

## **Rep. Mike Kelly introduces state finance plan**

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JUNEAU — Rep. Mike Kelly has introduced a plan to stabilize the state's finances by evening out the steep peaks and valleys of the "oil price roller coaster."

The Fairbanks Republican this week introduced House Joint Resolution 8, which, if approved by the Legislature, would ask voters to amend the Alaska constitution to require the state to base spending on a five-year average of oil and other minerals revenue.

That, Kelly said, would limit state spending and restore some financial stability.

"This government seems to have a ratchet, but it's only in the up direction," he said. "We have got to live within our means, and we've got to control the seemingly endless growth in state government."

He charged that state spending has doubled since 2005, when he entered the Legislature, and roughly tripled since 2000.

"If the people had to pay for that, they would be screaming bloody murder," he said.

About 90 percent of unrestricted state revenue in fiscal year 2009 came from oil production.

Kelly's plan calls for calculating state revenues on an average of the last four years and the current year and wouldn't affect the Permanent Fund. The proposal also would create a Balanced Budget Account, a short-term holding fund that could be drawn on to balance the budget at the end of each fiscal year. Any surpluses would flow into the Constitutional Budget Reserve.

The new, short-term account could help save money by eliminating steep spending in flush years and dramatic cuts in lean years, he said.

Lawmakers have to round up a three-fourths majority to tap into the CBR. That's generally done by promising money for special projects to legislators who will vote yes, Kelly said.

“If you want a billion, you’re going to pay a lot more than that to get it out,” he said.

His proposal would average revenues from all oil, natural gas and other mineral sources. At the same time, Rep. Mike Hawker, R-Anchorage, has filed a resolution for a constitutional amendment that would establish an endowment fund with natural gas revenue. Kelly said he and Hawker will discuss how the two plans could dovetail.

Sen. Joe Thomas, D-Fairbanks, agreed the state needs a long-term fiscal plan, but he has some initial concerns about Kelly’s proposal. He sits on the Senate Finance Committee.

He would like a look at scenarios of how a five-year average would have affected revenue and spending during the last several years.

An average could still pack some wallops when years with major movement, such as 2008 with \$140 per barrel oil, factor in. He cautioned against the possibility of “economic whiplash.”

And, Thomas noted, while a five-year average could smooth some ups and downs, less revenue could lead to cuts to some state services that are as essential in lean times as in boom years.

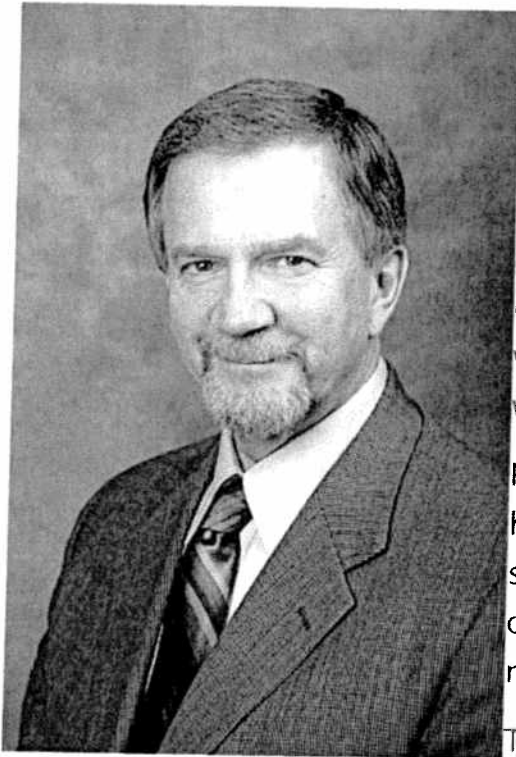
Kelly’s resolution was referred to the House state affairs, judicial and finance committees.

If the resolution passes the Legislature, he doesn’t expect too much trouble convincing voters to make the amendment.

“I think this is something that the public understands clearly the need for,” he said. “It’s about responsible budgeting.”

# Rep. Mike Kelly shows some common sense: His plan has no chance.

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By Dan Fagan

Like it or not, here in Alaska we live in a boom or bust economy. Alaska is known for its extremes and our economy is no different. The fluctuation in the price of oil has never been more dramatic than it was in 2008. So what's a state to do when it comes to a budget?

Republican Rep. Mike Kelly of Fairbanks has an idea. House Joint Resolution 8 sponsored by Kelly is designed to even out the up and down nature of state revenue.

The measure calls for changing the Alaska constitution requiring our big spending legislators to base budgets on a five-year of oil and other mineral revenues. It would take into account the past four years and the current year of state revenue when putting together a budget.

This plan would prevent what happened last year when the state was flush with cash and blew much of it including a massive giveaway of free cash. Rep. Kelly hopes the plan would limit state spending in boom years.

"This government seems to have a ratchet, but it's only in the up direction," Kelly told the Fairbanks News Minor. "We have got to live within our means, and we've got to control the seemingly endless growth in state government."

Kelly is on the right track. Something has to be done. In the past three years, state spending has doubled. There's no justification for that kind

of irresponsible growth. Kelly says that type of growth is only possible because Alaskans, for the most part, don't directly have to pay for state government.

"If the people had to pay for that, they would be screaming bloody murder," Kelly said.

Nine out of every ten dollars the state collects comes from the oil industry.

Rep. Kelly's plan also creates a Balanced Budget Account. Lawmakers would draw on it to balance the budget at the end of each fiscal year. Any surplus would flow into the Constitutional Budget Reserve.

Kelly hopes the new, short-term account could help save money by eliminating steep spending in flush years and dramatic cuts in lean years, he said. The truth is we do spend like drunken sailors in boom years and yet during lean years we still spend too much. Kelly's plan would at least restrict legislators from going crazy when the price of oil is high.

Does Kelly's plan have a shot? Three quarters of legislators would have to be on board so it faces an uphill battle. Democrats typically oppose any legislation that would limit government spending. And the D's seem to have firm control in the Senate with the newly formed coalition.