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VIA FAX 011 670 234 7530 12 June 1995

MEMO TO:

HOWARD WILLENS, ESQ. AND DEANNE SIEMER, ESQ.

FROM:

HOWARD MANTEL

Attached is a memo on limiting legislative branch expenditures. I opted in part to get info from tax research organizations, which generally keep a tight eye on how public (state government) funds are being used. Most of their interest is in the big \$\$\$ and public credit and tax issues, but they were knowledgeable on legislative branch expenditures.

Although I didn't put it in the memo (I hint at it), my rough guesstimate is that the NMI legislature costs (if constitutional ceilings approximate actual budgetary levels) are more than half that of a small state like Vermont, which has a population of more than half a million! But such comparisons are a bit tricky.

Will follow shortly with a memo on legislative branch staffing, etc.

Cheers and regards,

Howard

Attachment

DRAFT HNM June 11, 1995

LIMITING LEGISLATIVE EXPENDITURES

The Issue

Can state constitutions effectively impose limits on how much money is spent by and for their legislative branches? Legislatures and state court systems are less costly than executive branches. But dwindling resources and constraints on federal redistribution of national wealth have led to cuts in state spending at all levels—and greater taxpayer concern over value received for taxes paid.

One perceived irony is that despite progress over the past three decades in "...developing independent sources of information, attracting skilled and dedicated people to legislative service, and giving legislators adequate time to deliberate on and craft public policies...the general public has an increased disdain and low opinion of state legislatures...in some ways, the increased professionalization of legislatures is a subject of public disdain." (Rich Jones, p. 98.)

State constitutions establish the basic rules by which states raise and spend money; and they impose standards to discipline spending. These include: a state-wide budget (covering all three branches: executive, legislative, and judicial) initiated by the governor and submitted to the legislature; appropriations by that body; approval/disapproval by the governor, including in many states line item veto; and legislative veto override by supermajorities. Constitutional and statutory standards and processes that guide spending

include: revenue estimating, balanced budget requirements, and commissions on salaries of elected officials, including legislators.

This set of controls may serve as a counterbalance (or limitation) both over excessive spending as well as to more justified investments in sophisticated technology for the legislature, professional staffs, and decent physical space for committees, members, and staffs.

The modern budget system for the state government as a whole followed in most states reflect the budgetary initiative and balance of power over appropriations vesting in the governor, more so than in the legislature. For most of the 19th and early decades of the 20th Centuries, it was the legislature that determined appropriations, with a far more limited role assigned to the governor (Mississippi still represents the more traditional (i.e., historical) approach).

Perhaps one reflection of the older arrangement is the respect shown to legislatures with reference to their own budgets. This means adherence to separation of powers ("comity") principles. The governor usually accepts the budgets proposed by the legislature for itself--so long as the overall budget is balanced and aggregate amounts of legislative branch appropriations remain stable. Perhaps the greatest control that conditions legislators' budgetary decisions for their own branches is fear of constituents' unhappiness toward the Legislature or toward individual legislators. One particular consequence may be curtailing of professional staffs needed to assure a quality legislative product.

Two radically different approaches to spending by the Legislature for itself are in the constitutions of <u>California</u> and <u>Hawaii</u>. One imposes ceilings on spending by the legislative branch; and the other, constitutionally, tells the governor "hands off." While they do not represent mainstream constitutional approaches, they are instructive in helping to perceive the impact of constitutional mandates (or their absence) on spending practices. In the case of Hawaii, the Constitution formalizes what most other states do in practice. And the somewhat draconic approach of a 1990 constitutional amendment in California (not unlike NMI constitutional provisions) has been subject to a certain degree of amelioration.

Constitutional Limits on Legislative Spending

The <u>Northern Mariana Islands</u> and the <u>California</u> Constitutions may be the principal examples of constitutionally-imposed ceilings on spending for the legislature. In California, it has led to dramatic reductions in legislative branch spending, but the impact may be more apparent than real. And the cuts may be in the wrong places.

California

An initiative approved by California voters in 1990 (part of Proposition 140, which set term limits for legislators), added Article IV, Section 7.5 to the Constitution:

In the fiscal year immediately following the adoption of this Act, the total aggregate expenditures of the Legislature for the compensation of members and employees of, and the operating expenses and equipment for, the Legislature may not exceed an amount equal to...\$950,000 per member for that fiscal year or 80 percent of the amount of money expended for those purposes in the preceding fiscal year, whichever is less. For each fiscal year thereafter, the total aggregate expenditure may not exceed an amount equal to that expended for those purposes in the preceding fiscal year, adjusted and compounded by an amount equal to the percentage increase in the appropriations limit for the State established pursuant to Article XIII B.

(Article XIII B, mirrored on California's famous "Prop 13", limits state and local expenditures to the prior year's appropriation, subject to inflation and population change data. Apparently, however, its impact has been severely limited by further amendments since its adoption in 1990.)

With respect to Article IV, Section 7.5, Grodin, et. al. comment that:

The impact of these limitations on legislative resource is substantial. In the first year, it required a 38 percent reduction in budget and the elimination of more than 640 staff employees. In <u>Legislature v. Eu</u> (1991) {54 Cal. 3d 492, 816 P.2d 1309 (1991) cert. denied, 112 S. Ct. 1292 (1992)}, the legislature

argued that the impact of this provision, coupled with the term limitations {also} imposed by Proposition 140, were so substantial as to alter the nature of the institution and render the proposition a revision rather than merely an amendment, which could be adopted by initiative. The {State} supreme court disagreed and upheld all of Proposition 140 except for the restriction on retirement benefits as applied to incumbent members.

The impact, while dramatic, was not necessarily wisely applied. To avoid major cuts in the personal staffs of legislators, the political powers within the Legislature, largely personified by the Speaker, sought to do two things:

- The Office of Legislative Auditor was transferred out of the legislative branch, but without substantial diminution of its powers to audit the executive branch.
- Similarly, an attempt was made to transfer out the Office of Legislative

 Analyst. When that effort failed, the Office was significantly cut (it lost half
 its staff), notwithstanding the fact that it was respected as a nonpartisan, highly
 professional unit. According to Steve Kroes of the California Taxpayers

 Association, objective analyses of bills by that office were reduced. Legislative
 committees are forced to rely more on analyses by their own (and often less
 talented) staffs and less on the more experienced professionals in the
 Legislative Analysts Office.

Apart from the Prop 140 ceilings, another constitutional change, also intended to constrain spending, has led to an increase in costs. This was the establishment under the Constitution of an independent salary commission. It decided to <u>increase</u> legislative salaries, from \$40,000 in 1989-90 to a current salary range of \$90,000 (including per diem expense payments). The salary commission was concerned over equity for legislators who could no longer look forward to long-term legislative careers, also a consequence of Prop 140 term limits; and concomitant ending (prospectively) of retirement packages for legislators.

Northern Mariana Islands

Article II, Section 16 of the <u>Northern Mariana Islands</u> Constitution, added in 1985, also imposes a ceiling on legislative branch expenditures.

- Section 16(a) provides an absolute dollar amount that the Legislature can spend in any fiscal year: \$2,800,000, equally divided between Senate and House of Representatives. An amendment added by initiative in 1988, excepts the salaries of NMI legislators from this ceiling, but imposes a separate limitation on salaries, noted infra.
- Subsection (b) limits expenditures to \$700,000 for a stated period (October 1-second Monday in January) in any year when there is a regular general election, "...or the spending authority otherwise available by law, whichever is less..."
 - Article II, Section 17, which establishes a Legislative Bureau, provides in subsection (f) that the bureau shall have a budget, "...independent of the budget ceiling established for the legislature under section 16...but in no event shall the funds appropriated exceed eight hundred thousand dollars in any fiscal year."

 (Section 17 was added by the 1985 Constitutional Convention, with Subsection (f) added by initiative in 1989.)
 - Article II, Section 10 establishes an annual salary base of \$8,000 and reasonable allowances for expenses provided by law, and also establishes an advisory commission on Commonwealth executive, <u>legislative</u> and judicial officers' salaries. Salary and expense allowances are separate from the basic legislative ceiling, noted <u>supra</u>.

While it is hard to assess the NMI ceiling, a useful exercise might be to compare the total budget for the legislative branch--within these constitutional constraints--to expenditures for State government legislative branches, e.g., NMI and Vermont; but such comparisons would have to take into account population and other factors. Query?

Limitations on Budgetary Authority of the Governor

<u>Hawaii</u> represents a different <u>constitutional</u> approach to spending by the legislative branch from that of California and the Northern Mariana Islands, formalizing what most states do by custom. Under Article VII, Section 8 of the Hawaiian Constitution, the governor submits a detailed (biennial) budget for the executive branch but only aggregate budget amounts for the other branches:

...the governor shall submit to the legislature a budget in a form provided by law setting forth a complete plan of proposed expenditures of the executive branch, estimates as provided by law of the aggregate expenditures of the judicial and legislative branches...a complete plan of proposed expenditures of the judicial branch...shall be submitted by the chief justice to the legislature...the proposed general fund expenditures in the plan of proposed expenditures, including estimates of the aggregate expenditures of the judicial and legislative branches, submitted by the governor shall not exceed the general fund expenditure ceiling established by the legislature under section 9...(Article VII, Section 8.)

This change was wrought by the 1978 Constitutional Convention, the last major review of the Constitution. Lee comments, "...the constitution now requires that the expenditure portion include the proposed spending of the executive branch, but only the estimates of the aggregate expenditures for the judicial and the legislative branches. Its effect is to deny the executive any ability to specify particulars for the budgets of the other two branches of government" (p. 130).

Article III, Section 16 of the Hawaiian Constitution denies to the governor the item veto for judicial and legislative branch expenditures in appropriation bills--he is given the

power for executive branch appropriations. Until 1974, Lee notes, the line item veto power was unlimited:

This change was based on the principle that the chief executive should not be able to use the line item veto as a means for interfering with the ability of the other two branches to perform their responsibilities.

Other provisions constrain legislative spending:

- Under Article III, Section 9, salaries are prescribed by a commission on legislative salaries, which is appointed by the governor and meets every eight years (after making its recommendations, it dissolves). Its recommendations take effect (with the next legislature) unless disapproved by either the governor or the legislature. The Legislature recently rejected a salary commission proposal for an increase in legislators' salaries. As a result no increase can be effected until the early years of the 21st Century.
- Article VII, Section 9 includes a provision limiting the growth of general fund appropriations to the "...estimated rate of growth of the State's economy as provided by law." This can be broached by a two thirds vote of each House; and federal revenues are excluded.
- Article VII, Section 7 establishes an advisory revenue council of the state government. The governor and legislature are required to consider its estimates. Importantly, the section also provides:

If the legislature in appropriating funds or if the governor in preparing the budget or recommending appropriations exceeds estimate revenues due to proposed expenditures, this fact shall be made public including the reasons therefor (emphasis added).

Public scrutiny may be an understated but important component of the checks and balances on legislative behavior. Public knowledge of legislative decisions, such as the size of their budgets and public participation in making of such decisions can be as useful, perhaps, as formalized ceilings.

There has been relatively little controversy over the budget for the legislative branch. Kyle Yamada of the Hawaii Tax Foundation reports that Hawaii is in a recession so that the general outlook is one of fiscal conservatism, witness the Legislature's rejection of a salary increase. The budget for the Legislature is passed within the first four days of a session, and usually entails little conflict with the governor, so long as the aggregate total is consonant with the requirement for a balanced state budget. Currently, the legislative branch appropriation is approximately \$18.5 million, which covers salaries, operations, Office of Legislative Reference and other administrative units. The annual salary for legislators is \$32,500 annually (the legislature meets generally mid January through mid April).

Practices in Other States

Arizona. This State follows the more traditional practices: unified budget submitted by the governor to the legislature, appropriations by that branch, and a line item veto power over appropriations. Under Article IX, Section 17 of Arizona's Constitution, an Economic Estimates Commission imposes a discipline on the appropriation processes by determining the upper limit of appropriations for the government as a whole, subject to certain flexibility and the ability to exceed limitations by a two-thirds vote of the members of each house. The governor is given a line item veto of appropriation bills ("If any bill presented to the governor contains several items of appropriation of money, he may object to one or more of such items..." (Article V, Section 7)). The only exceptions to the governor's line item veto: (1) bills referred to the people (referenda) or (2) emergency bills. The Constitution does not exempt the governor from making proposals on the legislative (or judicial) branch budgets.

Louisiana. This State follows the standard constitutional practice. See, e.g., Article

VII, Sections 10 and 11. It also has a "Revenue Estimating Conference" with constitutional direction to limit appropriations to the Conference's official forecast (the Conference is composed of the governor, president of the senate, speaker of the house, or their respective designees, and "...a faculty member of a university of college in Louisiana who has expertise in forecasting revenues..." (Article VII, Section 10(A)). Under Article VII, Section 11(A), the governor submits to the legislature a budget estimate for "...all proposed state expenditures..."; under Section 11(B), he submits a general appropriation bill "...for proposed ordinary operating expenditures..."; and under Section 11(C) he submits a separate capital budget.

North Carolina. While the governor's budget includes funding for the legislative branch, in practice the principle of "comity" applies and the governor accepts the Legislature's proposals for its own spending. Formally, under Article III, Section 5(3) the governor prepares and recommends to the General Assembly "...a comprehensive budget of the anticipated revenue and proposed expenditures of the State for the ensuring fiscal year..."

That section also requires a balanced budget; and to avoid a deficit, the admonition that "...the Governor shall continually survey the collection of the revenue and shall effect the necessary economies in State expenditures..." The Constitution's only direction to the Legislature is not to pass laws to raise money on the credit of the State or to impose taxes unless the bill has gone through three readings. There are no other constitutional constraints.

The budget for the legislative branch is prepared by the legislative services officer, who submits it to a joint Legislative Services Commission, composed of six members each from the Senate and House and jointly presided over by the President Pro Tempore and the Speaker. Legislators salaries are \$14-15,000 per annum, plus expenses (including health and retirement benefit packages). The total appropriation for the Legislature is \$32.5.

There is a very strong view that the North Carolina Legislature is a citizen, part-time body, with only the President Pro Tempore and Speaker regarded as full time legislators, According to Tom Covington, Director of Fiscal Research, this reflects a Southern agrarian

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economy tradition.

<u>Idaho</u>. Article IV, Section 8 of the Idaho Constitution provides that the governor may require information to be submitted to him by executive department officers. The section continues:

He shall also send to the legislature a statement, with vouchers, of the expenditures of all moneys belonging to the state and paid out by him. He shall also, at the commencement of each session, present estimates of the amount of money required to be raised by taxation for all purposes of the state.

Crowley and Heffron note:

The governor is required to submit to the legislature a statement of all state expenditures from the previous year and to submit a budget, at least for all expenditures to be paid by taxes, for the upcoming fiscal year. Again by custom and statutory requirement, that budget includes expenditures and revenues from sources other than taxation: trust funds, user fees, and a capital budget. The governor is authorized to recommend legislation that he believes advisable. The section {i.e., all of Section 8} has been noncontroversial and has not been interpreted by the judiciary. (p. 104)

The governor has a line item veto power over appropriations. It requires that he veto item or items "...of any bill making appropriations of money embracing distinct items...(emphasis added). Crowley and Heffron note that language was designed to "...prevent omnibus appropriation bills that facilitated legislative logrolling." In addition, Section 11 was designed to force the "...governor to veto an entire item; he may not dip within an item and veto the conditions but keep the money. The veto can be used only in a negative fashion, not to enlarge the governor's discretion in spending the money..." (p. 107, citing cases)

According to Gordon Fisher of the Idaho Legislative Services Office, there are two parts to the "legislative" budget:

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One part deals with salaries, attaches, and printing. This is an appropriation set by statute and currently is \$4,350,000. Although the governor refers to it in his budget, for the purpose of assuring that revenues and expenditures match, he makes no recommendation with respect to that amount. Following the "comity" principle, the governor is unlikely to veto the statutory language for the legislative branch appropriation. (The funds are transferred quarterly from the general fund to the legislature's fund and are divided between the two houses (roughly 60% for the House (70 House members); 40% for the Senate (35 Senators); and some spending for joint activities.) It also covers a few (about six in number) staff to members (Cf. infra, on the Legislative Services Office).

A citizens committee proposes changes in the salaries paid through this appropriation for legislators. The committee acts every other year and the Legislature can reduce or reject their recommendations but cannot increase the amounts proposed. Fisher notes that there was some public discussion when the citizens committee proposed a 3% salary increase, but this was not a major source of public concern. Currently, salaries are \$12,360 per annum, plus a per diem expense—the average annual session is bout 80 calendar days, and special sessions are rare.

A second part of the legislative budget is for the Legislative Services Office, which has approximately 65 full time staff, including audit function, budget, and bill drafting. Its budget currently is \$4,175,000. The governor includes this amount in his annual state budget but makes no recommendations with respect to it.

<u>Mississippi</u>. Unlike most other States, Mississippi still leaves the balance of power over purse strings with the legislative branch. One scholar notes: "Most public policies in Mississippi emerge from an ongoing tug of war between change agents pulling the state into

the mainstream of American life and status quo forces resisting a restructuring of the traditional order. Budgeting holds center stage in this struggle." (Clynch, p. 125). He observes further:

Rules of the budget game control which actors participate in allocating state resources. Ironically, traditionalists and modernists do not disagree about the consequences of a gubernatorially dominated budget process...They believe that a strong governor could successfully improve government services...even if additional taxes proved necessary. (Clynch, p. 125).

One consequence of this struggle--in which the legislative branch appropriations is not the principal factor in contention--is that, "The legislature receives two proposals--one from the governor and one from the Joint Legislative Budget Committee. With the exception of Governor Mabus's first legislative session in 1988, the legislature, not surprisingly, ignores the governor's budget recommendations and reacts to the JLBC proposal. The governor's budget has occasionally provided rhetorical ammunition..." (Clynch, p. 131).

Although the governor has line item veto authority under the Mississippi Constitution, the legislature may override with a two-thirds vote of each House. Clynch notes:

Mississippl agencies receive lump-sum object appropriations. A governor using the item veto must strike out all of an agency's commodities, contractual service, and so on (p. 135).

Rhode Island. There are few constitutional guides to legislative branch expenditures, except that legislators' salaries are fixed by the Constitution. Traditionally, it had been set at \$50 per diem for the 60 day session (to which amount were added special pensions for legislators (since been discontinued prospectively)). The Constitution was amended to set a salary of \$10,000 per annum, with health insurance and other benefits, but not retirement. The General Assembly's budget for FY 95 is \$16.6 million, of which \$2 million is for the State Auditor General (part of the legislative branch).

Although the legislative branch appropriation appears as part of the overall state budget prepared by the governor, the practice has been for the governor to propose an aggregate amount (as is done with the unified state judicial system). There is some negotiation between the Legislature and the Governor over the aggregate amount, but it is not a source of major debate. Gene Gessow of the Rhode Island Public Expenditure Commission describes the negotiation as one over "what the traffic will bear." Rhode Island does not give the governor a line item veto over appropriation acts.

<u>Vermont</u>. The traditional constitutional practice is followed: the governor submits a budget and the legislature appropriates funds for all branches of the state government. In practice, the principle of "comity" is followed, with public scrutiny the principal lever restraining legislators' from voting major additions to their own salaries or the costs of operating the legislature.

According to Steve Klein, the Legislature's chief fiscal officer, while the Legislature sets its own salary, this itself is a constraint, given the legislators' concern of their constituents' reaction. It took several years for a \$10 per week salary increase to be voted. Senators and Representatives are paid \$510 per week for the 16 or so weeks the Legislature is in session, plus expenses (but not retirement benefits). The budgets for the joint fiscal office and the legislative counsel's office (both nonpartisan bodies serving the two Houses and serving both Democrats and Republicans) are formulated by their respective oversight committees, with final action by the appropriations committees. The amounts are then forwarded to the governor, who will incorporate them without change in the state budget. If no budgets are submitted, the prior year's appropriation will be used.

Vermont's legislative budget is relatively modest: it totals about \$5.2 million (divided among \$3.7 million for salaries for members and other costs; \$200,000 for the office of the Sergeant at Arms, \$410,000 for the joint fiscal office, and \$900,000 for the joint legislative counsel's office). The staff is regarded as one of the smallest in the nation serving 150 Representatives and 30 Senators.

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West Virginia

No unusual constitutional provisions affect the making of the budget for the legislative branch, other than a constitutionally-established salary commission. The Legislature can vote an increase in legislators' salaries--currently \$15,000 per annum for a 60 day session--only on the recommendation of the commission. (Several members of the Legislature refused to accept their last salary increase.) Also under the Constitution, the Legislature cannot pass a state budget that exceeds the governor's revenue estimates.

In practice, the governor generally accepts the Legislature's proposals for the legislative branch appropriation. Several years ago when Arch Moore, a Republican, was governor, he used the legislative branch budget requests as a means of seeking greater leverage over that branch—which is always controlled by the Democrats. With that exception, the budget for legislative branch is not a source of public controversy. According to Clifford Lantz of the West Virginia Research League, there is a sense that there may be understaffing within the Legislature, e.g., the Office of Legislative Auditor.

Line Item Veto of Appropriations

Most States—and the Northern Mariana Islands—have given the governor the line item veto over appropriations, including appropriations for the legislative branch. The <u>Model State Constitution</u>, Section 4.16(b) also provides for the line item veto. Those States that <u>do not</u> allow the governor to line item veto appropriations bills are: Indiana, Maine, Nevada, New Hampshire, North Carolina, Rhode Island, and Vermont. In several states the governor can also reduce appropriations (including Hawaii).

While this constitutional weapon afforded governors—and one which most U.S. Presidents have sought—the line item veto seems not to be a major source of discipline of legislative branch appropriations, although its presence no doubt is not ignored by legislators

in proposing legislative branch spending.

Discussion

Voter pressure on their legislators (and media attention to legislative behavior and appropriations) may be more effective in restraining legislative branch expenditures than constitutional mandates, although where such pressure is limited, ceilings and other constraints may be appropriate surrogates. What is hard to accept are absolute dollar limits in constitutions, largely because of their inflexibility--absent some opportunity for amelioration, e.g., inflation indices, and the like.

Even with severe ceiling limits, the political prowess of legislative leaders can lead to unanticipated results, e.g., the transfer out of the legislative audit function from the California Legislature, and political decisions to cut professional units rather than personal staffs. And as California also illustrates, even the concept of the independent salary commission may result in substantially higher, rather than more modest salary changes.

It is interesting that in discussions with representatives of taxpayer organizations in several states, their organizations tended to focus relatively little effort on scrutinizing the legislative branch appropriations, and more on "big ticket" items: size of major service delivery functions, tax bases, the State's credit standing, etc. Often it takes a scandal (or a highly publicized activity) before the public's attention is captured on spending by and for the legislative branch.

Options

Principles that should govern appropriations for the legislative function include: sufficient resources to allow legislators and their committees to do a quality job in tackling increasingly complex and perplexing public policy issues--and in making the equally difficult political decisions; coupled with a willingness <u>not</u> to convert the legislature into a political

employment center. While politicians and political aides are vital parts of the legislative process, resources for professional staffs must be adequate to assure the quality of the law making, oversight, and fiscal activities that legislators are responsible for.

The fixed ceilings in the NMI Constitution, Article II, Sections 16 and 17(f), may provide insufficient flexibility to meet changing conditions. It also can be argued that the ceiling in effect is a floor, that is, politically, the amounts stated in the Constitution are easy to justify during the appropriation process: i.e., we are only doing what the Constitution says we can do! Query?

Perhaps some consideration should be given to the provisions in the California Constitution: it has utilized a type of inflation index factor by its reference to Article XIII B. (Section 1 of that Article provides for a total annual appropriation, "...adjusted for the change in the cost of living and the change in population...").

Hawaii also may offer one possible option: have the governor, in the annual budget for the state as a whole, establish the aggregate ceiling for the legislative branch, perhaps within some constitutional standard. Article III, Section 9(a) of the Northern Marianas Constitution provides for an annual balanced budget and does not differentiate among the branches of the government. The governor can propose funds for the Legislature that are below (but not exceeding) that of the Article II, Sections 16 and 17 ceilings; and can propose the amounts to be appropriated to cover legislators' salaries and expenses, pursuant to Article II, Section 10. If the Hawaii idea has merit, that is, that portion that has the governor establish the aggregate amount for the legislature, the question is whether that is a better (more realistic?) alternative from the present one of setting the ceilings directly in the Constitution?

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