



ALASKA

POLICY FORUM

April 27, 2021

LEGISLATIVE TESTIMONY

House Bill 141
Appropriation Limit; Gov Budget

House Ways & Means Committee
Representative Spohnholz, Chair
Representative Wool, Member
Representative Josephson, Member
Representative Schrage, Member
Representative Story, Member
Representative Prax, Member
Representative Eastman, Member

Chair Spohnholz and members of the House Ways & Means Committee, thank you for the opportunity to testify today. I am Quinn Townsend testifying on behalf of the Alaska Policy Forum.

Even before the business closures, tanked oil prices, and high unemployment in response to the pandemic last year, Alaska had a spending problem. Now that the state is beginning to see the effects of months of stalled economic activity, Alaska's looming budget crisis is even larger. It will take work, time, and sacrifice for the state to recover from the pandemic, but it is possible. One important tool to avoid the temptation of overspending – which will hinder, not help the state's economy – is with a functional constitutional spending cap.

Alaska currently has a constitutional spending cap, established with good intentions in the early 1980s. However, the current cap uses a formula that calculates allowable spending limits to such high levels it renders them meaningless today. In fact, Alaska

spends over 20 percent of its gross domestic product (GDP) and personal income on state government, nearly double the average of the highest economically performing states in the country, such as Colorado. In contrast, the highest performing state governments spend about 11 percent of their GDP and personal income (based on total expenditures, including expenditures of federal revenue). The highest performing states – those that spend less and have lower taxes – experience better employment growth, larger net in-migration, higher population growth, higher income growth, and higher GDP. States with ineffective limits, such as Alaska, fare no better economically than states with no spending limits, unfortunately.

Instead, Alaska's excessively high government spending has inhibited private sector job growth, and the economy could benefit from an effective constitutional spending cap now more than ever. Successful constitutional spending caps have several characteristics. First, the base of expenditures covered by the spending cap needs to be broad. In particular, all expenditures must be covered, not just general revenue fund items. Fee- or user charge-based activity needs to be brought under the rubric of the cap. Second, there must be provisions for exceptions, such as disasters, to the spending limit, but they must be extremely limited and difficult to manipulate. One approach is to allow expenditure increases beyond the constitutional mandate only with a vote of the people and/or a supermajority legislative vote.

By implementing a meaningful spending cap, Alaska could see much needed economic growth. Industry and other job creators are drawn to the stability that a true cap on spending would bring. A revised constitutional spending limit is the first step toward responsible budgeting and will encourage a thriving economy that will take the Great Land into the future.

The Alaska Policy Forum encourages a fiscal policy that includes a realistic spending cap.

Again, thank you for the opportunity to testify.

Quinn Townsend
Policy Manager
Alaska Policy Forum