



ALASKA

POLICY FORUM

April 30, 2021

LEGISLATIVE TESTIMONY

SJR 5

Const. Am: Approp Limit; Budget
Reserve

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

Alaska has had a spending problem for years that the state has been attempting to address. While there is not one specific solution to cure all the state's fiscal woes, one important tool to avoid the temptation of overspending – which will hinder, not help the state's economy – is with a functioning constitutional spending cap.

Alaska's current cap uses a formula that calculates allowable spending limits to such high levels that it renders them basically meaningless today. In fact, as of 2018, Alaska spent over 20 percent of its gross domestic product (GDP) and personal income on state government, which is nearly double the average of the highest economically performing states in the country. In contrast, high performing state spend about 11 percent of their GDP and personal income on government. These 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. These are

all things that Alaska sorely needs to recover from the economic effects of the pandemic.

Instead, Alaska's excessive 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 state 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 and appropriations to savings accounts – 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.

Establishing a meaningful spending limit would keep the budgeting process disciplined, hold the government more accountable, control the growth of government, and make the government more efficient. 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 cap is an important step toward responsible budgeting and will encourage a thriving economy.

Alaska Policy Forum encourages establishing a sensible constitutional spending cap.

Again, thank you for the opportunity to testify.

Quinn Townsend
Policy Manager
Alaska Policy Forum