



March 22, 2023

LEGISLATIVE TESTIMONY

House Bill 38

House Ways & Means Committee

Representative Ben Carpenter, Chair
Representative Jamie Allard, Member
Representative Tom McKay, Member
Representative Kevin McCabe, Member
Representative Cathy Tilton, Member
Representative Andrew Gray, Member
Representative Clifford Groh, Member

Chair Carpenter and Honorable Members of the Committee:

Alaska Policy Forum (APF) is a 501(c)(3) nonprofit that is a nonpartisan state-based think tank and does not receive public funds. APF urges the Ways and Means Committee to adopt responsible policies that would control state spending and create stability in the state budget.

Alaska has a history of high spending during times of economic growth which has led to fiscal problems today. One mechanism to reign in state spending over time is through a meaningful spending cap. Alaska currently has both a constitutional spending limit and a statutory one, but the bases were set so high that they are basically meaningless today. Implementing an effective constitutional spending cap will help stabilize future state budgets and can encourage private sector growth.

There are four main aspects of a meaningful spending cap that need to be in place: First is enforcement — spending limits are more effective when they are constitutional rather than statutory. Constitutional limits are much more resilient to the ups and downs of politics, so they are more binding than statutory constraints.



Second, is what the cap actually limits. Ineffective spending caps allow for workarounds and loopholes, such as only including appropriations from tax revenues. Instead, the base of spending limited by the cap needs to be broad. All state expenditures for a fiscal year should be covered, including supplemental spending, not just budgeted general revenue fund items. Exceptions should be limited, one example being disasters or emergencies.

Third, how is the growth of state spending limited? Included in this section is the base by which the limit grows. Most states use the previous fiscal year as the starting base — APF's [Responsible Alaska Budget](#) does this as well. However, economic literature acknowledges that Alaska's economy is unique and sometimes excludes the state from national analyses. Therefore, using a running average of GDP minus government services as a way to reflect Alaska's private sector may also be an effective base. However, it is not a mechanism that other states use, so we cannot look at other states to see how effective it is.

Fourth, what are the ways to override a spending cap? An effective spending cap should be extremely difficult to override and have few exceptions, one of them being disasters. To allow spending beyond the limit should require a vote of the people, a supermajority legislative vote, or even both.

Alaska would benefit from an effective limit on state spending. Every dollar spent by the state is a dollar not being used by the private sector and Alaska needs a strong private sector, especially now as Alaskans are recovering from the economic effects of the COVID-19 pandemic and struggling with workforce shortages. An effective spending limit also provides much-needed stability that businesses and employers in the state should be able to rely on.

Thank you for your time and consideration.

Sincerely,
Quinn Townsend
Policy Manager

