



# ALASKA

## POLICY FORUM

September 8, 2021

### LEGISLATIVE TESTIMONY

Senate Joint Resolution 301

Constitutional Amendment;

Appropriation Limit

Senate Judiciary Committee

Senator Holland, Chair

Senator Shower, Vice Chair

Senator Hughes, Member

Senator Myers, Member

Senator Kiehl, Member

Chair Holland and members of the Judiciary Committee, thank you for the opportunity to testify today. I am Quinn Townsend testifying on behalf of Alaska Policy Forum.

Alaska has had a history of high spending during times of economic growth that has led to fiscal problems today. One mechanism to reign in the tendency to increase spending when times are good is through an appropriation limit, or spending cap. Implementing an effective spending cap will help stabilize future state budgets and can encourage private sector growth.

Economic literature shows that a spending cap is beneficial in curbing the growth of state spending, as long as it is structured correctly. There are four main aspects that are integral to a well-designed cap: how it is enforced, what it limits, how it limits spending growth, and how it can be overridden.

First, how should a spending cap be enforced? To be effective, limits need to be constitutional rather than statutory. Constitutional limits are much more resilient to the

ups and downs of politics than statutory limits. This means that constitutional spending caps are more binding than statutory constraints.

Second, what should a spending cap limit? 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, not just budgeted general revenue fund items. This includes fee- and user charge-based activity.

Third, how does an effective spending cap limit the growth of state spending? Economic literature has demonstrated that the most effective spending cap grows by population and inflation rather than personal income or another economic measure. However, that literature also acknowledges that Alaska's economy is unique and typically excludes the state from national analyses. Therefore, using a running average of GDP minus government services to reflect Alaska's private sector may also be an effective growth rate, even though it is not a mechanism that other states typically use.

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

Alaska needs an effective limit on state spending. Every dollar spent by the state is a dollar not being used by the private sector. Alaska also needs a strong private sector, especially now as Alaskans are recovering from the economic effects of the pandemic. Alaska Policy Forum encourages the implementation of an effective constitutional appropriation limit.

Again, thank you for the opportunity to testify.

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