a standstill in the size of the for-

eign labor force, with planned increments coming from the Saudi population, but prospects appear dim. Under the best of circumstances it takes decades or generations to educate and train a modern, industrialized labor force.

All these problems notwithstanding, the Saudis' new five-year plan for 1980-85 is costlier still. Total planned expenditures, including military, are \$291 billion, a 275% increase over the previous plan. Actual spending for the last plan was about \$200 billion, with many projects cut back or dropped. It should come as no surprise if the new plan's actual expenditures again far exceed published estimates.

Lifeflood of the Economy

In short, Saudi Arabia's many financial "needs" will do what the record shows they have always done—rise rapidly. And there is only one source for satisfying those needs—oil revenue, the lifeflood of the Saudi economy. It is this fact of life that lies at the root of Saudi Arabia's relative price moderation.

The Saudi leaders are well aware that the sharp oil-price increases in 1973 and 1974 induced trends in world oil and energy markets adverse to long-run Saudi interests. The far greater price increases of 1979-80 greatly accelerated the trend away from oil and toward conservation and energy substitutes like coal and nuclear power.

The Saudis have been very shrewd in successfully capturing a growing share of what is now clearly seen as a shrinking OPEC market. In sharp contrast with the situation in 1978, when others undersold them, the Saudis since 1979 have pursued a policy of keeping their official prices a few dollars below those of other oil exporters and low enough not to speed up the trend to substitutes.

The Saudis' possession of huge oil reserves and their ongoing, far-from-completed plans to diversify the economy—plans that will require a lot of money for a long time—makes them intent on assuring that the future of the oil market is consonant with their needs. In this light, Saudi Arabia would not gain from uniform oil pricing, which would induce a number of OPEC members to offer discounts, as they did in 1978, and capture part of the Saudi market.

The Saudis' "cushion" of accumulated official foreign assets is indeed much larger than in 1978 (somewhat over a year's public expenditures), but so are their needs. In the absence of any other significant source of income and in view of OPEC's genuinely shrinking market, the Saudis' most prudent option is to enhance oil production and exports, both to increase their current revenues and to moderate oil prices.

Secretary of State Haig and many writers in the American press may persist if they wish in believing that Saudi Arabia is doing the Western world a favor by holding its production at more than 10 mbd. But perhaps one would be paying the Saudis a more straightforward compliment by saying that by keeping production high and prices moderate, they are acting prudently and in the very best interests of a wealthy, underdeveloped country.

Mr. Kanovsky is professor of economics at Bar Ilan University, Israel, and visiting professor at Queens College, New York. This article is adapted from a study to appear in the fall issue of "Middle East Contemporary Survey."

Oil-Pricing Blunders Now Have Saudis in a Jam

By S. FRED SINGER

It is now evident from the OPEC meeting just ended in Geneva that Saudi Arabia made a strategic blunder in 1979 by allowing the world oil price to more than double. With this jump, oil priced itself out of a large market.

Nearly two-thirds of the world's oil consumption of 60 million barrels per day (mbd) simply goes to make heat and steam; it can be replaced by cheaper substitutes in the residential and commercial sectors, conservation, as well as fuel switching to natural gas and even electricity will now become increasingly important. Even before 1979, with oil at \$13 a barrel, coal and nuclear fuel provided a lower-cost boiler fuel for new plants.

Now, \$32 oil has finally made it worthwhile to retrofit existing oil-fired installations. For example, replacing the 10 million barrels of oil used every year by a 1,000 megawatt electric plant with coal-water mixtures would save nearly \$150 million a year.

Most countries are now making investments to replace high-priced oil. These changes are less noticeable in the United States, where over 50% of oil is used for transportation. Just the same, U.S. oil consumption is expected to decline in 1981 for the third consecutive year. U.S. oil imports will decline again, too—down to about 6 mbd, 30% below the 1977 peak of 8.8 mbd.

Similar trends in other consuming nations suggest that oil is being backed out at a rapid rate. Even the transportation sector will show a slight decline during the coming years because of more efficient fuel use; world oil use should be cut by a factor of two or more by the next decade.

The conservation of oil OPEC spokesmen so widely advocated—in public at least—has finally come to pass. The result: OPEC oil production has already dropped from a peak of 32 mbd in September 1978 to about 24 mbd by the end of 1980.

As world demand falls to below 30 mbd by the 1990s, and as the already emerging production inside countries around the world increases, the volume of exported oil must decline drastically. If North America produces 10 to 15 mbd (conservatively), and the East Bloc about 10 mbd, this leaves little for the rest of the world, including OPEC. The Geneva OPEC meeting gives us the flavor of their major problem for the future: whether and how to cut production or prices. In either case, OPEC faces a shrinking oil income.

On "Meet the Press" last month, the Saudi oil minister, Sheikh Yamani, made light of these matters. He told his interviewers that talk of a drop in oil consumption was just "wishful thinking." But Mr. Yamani knows full well that Saudi Arabia, as the world's largest oil exporter and holder of the largest reserves, has the most to lose if the price becomes too high too soon.

The cause of the 1979 increase was psychological rather than structural (unlike the 1974 price increase), and was based on fear of shortages following the collapse of the Shah's regime. Supply never dropped; there was only an increase in purchases. The fall-off in Iranian exports that began in October 1978 was smoothly taken up by production increases, mainly by Saudi Arabia. Its share of OPEC oil jumped from 31% to over 40%.

According to M.A. Adelman of M.I.T., the Saudis could have prevented the panic that escalated spot prices, but their actions haven't squared with their oft-stated policy of maintaining low oil prices. As Mr. Adelman pointed out in a recent letter to the Journal, the Saudis slashed production in January 1979 and again at the end of March that year. In each instance spot prices leaped upward and, in the ensuing panic, purchasers accumulated larger stockpiles of oil.

Why did the Saudis let the price rise in 1979? The reasons for their miscalculation may be complex. It is likely that the fiscally conservative Saudi family was disturbed by the country's budget deficit in 1978, which followed years of large surpluses. It is also possible that Saudi planners misjudged the extent to which a price run-up would precipitate a drop in demand. If so, they were in tune with most Western economists at the time. James Eyssell, in a recently published paper, points out that adopting a more appropriate econometric analysis of the data gives elasticities twice as large as those published in studies during the past few years.

Whatever the reason for their actions, it is probably too late for the Saudis to correct their error. Any attempt to bring down the price now to discourage fuel switching would also bring down the wrath of their neighbors.

The 1979 doubling of prices in this way now poses three difficult hurdles for Saudi Arabia—short-term, medium-term (one to three years) and long-term (10 to 20 years).

Sometime soon it should become evident that oil prices really are no longer increasing. This will cause holders of excess oil stocks to sell these to reduce their carrying charges and avert losses. The sell-off, in turn, will weaken prices further and induce a more rapid dumping of the stocks. (The downward spiral of prices corresponds to the upward spiral that was experienced when the stockpiles were laid in. This simple economic conclusion follows, since the 1979 price increase was not due to a permanent, sudden shift in either production or actual consumption.) To keep up the

price, pressure will be put on Saudi Arabia to reduce its output by 2 or 3 mbd. The Saudis, however, will be trying to persuade others to make more meaningful cuts from their current production levels. Riyadh apparently still believes that it is possible to institute a "uniform pricing strategy" in which prices can be raised.

The medium-term problem for Saudi Arabia is much more serious. Sometime within the next year or two, Iraq and Iran may decide to stop fighting and concentrate on selling oil. They need money to replace what has been destroyed, and they still want to buy more arms. But for them to re-enter the market, someone else will have to cut production. They are likely to pressure the Saudis.

The Saudis would have to cut production down to 4% mbd, the "magic" level that they generally quote as allowing them to sustain an acceptable level of income. But with oil demand falling and world supplies rising, the cut may have to be deeper. If the Saudis cut oil income too much, however, they may not be able to contain their domestic tensions.

And finally, if the Saudis should survive the medium-term hurdle, they still face the long-term drop in oil demand. To maintain exports, they will probably want to cut prices, along with other exporters, to compete for a shrinking market. And at that stage the consuming nations may erect barriers, such as import quotas or tariffs, to protect the domestic energy investments they've made in response to high oil prices.

The U.S. will face the political pressure of thousands of small independent oil producers. Perhaps even more daunting is the fact that in Japan and other countries nuclear plants will have been built, representing sunk costs. For oil to regain this expanded nuclear market, it would have to be considerably cheaper than the marginal cost of nuclear power, and the cost of nuclear fuel now corresponds to about \$4 oil.

The Saudis have gotten themselves into a difficult dilemma. Their dramatic doubling of oil prices in 1979 is bound to kill the long-term oil market, and in time may be viewed as the proverbial straw that broke the camel's back.

Mr. Singer is a member of the Energy Policy Studies Center of the University of Virginia. He earlier served as deputy assistant secretary of the Interior and has studied oil economics and oil security problems as a consultant to the Energy and Treasury departments and to the energy industry.

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EXPENDITURE LIMITATION CHECKLIST

BASE

A fiscal year

A number Which number?

Only state funds? Federal funds? All?

FORMULA

Private sector growth

CPI plus population

other

COVERAGE

Should coverage be of operating budget only?

Should there be exemptions? and if so, should they be open-ended or enumerated?

Should general fund and federal funds be covered?

Should these be exemptions or override:

- Disasters - how to identify & who votes? (See Excess below)
- Disaster reserves
- Permanent Fund contributions
- Permanent Fund dividends
- Capital projects
- Loan capitalization - What to do about operational expenses and large maintenance costs?
- GBO repayment funds
- Increases in user fees
- Costs from court orders
- Costs from transfer of federal authority
- One-quarter of income from Permanent Fund
- Money in trust

OVERRIDE

By vote of Legislature 2/3 or 3/4?

By vote of people Should this be limited by type? New operating programs?

OTHER ISSUES

Local government

"Apple pie/pork" trade

Proportion of capital to operating

Unfunded obligations

EXCESS

Where can it go and how can it get there?

Permanent Fund only

Allow "earmarking"?

Trust accounts

By whose vote?

Invest at market rate

PLAN A

<u>Lid</u>	<u>Except</u>	<u>Excess</u>
general fund only	(simple majority) other people's money	automatically into PF at market rates

In Plan A, the tradeoff is tightest in favor of holding the line - e.g. expenditure vs. expansion of new services.

PLAN B

<u>Lid</u>	<u>Except</u>	<u>Override</u>	<u>By Referendum</u>
State general fund only op/cap/etc	(simple majority) GOB PF User Fees Fed/other	2/3 or 3/4 legislative vote specified types very limited	?

MALONE

<u>Lid</u>	<u>Except</u>	<u>Override</u>
General fund & federal dollars op/cap/everything	(simple majority) PF GOB debt service	2/3 legislative majority everything else

GOVERNOR

<u>Lid</u>	<u>Except</u>	<u>Override</u>	<u>By Referendum</u>
General Fund only op/cap/etc	(simple majority w/ veto possible) money in trust PF PF dividends Loan capitalization GOB service disaster fund user fees court ordered dollars fed-state authority transfer 1/4 PF income	2/3 legislative majority disaster dollars	Excess capital projects

B. Costs from Transfer of Federal Authority.

Under SJR 4, costs related to transfer of authority or responsibility to the State from the Federal Government would be exempt from inclusion under the spending limitation. While on the surface it appears logical to exempt new, unforeseen services from the spending limitation, the intent and purpose of the spending limit may dictate otherwise.

First, the terms of the exemption should be well defined. A "transfer" of federal authority may include a range of possible interpretations, from a federal mandate for State action, to a non-mandatory transfer of program authority to the State level. At present, the Federal Government is considering termination of a number of federally administered programs; instead, block grants will be given to states to provide those services. Is this a "transfer" of responsibility from the Federal Government that would be exempt from budgeting under the spending limitation?

A key consideration should be whether the "transfer" of responsibility is voluntary on the part of the State. Again using the current block grant proposals as a case in point, the Federal Government is in effect telling the states that they may assume whatever mix of federal programs they wish to offer. The states may also contribute any state funds they wish to the federal block grants. The question is whether formerly federal services that are adopted by the state, at the state's discretion, should be exempted from the public oversight reflected in a spending limitation.

The danger is that separate accounting systems could develop one for services under the spending limitation and another for services excluded from the spending limitation.

Representatives from the Governor's Office have suggested that only first year costs be exempted from the expenditure limitation.

The problem with this suggestion is analogous to the present difficulty with the RP process. Once programs have been started, employees hired and client groups created, it is extremely hard to "eliminate" those programs. The criticism of the RP process is that formerly Federally funded positions are almost automatically taken over by the State upon termination of federal funds, even though the State has the option of letting those positions drop. A one-year exemption of new State programs from the expenditure limitation could quite easily result in the same pattern. The effect of this "vicious circle" is to constrain the options of future legislatures especially if the State's initial assumption of powers was funded by the Federal Government, and outside of a direct, conscious, policy determination by the Legislature.

If the approach taken to the spending limitation is to allow exemptions from the limit, I think that "transfer of authority from the Federal Government" should not be a named exemption, especially to the extent that State funds are involved. An exception might be for the costs initially required to respond to a federal statutory mandate. No discretionary "transfers" of program responsibility to the State level should be allowed outside of the expenditure limit.

C. Money Received in Trust for a Specific Purpose.

The meaning of this exemption needs to be clarified. First, appropriation of money to a trust for a specific purpose could be argued as an allowable exemption, to get general funds out of the capital and operating budget stream. However, unless it is specified that those funds are to be invested at market rates of return, this type of exemption could be used to subsidize a loan or investments project.

Second, it should be clear that the return from "trust fund" investments be returned to the General Fund for appropriations under the spending limit. This will prevent the operating expenses of any particular service from being removed from the expenditure ceiling through the creation of a "trust" or "endowment." If the purpose of an expenditure limit is in part to control the growth of government, program costs should not be exempted from limitation simply through the creation of an endowment.

MONEY RECEIVED IN TRUST

The intention of this exception is to allow for the acceptance and expenditure of bequests to the State; for example, support of the University. It seems appropriate to except from the limit other people's money given to the State for specific purposes.

LOAN CAPITALIZATION

This is one of the most difficult problems. On the one hand, the State has created a large constituency for loans. Subsidized loans distribute State benefits unequally. No one is recommending that the subsidy portion be placed outside the limit. However, if the capitalization is placed outside the limit. However, if the capitalization is placed outside, then it is predictable that large sums will flow into those loan programs, whether they are needed or not. Additionally, the argument can be made that placing capitalization outside the limit will make it very difficult to identify the subsidy cost. Most of the return on loan funds go into the General Fund, although some of the "revolving loan" funds keep a level of capitalization (declining balance) within the fund. A strong argument can be made for placing loan capitalization under the limit: loans are but one way of achieving State goals; the Legislature should have the flexibility to determine the best way of achieving such goals. If loan capitalization is excepted, it should be clear that neither the subsidy portion nor the administrative costs are to be removed from the limit. In any event, the structure and control over the loan programs should be thoroughly explored.

INCREASES IN USER FEES

On the one hand, there is a risk of a tax being relabeled a "user fee" and, therefore, any user fees collected by a State agency or the State itself should be subject to the limit. On the other hand, user fee increases could be subject to legislative approval (or disapproval).

It seems poor public policy to deny a government service to those who are willing to pay for it.

Is there anything that would prevent charge of debt service of revenue bonds as a user fee?

PERMANENT FUND CONTRIBUTIONS

If the desire is to keep the Constitutional amendments wording as general as possible, "exemptions" could be handled as follows:

"Appropriations to funds which serve only to produce income at market rates and which income shall be returned to the General Fund and subjected to the State spending limit, are exempt from the State spending limit."

DISASTERS

There seems to be agreement that "disasters" should be provided for outside the limitation. Questions, however, occur regarding the tightness of a definition or process that would restrict the use of this exemption to those situations truly qualifying.

If a situation is beyond question a "disaster," then it should be relatively simple to collect a super majority to override the spending limitation.

Restricting the definition to those disasters declared by the Governor and voted on by a super majority would also serve the purpose of preventing abuse.

CAPITAL PROJECTS

"Appropriation" is debt service on State revenue-bonded capital projects is subject to the limit?

The exception of capital projects has appeal to those who feel that Alaska has a great need for infrastructure development, etc. However, excepting capital projects from the limit creates problems. First, new capital projects place burdens on the operating budget. The cumulative effect of these increases may distort the usual budget by its demands. It would also be politically as difficult to say "no" to constituents who want new football fields, etc., as it is now, if capital projects were exempt from the limitation. The Governor's solution is to suggest voter approval. However, there is no reason for voters to turn down projects, since alternatives for the money are not offered. The situation could be improved by requiring that capital projects' operating and program costs be both identified and accommodated within the spending limitation. Another solution is to provide for a fund which is limited in some way that would provide for local capital projects (viz. Capital Foundation Fund). Without some control, capital projects' expenditures could be as uncontrollable as now and become a time bomb ready to explode the spending limitation. Another solution which has been suggested is to include capital projects within the limit (a higher limit) and specify that capital budget items can be no more than x percent of the annual expenditures. If capital projects are outside the limit, consideration could also be given to defining those capital projects eligible for funding as those which are needed to meet essential government services and necessary to the health, safety and welfare of residents.

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STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

ROOM 508
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MEMORANDUM

TO: Senator Arliss Sturgulewski, Chairman
Legislative Budget and Audit Committee

FROM: Glen L. Svendsen, Special Assistant *125*
Legislative Budget and Audit Committee

DATE: June 5, 1981

SUBJECT: Local Government Issues related to State Expenditure Limitations

Spending Limitation

Issues related to local government expenditures, and their relation to State expenditure limitations.

1. Property Tax Relief and State Policy on Repayment
 - A) may not be related to either inflation or population change, as municipal decisions to take on or upgrade services may be separate from new population growth.
 - B) If State does not repay full amount, political pressure may follow to do so, but the legislature does not have to fully fund local property tax relief under present circumstances. That is, the Legislature has not formally taken on responsibility for local tax relief under municipal assistance or other programs.
 - C) If State, through other legislation, restricts the ability of local governments to raise revenue (i.e., repeal rules taxes, reduce mill levy limitation or changes in levies) the State has, in effect, voluntarily taken on the responsibility of funding local governments. This may, in turn, have impacts on the State budget that have nothing to do with the formula for adjustments to the base year's expenditures, as local resident demands for improved services are translated into legislative budget requests.

- D) Relation to resolutions before the Committee: Under HJR 57, increase appropriations for local tax relief that would be above the level otherwise allowed by expenditure limitation, but could be approved by a 2/3 majority vote of both houses. Under SJR 4, appropriations for property tax relief must fall under the limitation. Under the Governor proposed sponsor substitute for SJR 4, some form of "trust" could conceivably be established for property tax relief, and money directed to that trust could be exempt from inclusion in the expenditure formula. (P.S. - The ability to account for "trust funds" separately under the Governor's substitute encourages the creation of such trusts, which raises separate policy questions.)

2. Municipal Bonded Debt

- A) There is a good deal of interest in the Legislature's role toward municipal debt. A bill now in process would provide an appropriation to help subsidize municipal bonds by paying the difference between current market rates and the eight percent maximum rate of interest at which those municipal bonds would be sold. In addition, the Municipal Bond Bank purchases municipal bonds for resale; State funds are then used in sales, guarantees and to cover potential defaults by communities.
- B) If the State's policy is to continue support for municipal bonding, the spending limitation could create a problem in meeting the costs of increased levels of bonding. There is a major backlog of significant capital project needs in most Alaskan communities. It is conceivable that these projects could result in growth in State costs in excess of the growth allowed under either version of the spending limitation.
- C) The problem arises in fitting the State's subsidy of local bonds into the list of exempted expenditures. HJR 57 would allow a special appropriation upon 2/3 majority vote of both houses. The Senate version, SJR 4, would not allow such an exemption, although there may be some evidence of intent to do so. State bonds and capital construction funds approved by the voters would be exempt from the budget limitations; however, the State could not have the same budgetary freedom in regard to local projects that are approved by local voters. As noted above, the Governor's sponsor substitutes to SJR 4 would allow appropriations subsidizing local bond projects to exceed expenditure limitations if some sort of trust and dedication system were established.
- D) Local capital projects may result in higher local operating budgets, just as at the State level. What this means is a need for additional local revenue. Local citizen dissatisfaction with local tax rates, coupled with State level budget surpluses,

will be translated into more pressure on the Legislature to fund local governments. This will add operating costs to the State through local capital expenditures that might not originally be predicted in State expenditure forecasts.

3. Shifting of services from the State to the local level.

- A) One means of holding down State budget growth is to shift various program (and budget) responsibilities to the local level. This, obviously, increases the cost of local government while reducing the budget liabilities of State government. Without increased appropriations to local government, the shifting of responsibility to the local level would require an increase in revenue derived from local sources. Coming on the heels of a period of local tax reductions and demands for complete elimination of local taxation, such an increase in local tax rates would create strong pressures on the Legislature to increase funding of communities and curtail their ability to raise revenues. In effect, the State may not actually (i.e., politically) be able to shift major fiscal burdens to local governments.
- B) Shifting program responsibilities to local government and restricting the ability of local governments to raise revenue are mutually contradictory actions. The Legislature has, in effect, forced itself to choose between increased appropriations to local governments, or curtailment of the services it has shifted to the local level. (Curtailment of some services transferred to local control may be an option. It all depends upon whether the service is nonessential, or whether the State requires provision of a service after responsibility is transferred - such as requirements that locals adopt a permit system, etc.)

4. Local government expenditures in general.

- A) Implicit in the argument linking expenditure limitations to population growth and the rates of inflation is the assumption that the existing levels of service are adequate, or that there are enough "frills" in government expenditures that an adequate level of services can be provided if the budget is "properly" appropriated. This basic assumption, however, may not be true, especially for local governmental expenditures, for it is at the local level that the existence and quality of public services varies so markedly from what might be considered to be desired by most people. This means that there is a built-in capacity for local governments to use - and demand - more money than would be allowed under an expenditure limitation, if revenues were otherwise available.

June 5, 1981

- B) I think that the existence of large sums of money in the State treasury will lead to expectations for service improvements at the local level, as well as public resistance to paying higher local taxes. This will lead to pressures for the State to pick up not only State budget increases, but local government costs as well. The Legislature needs to have a clear policy toward local taxation from the outset. Presently, the Legislature seems to be accepting arguments that the State should pick up a portion of the local tax effort (i.e., full funding of revenue sharing and municipal assistance, local debt service subsidy, etc.). If the State adopts an expenditure limitation, it should reevaluate whether the State should pick up local tax effort (i.e., which result from expenditure decisions controlled at the local level.)

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Issues related to local government expenditures, and their relation to State expenditure limitations.

1. Property Tax Relief and State Policy on Repayment

- A) may not be related to either inflation or population change, as municipal decisions to take on or upgrade services may be separate from new population growth.
- B) If State does not repay full amount, political pressure may follow to do so, but the Legislature does not have to fully fund local property tax relief under present circumstances. That is, the Legislature has not formally taken on responsibility for local tax relief under municipal assistance or other programs.
- C) If State, through other legislation, restricts the ability of local governments to raise revenue (i.e., repeal sales taxes, *sales* reduce mill levy limitation or changes in levies) the State has, in effect, voluntarily taken on the responsibility of funding local governments. This may, in turn, have impacts on the State budget that have nothing to do with the formula for adjustments to the base year's expenditures, as local resident demands for improved services are translated into legislative budget requests.

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- D) Relation to resolutions before the Committee: Under HJR 57, increase appropriations for local tax relief that would be above the level otherwise allowed by expenditure limitation, but could be approved by a 2/3 majority vote of both houses. Under SJR 4, appropriations for property tax relief must fall under the limitation. **Under the Governor proposed sponsor substitute for SJR 4, some form of "trust" could conceivably be established for property tax relief, and money directed to that trust could be exempt from inclusion in the expenditure formula.** (P.S. - The ability to account for "trust funds" separately under the Governor's substitute encourages the creation of such trusts, which raises separate policy questions.)

2. Municipal Bonded Debt

- A) There is a good deal of interest in the Legislature's role toward municipal debt. A bill now in process would provide an appropriation to help subsidize municipal bonds by paying the difference between current market rates and the eight percent maximum rate of interest at which those municipal bonds would be sold. In addition, the Municipal Bond Bank purchases municipal bonds for resale; State funds are then used in sales, guarantees and to cover potential defaults by communities.
- B) If the State's policy is to continue support for municipal bonding, the spending limitation could create a problem in meeting the costs of increased levels of bonding. There is a major backlog of significant capital project needs in most Alaskan communities. It is conceivable that these projects could result in growth in State costs in excess of the growth allowed under either version of the spending limitation.
- C) **The problem arises in fitting the State's subsidy of local bonds into the list of exempted expenditures.** HJR 57 would allow a special appropriation upon 2/3 majority vote of both houses. The Senate version, SJR 4, would not allow such an exemption, although there may be some evidence of intent to do so. State bonds and capital construction funds approved by the voters would be exempt from the budget limitations; however, the State could not have the same budgetary freedom in regard to local projects that are approved by local voters. **As noted above, the Governor's sponsor substitutes to SJR 4 would allow appropriations subsidizing local bond projects to exceed expenditure limitations if some sort of trust and dedication system were established.**
- D) Local capital projects may result in higher local operating budgets, just as at the State level. What this means is a need for additional local revenue. Local citizen dissatisfaction with local tax rates, coupled with State level budget surpluses,

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will be translated into more pressure on the Legislature to fund local governments. This will add operating costs to the State through local capital expenditures that might not originally be predicted in State expenditure forecasts.

3. Shifting of services from the State to the local level.

- A) One means of holding down State budget growth is to shift various program (and budget) responsibilities to the local level. This, obviously, increases the cost of local government while reducing the budget liabilities of State government. Without increased appropriations to local government, the shifting of responsibility to the local level would require an increase in revenue derived from local sources. Coming on the heels of a period of local tax reductions and demands for complete elimination of local taxation, such an increase in local tax rates would create strong pressures on the Legislature to increase funding of communities and curtail their ability to raise revenues. In effect, the State may not actually (i.e., politically) be able to shift major fiscal burdens to local governments.
- B) Shifting program responsibilities to local government and restricting the ability of local governments to raise revenue are mutually contradictory actions. The Legislature has, in effect, forced itself to choose between increased appropriations to local governments, or curtailment of the services it has shifted to the local level. (Curtailment of some services transferred to local control may be an option. It all depends upon whether the service is nonessential, or whether the State requires provision of a service after responsibility is transferred - such as requirements that locals adopt a permit system, etc.)

4. Local government expenditures in general.

- A) Implicit in the argument linking expenditure limitations to population growth and the rates of inflation is the assumption that the existing levels of service are adequate, or that there are enough "frills" in government expenditures that an adequate level of services can be provided if the budget is "properly" appropriated. This basic assumption, however, may not be true, especially for local governmental expenditures, for it is at the local level that the existence and quality of public services varies so markedly from what might be considered to be desired by most people. This means that there is a built-in capacity for local governments to use - and demand - more money than would be allowed under an expenditure limitation, if revenues were otherwise available.

- B) I think that the existence of large sums of money in the State treasury will lead to expectations for service improvements at the local level, as well as public resistance to paying higher local taxes. This will lead to pressures for the State to pick up not only State budget increases, but local government costs as well. **The Legislature needs to have a clear policy toward local taxation from the outset.** Presently, the Legislature seems to be accepting arguments that the State should pick up a portion of the local tax effort (i.e., full funding of revenue sharing and municipal assistance, local debt service subsidy, etc.). **If the State adopts an expenditure limitation, it should reevaluate whether the State should pick up local tax effort (i.e., which result from expenditure decisions controlled at the local level.)**

CS SJR 4 (FINANCE)

SUMMARY

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

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

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

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

CS SJR 4 (Pin)
CONSTITUTIONAL LIMIT ON SPENDING

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

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

PROPOSED AMENDMENT
EXPLANATION

The proposed constitutional amendment contains two sections.

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

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

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

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

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

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

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

REASONS FOR THE FORMULA CHOSEN

Section 16

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

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

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

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

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

SCOPE OF THE CONSTITUTIONAL LIMIT

Section 17

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

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

Money Received In Trust for a Specific Purpose

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

Permanent Fund

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

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

Principal and Interest G.O. Bonds

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

Money to Capitalize Loan Funds

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

Capital Improvements

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

Disasters

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

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

War or similar threats against the State.

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

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

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

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

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

SECTION 16. APPROPRIATION LIMITATIONS. The amount of State money the governor may request or the legislature may appropriate during a fiscal year shall not exceed the amount appropriated in the preceding fiscal year by more than the increase in the federal consumer price index for the State for the calendar year preceding the governor's submission of the budget under section 12 of this article plus or minus a percentage equal to the cumulative average yearly growth or loss in the State's population as shown by the last two federal censuses or enumerations. Money appropriated under any exception prescribed by section 17 of this article shall not be included in the base for determining the allowable increase from year to year. For purposes of this section, the amount of \$2.7 billion shall be used as the amount of appropriations in fiscal year 1982.

SECTION 17. EXEMPTIONS FROM APPROPRIATION LIMITATIONS. The limitations on increases in appropriations do not apply to money received from another in trust for a specific purpose; to appropriations of money to be deposited in the permanent fund; money appropriated to pay principal and interest on general obligation bonds; money appropriated

1 to capitalize loan funds, but only if the money to subsidize these
2 loans at below market interest rates is appropriated separately under
3 the limitations; money appropriated by the affirmative vote of two-
4 thirds of the membership of each house, whether of bond proceeds or
5 otherwise, to construct capital improvements, not to exceed \$1,500 per
6 capita; or money appropriated by a vote of two-thirds of the membership
7 of each house and approved by the governor to meet disasters of natural
8 or human origin which are declared by the governor.

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

Exemptions

~~_____~~ court orders.

The costs of complying with court orders seem, at first blush, limited to legal costs and onetime program costs to "remedy" some problem that may be addressed by the court. However, a court order might have long-term program cost implications. Also, it is not clear that an exemption would apply just to the the budget year in which a court order would initially import, or would exempt permanently program costs that were initially "added" to the budget by court order rather than by legislative action.

The "Molly Hootch" agreement is a case in point. (Technically, this was an agreement approved by the court, but could as easily have been a court directive.) This case resulted in tremendous capital construction for village schools, as well as the attendant operating budget expenditures, maintenance and operation. The construction of Molly Hootch school committed the State to a pattern of educational service delivery that had significant, ongoing capital and operating budget implications.

The question is - should these types of expenditure be exempted from State spending limitations? Should the State's education budget be split between "exempt" and "limited" types of expenditures?

The problem is basically a question of ultimate responsibility for expansion of governmental services. A court case may require the State to take on a new service or expand a current service significantly. While it may not be "fair" to have that service counted against the expenditure limitation, it also seems against the whole purpose of the expenditure limitation to allow for the complete exemption (or separate accounting) of services "added" by court order from any comparison with a spending limitation.

The concern is that court decisions may result in services that have a completely separate identity from those originally under a spending limitation. Such services, if exempt from the spending limit could grow, flourish and have life of their own.

While one-time legal costs resulting from a court order might logically be exempted from a spending limitation, any service delivery expenditures resulting for a court mandate should be included in the general mix of State services delivered to the public. A court mandated service becomes a service such as any other demanded by the public.

(While it is true that including a court mandated service (or any other new service) under the spending limitation places more pressure on that spending limit, this is not a reason to create a "dumping ground" for State services that are added after the adoption of the spending limit. An exemption should not be used simply to delay the time when an expenditure limitation simply becomes too tight.)

Jan 6/6/81

B. [REDACTED]

Under SJR 4, costs related to transfer of authority or responsibility to the State from the Federal Government would be exempt from inclusion under the spending limitation. While on the surface it appears logical to exempt new, unforeseen services from the spending limitation, the intent and purpose of the spending limit may dictate otherwise.

First, the terms of the exemption should be well defined. A "transfer" of federal authority may include a range of possible interpretations, from a federal mandate for State action, to a non-mandatory transfer of program authority to the State level. At present, the Federal Government is considering termination of a number of federally administered programs; instead, block grants will be given to states to provide those services. Is this a "transfer" of responsibility from the Federal Government that would be exempt from budgeting under the spending limitation?

A key consideration should be whether the "transfer" of responsibility is voluntary on the part of the State. Again using the current block grant proposals as a case in point, the Federal Government is in effect telling the states that they may assume whatever mix of federal programs they wish to offer. The states may also contribute any state funds they wish to the federal block grants. The question is whether formerly federal services that are adopted by the state, at the state's discretion, should be exempted from the public oversight reflected in a spending limitation.

The danger is that separate accounting systems could develop one for services under the spending limitation and another for services excluded from the spending limitation.

Representatives from the Governor's Office have suggested that only first year costs be exempted from the expenditure limitation.

The problem with this suggestion is analogous to the present difficulty with the RP process. Once programs have been started, employees hired and client groups created, it is extremely hard to "eliminate" those programs. The criticism of the RP process is that formerly Federally funded positions are almost automatically taken over by the State upon termination of federal funds, even though the State has the option of letting those positions drop. A one-year exemption of new State programs from the expenditure limitation could quite easily result in the same pattern. The effect of this "vicious circle" is to constrain the options of future legislatures especially if the State's initial assumption of powers was funded by the Federal Government, and outside of a direct, conscious, policy determination by the Legislature.

If the approach taken to the spending limitation is to allow exemptions from the limit, I think that "transfer of authority from the Federal Government" should not be a named exemption, especially to the extent that State funds are involved. An exception might be for the costs initially required to respond to a federal statutory mandate. No discretionary "transfers" of program responsibility to the State level should be allowed outside of the expenditure limit.

[REDACTED]

The meaning of this exemption needs to be clarified. First, appropriation of money to a trust for a specific purpose could be argued as an allowable exemption, to get general funds out of the capital and operating budget stream. However, unless it is specified that those funds are to be invested at market rates of return, this type of exemption could be used to subsidize a loan or investments project.

Second, it should be clear that the return from "trust fund" investments be returned to the General Fund for appropriations under the spending limit. This will prevent the operating expenses of any particular service from being removed from the expenditure ceiling through the creation of a "trust" or "endowment." If the purpose of an expenditure limit is in part to control the growth of government, program costs should not be exempted from limitation simply through the creation of an endowment.

SENATE FINANCE

EXPENDITURE LIMITATION ISSUES

WHAT SHOULD BE USED AS THE BASE?

Should we pick a FY budget? What should be exempted from the budget? Should they be the same items exempted from the ceiling or others? If the base is too low, how will agencies handle budget cutbacks? If there are few ceiling exemptions, should the base contain room for innovative new programs (Energy Center, Delta Barley, Etc.)? How will the base account for assistance/revenue sharing for local governments? Should a number be used instead of a base year to allow for adjustments of, for example, income tax refunds, etc. If so, what should the number be?

WHAT FORMULA SHOULD BE USED TO CALCULATE INCREASES?

Should the formula for calculating the increase be a cumulative index applying to a single original base, or should the formula apply as an adjustment to the previous year's actual appropriation?

Should the formula be tied to population growth as well as inflation? Are there alternative indices?

Should the formula have a factor which will reduce the real per-capita spending limit overtime (such as only using .95 of the annual CPI increase)?

WHICH APPROPRIATIONS AND EXPENDITURES SHOULD BE COVERED BY THE LIMITATION?

Should the limit apply to both state and federal funds?

Should increases in user fees be covered? If exempted, what oversight should be available to keep increases reasonable?

Most likely revenue bonds should be excluded, but should General Obligation Bonds? Bond debt service?

Should capital projects be excluded and, if so, how can we manage the operating budget impacts of capital projects?

Should loan capitalization be excluded?

There is agreement that contributions to the Permanent Fund should be excluded, but should Permanent Fund dividends? Should arrangement be made for the possibility of the State losing the law suit, if so of what sort? Should a portion of permanent fund income (or real income) be exempted? Should the Permanent Fund be the only recipient of "surplus" funds, and if so, how can this be insured?

If the base is very inclusive, then the exemptions should be very limited. If the base is restricted, what level of exemptions are reasonable?

Should provision be made for exceeding the limit? If so, should it be by legislative vote--by what majority? Should a referendum be provided for? If provision is made for exceeding the limit, what should be voted on--single appropriations or multiple ones? If provision is made for exceeding the limit, should there be a special prohibition against voting to exceed the limit on items which had previously been appropriated within the limit?

Ed- Q why permanent fund not go to voters .
 Yrs 2.5 ^{higher} for governor - have to
 resolve difference between operating /
 capital budget - ^{top} operating language
 could lower no further limit capitalization
 or put ratios /

Hugh Malone - all capital & operating
 in excess go to voters .