

HJR 8

Balanced Budget Resolution
House State Affairs Committee
April 2, 2009

Representative Mike Kelly
26th Legislature

Control Spending

In 1982, voters approved an amendment to the Alaska Constitution to control state spending.

The amendment established an annual appropriation limit of \$2.5 billion plus adjustments for changes in population and inflation.

Today's Dollars

For FY 08, the Office of Management and Budget estimated the limit to be approximately:

\$7.9 billion

(Source: State of Alaska Comprehensive Financial Report
Fiscal Year Ended June 30, 2008, page 57)

FY 08 budget

The **unsustainable** FY 08 budget passed by the legislature after vetoes was \$5.5 billion (unrestricted General Fund revenue), or \$2.4 billion less than the 1982 constitutional spending limit.

Translation: The 1982 spending limit passed by voters is **ineffective**; or, we're doing a **great job of controlling government growth**.

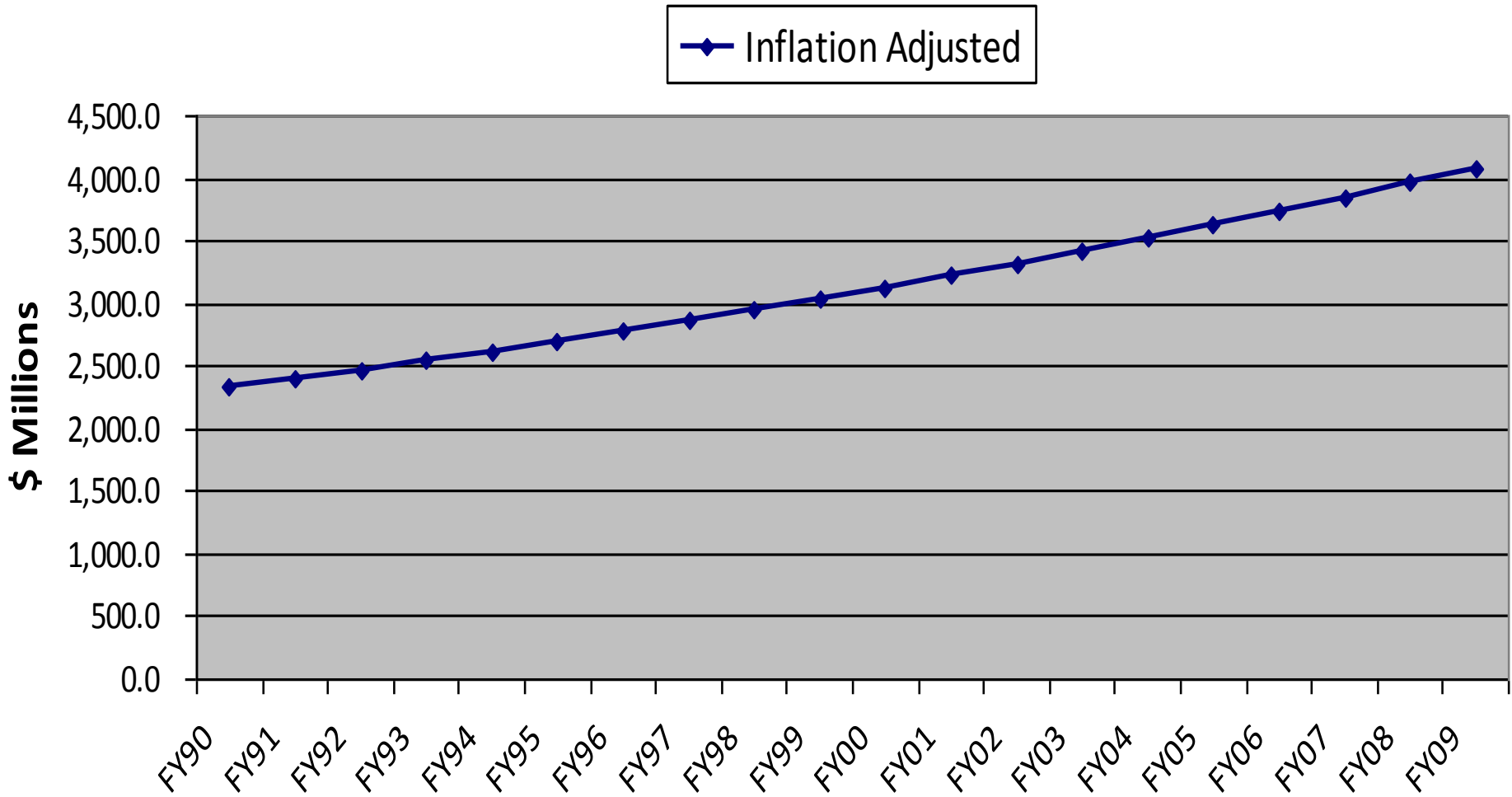
Constitutional Budget Reserve Fund (CBRF)

In 1990, another attempt was made by voters to impose budget stability. Voters approved a Constitutional Amendment creating the Constitutional Budget Reserve Fund (CBRF).

CBRF

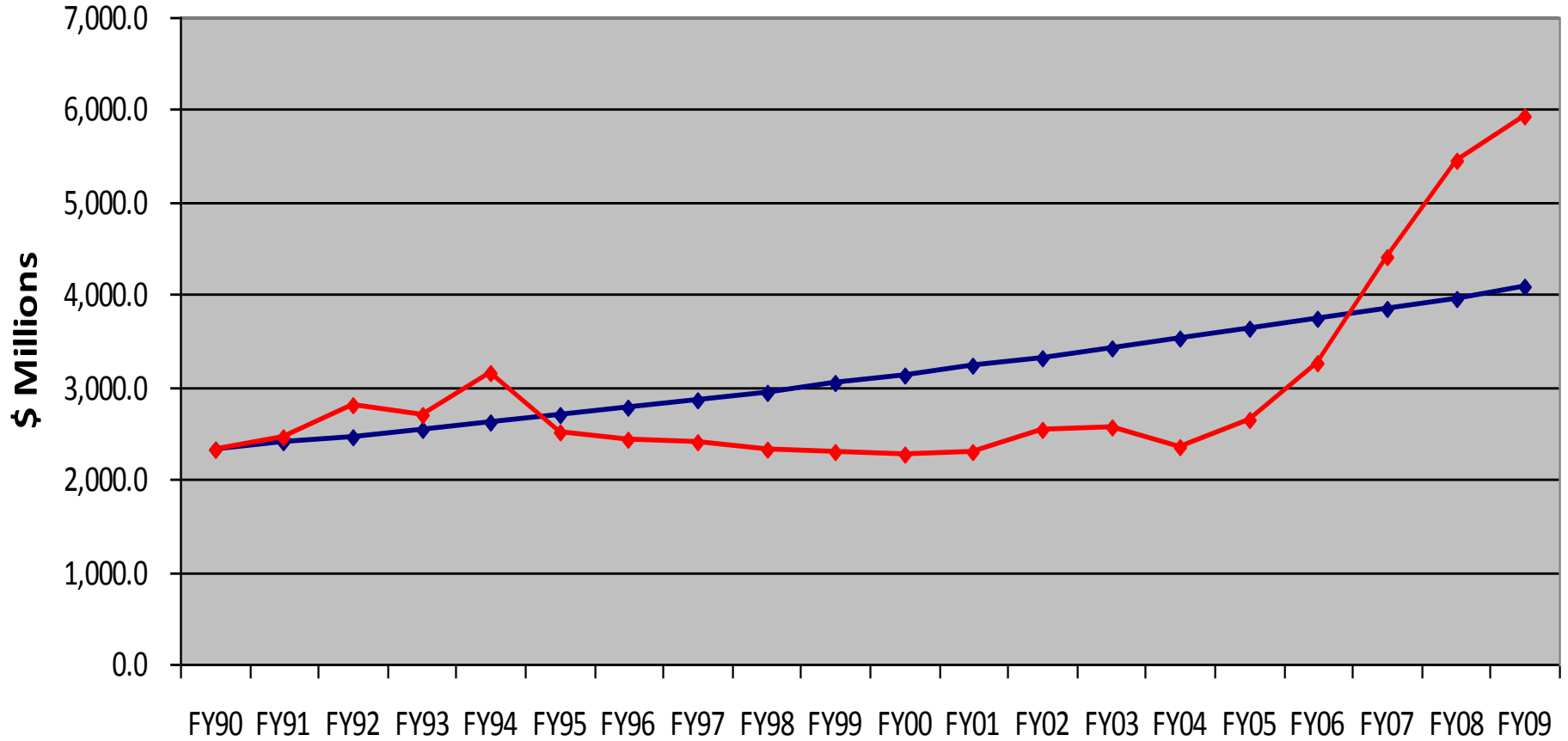
The CBRF was created to receive and protect excess revenues generated in high revenue years rather than leaving excess funds in the General Fund (where they could be easily spent). Taking money from the CBRF requires a supermajority $\frac{3}{4}$ vote, making it more difficult to tap and therefore arguably a spending controller.

State of Alaska General Fund Spending FY90 - FY09

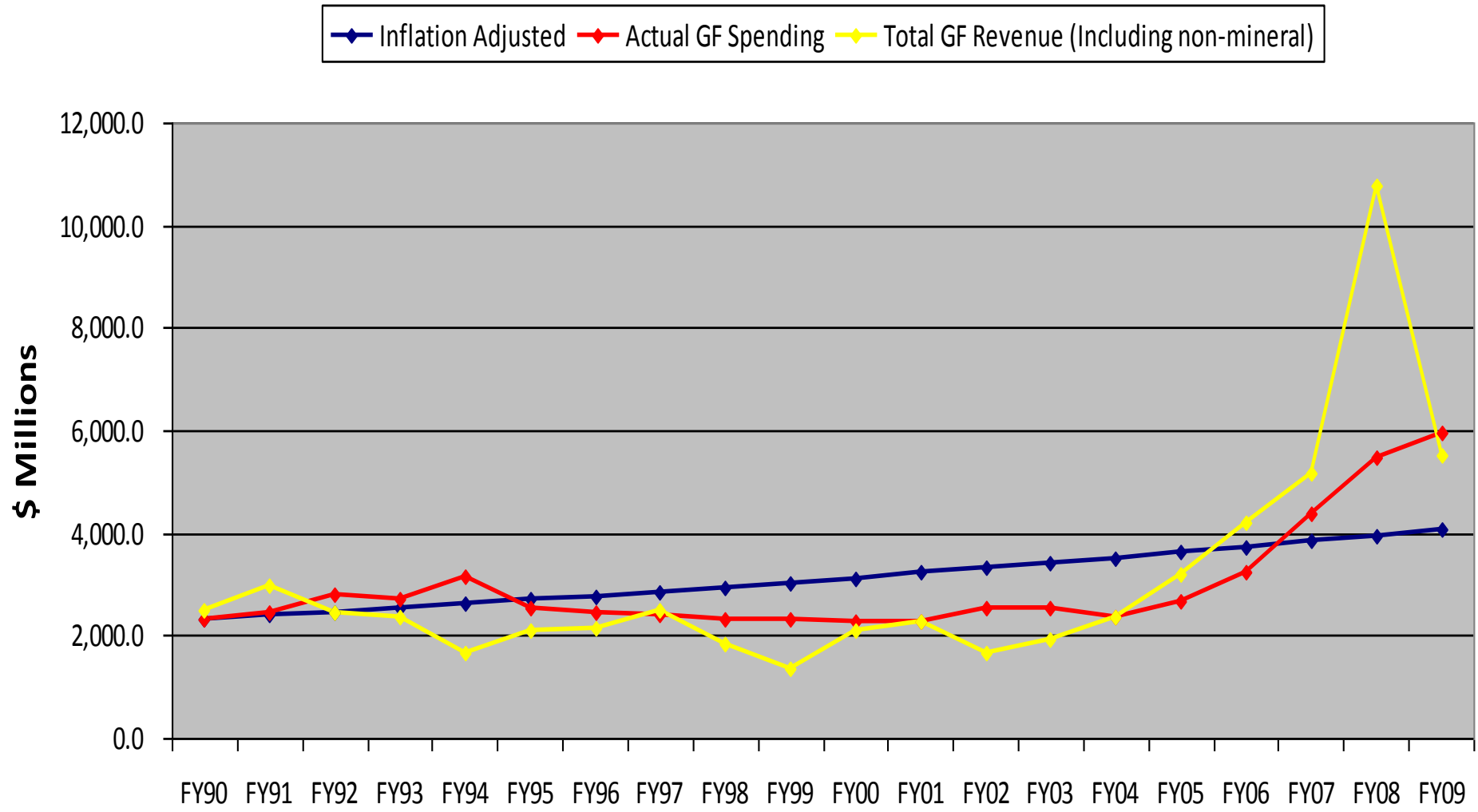


State of Alaska General Fund Spending FY90 - FY09

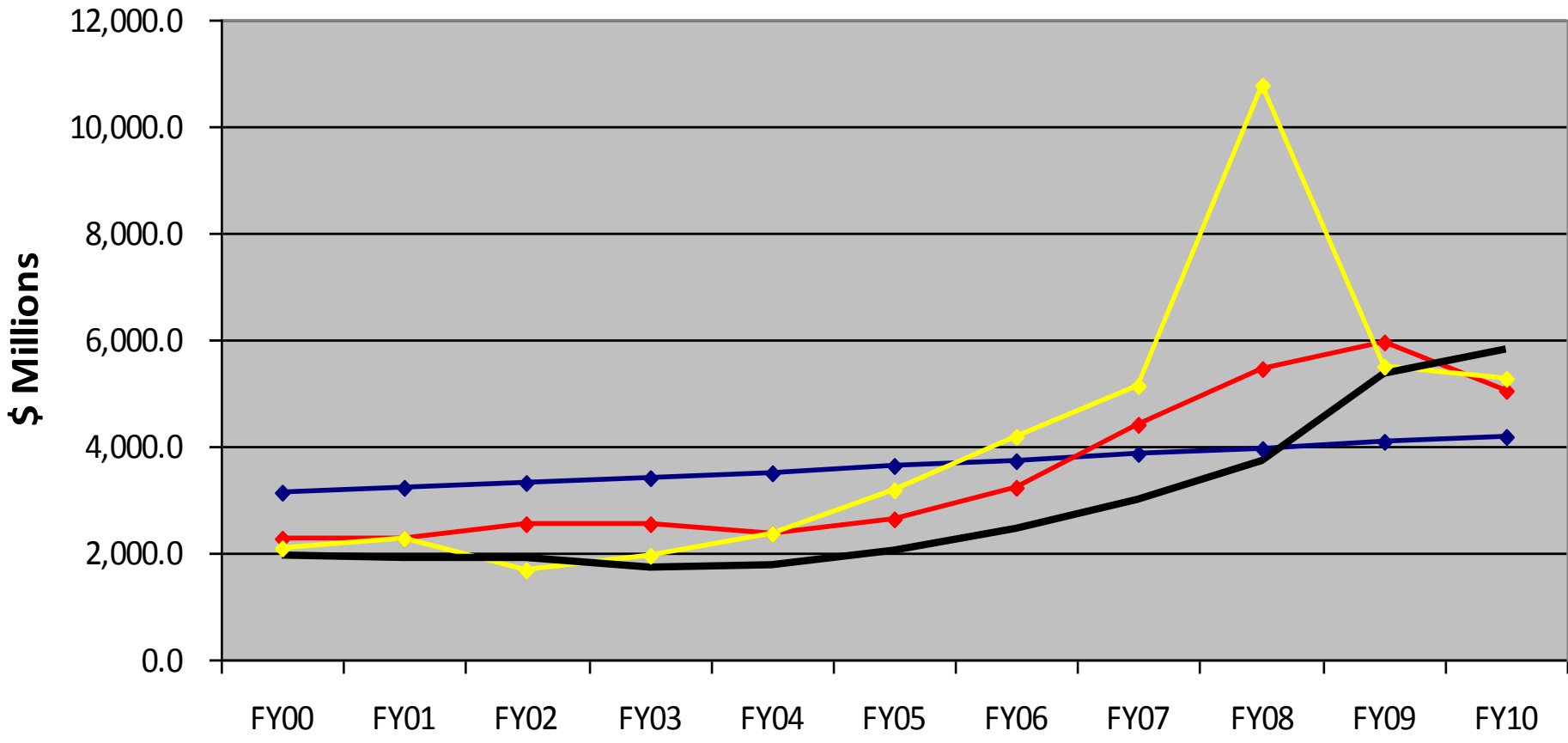
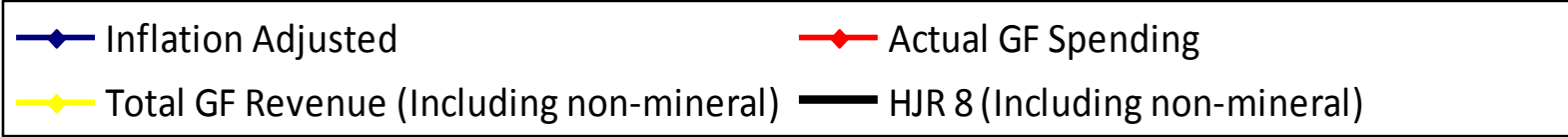
◆ Inflation Adjusted ◆ Actual GF Spending



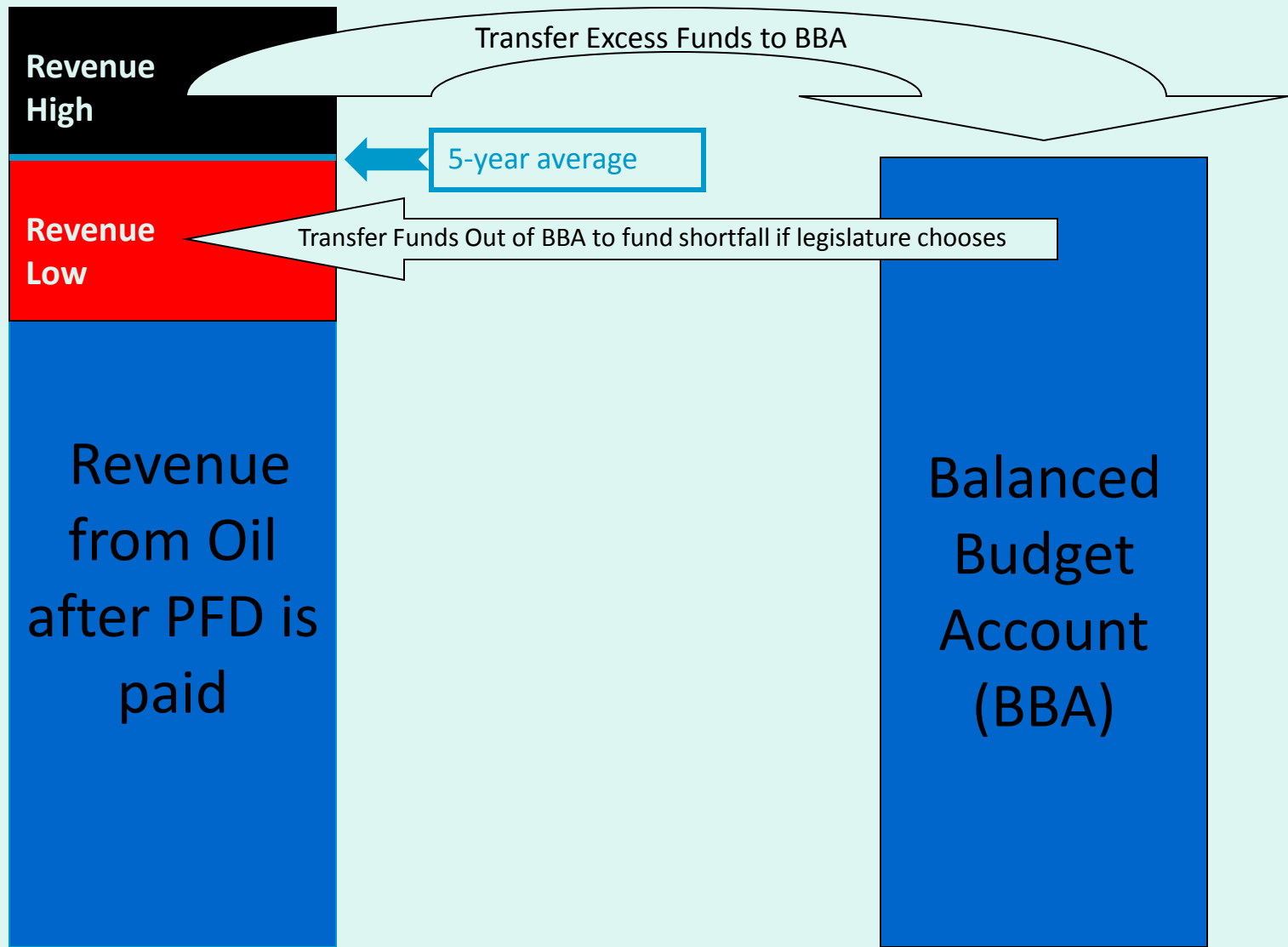
State of Alaska General Fund Spending FY90 - FY09



State of Alaska General Fund Spending FY00 - FY10



Basic Concept of Balanced Budget Resolution



Sacred Cows

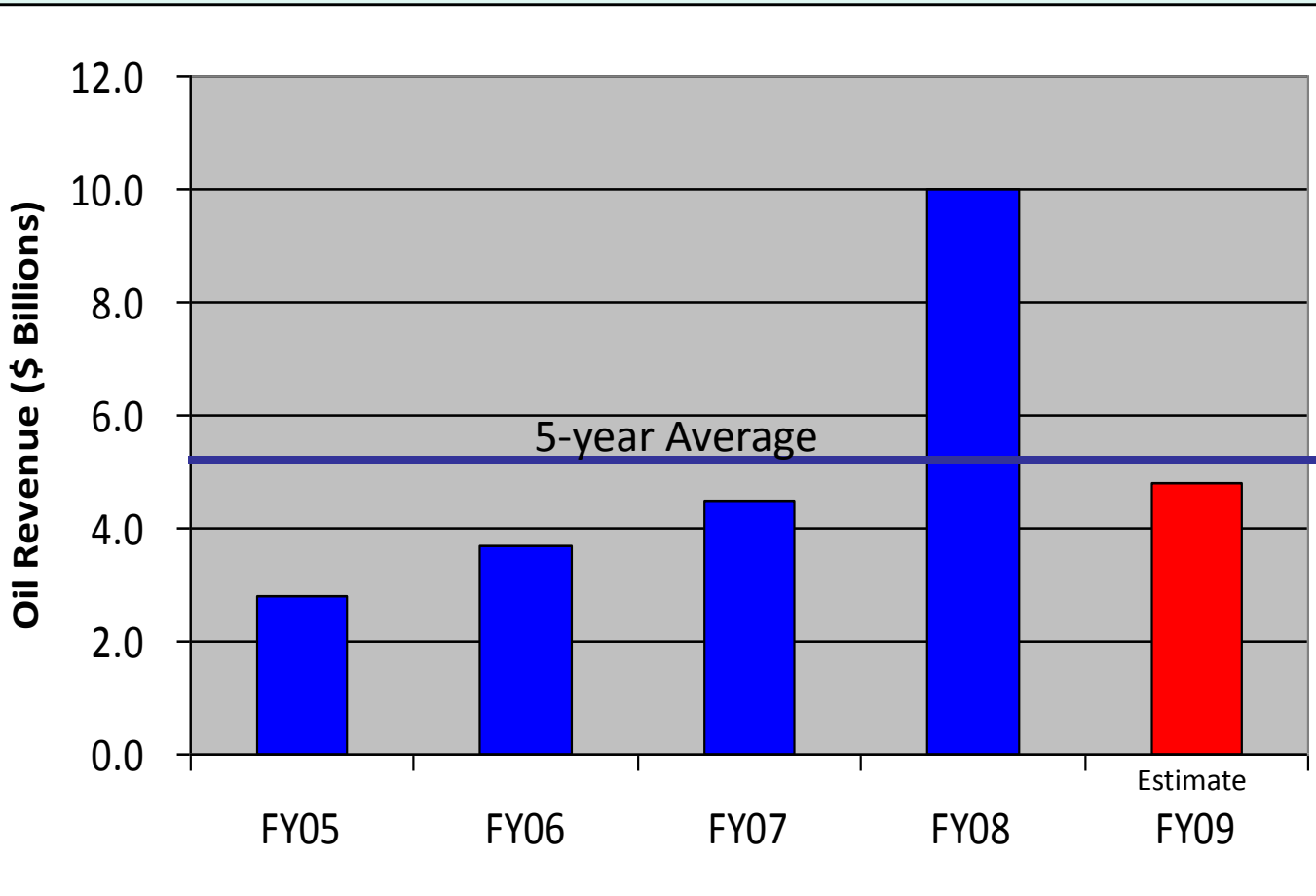
HJR 8 Does NOT touch:

- Permanent Fund Dividend
- Permanent Fund Corpus
- Permanent Fund Earnings
- Amerada Hess

CBR Sweep

The Balanced Budget Account is
NOT subject to the Constitutional
Budget Reserve sweep.

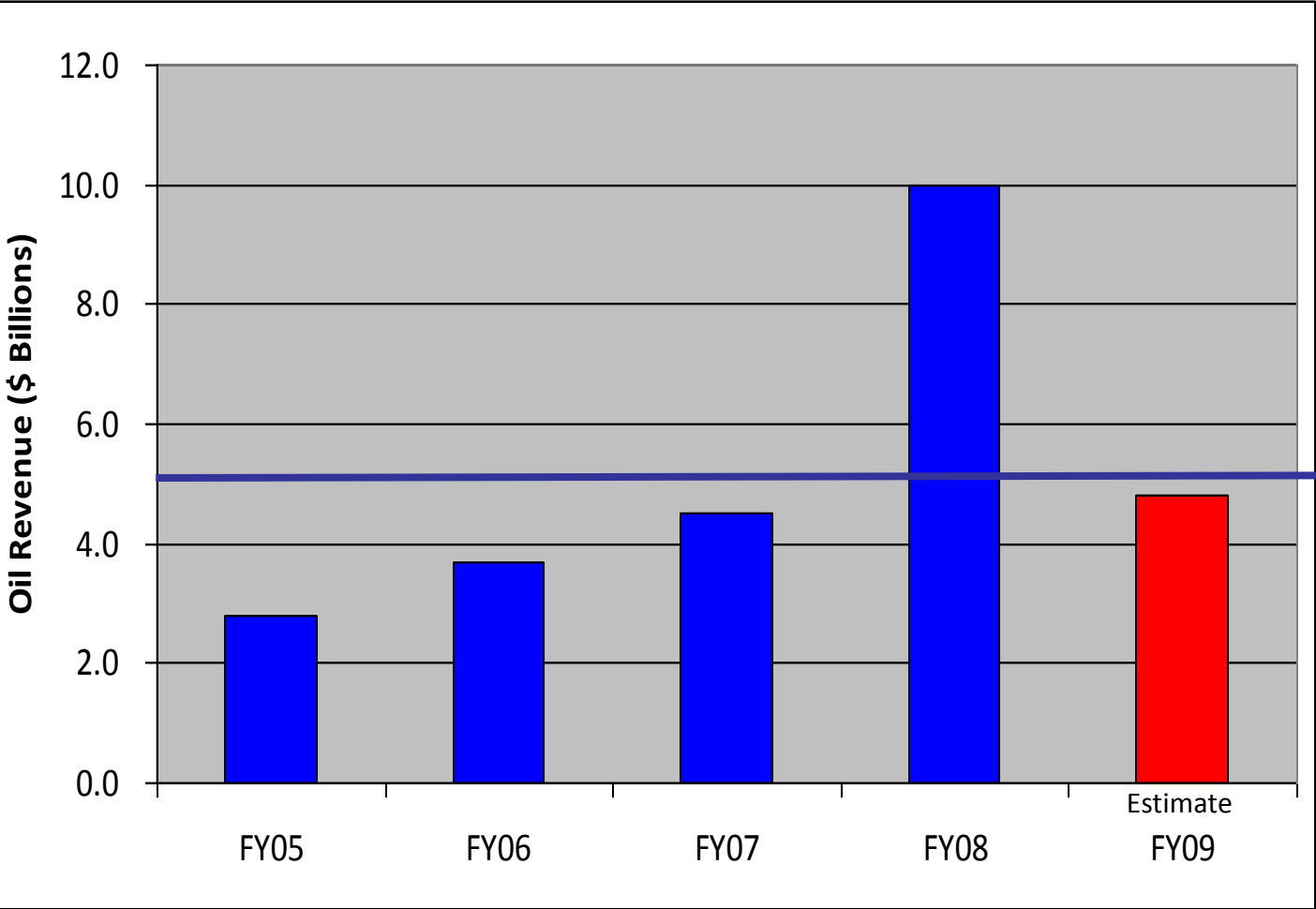
HJR 8



Balanced Budget Account (BBA)

- HJR 8 transfers funds into the BBA when oil prices are high and, with a simple majority vote, transfers funds out of the BBA to fill the gap when oil prices are low. When the balance of BBA exceeds 2 years of appropriations, excess will be transferred into the CBR.

5-year Average



\$ 5.2

5-year Average Calculation:

(For '10 Budget)

Take the Petroleum Revenue for the past 4 years, plus the Dept. of Revenue's current fiscal year projection and divide by 5.

Example:

\$ (Billions)

'05 \$ 2.8

'06 \$ 3.7

'07 \$ 4.5

'08 \$ 10.0

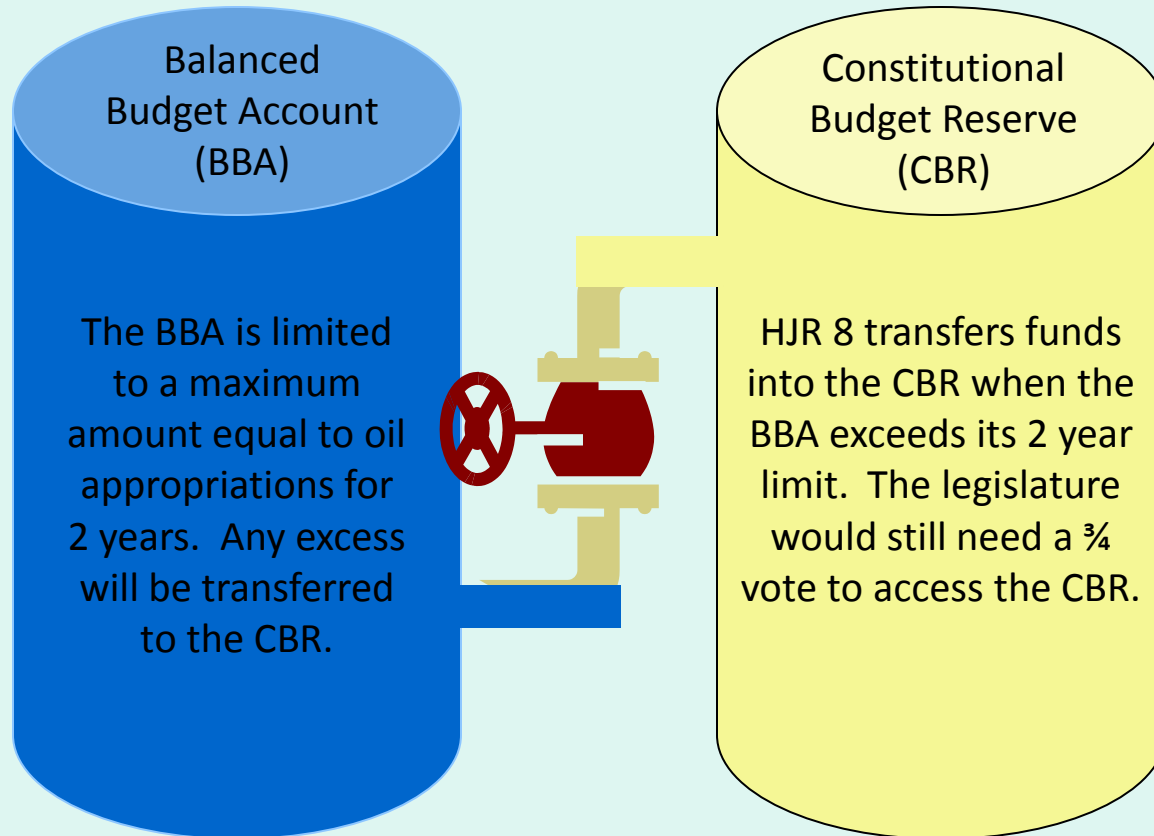
'09 \$ 4.8

Total \$25.8

Divided by 5 =

\$ 5.2

The BBA and CBR



Fiscal Responsibility

- Encourages a better budgeting system than “when you have it, spend it – when you don’t, cut.”
- Provides a simple but effective mechanism to help save budget surpluses and avoid deficits while encouraging government to live within its means.
- Eliminates need for complicated “rat holing” and “parking” of excess funds to avoid $\frac{3}{4}$ vote.

Why a Constitutional Amendment?

- The legislature can easily overpower, ignore or change statutory appropriation constraints.
- Let the people speak concerning this simple fiscal framework. It may be the only fiscal plan they will endorse at this time.

HJR 8 & POMV

“If the people of Alaska choose a Percent of Market Value approach to funding government using the Permanent Fund Earnings, HJR 8 would accommodate that approach.”

- Excerpts from Bradners' Alaska Legislative
Digest No. 29/07 Dec. 19, 2007:

- **Fiscal policy is more than savings and sound bites; it requires **long-haul** skilled political crafting.**
- Long term fiscal policy has been elusive in Alaska, especially since the beginning [of] the pipeline flow and the flow of easy money. The citizen taxpayer close scrutiny faltered and was replaced by all of us with our hands out. There are reasons why we have failed, and continue to do so.
 - **We play the budget game from the seat of our pants.**
- Lawmakers are besieged with demands to spend, especially when there is the perception or the reality as is the current case, that there is money on the table. Fiscal restraint then becomes someone else's business, or the business of tomorrow, although tomorrow brings the same appetites.
- **The same people who demand that they see a critical need in their community, or in relation to their institution or industry, will still say the Legislature "spends too much."**

Questions?