

SENATE CONCURRENT RESOLUTION NO. 101

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SPECIAL SESSION

BY THE SENATE FINANCE COMMITTEE

Introduced: 6/23/04

Referred: Finance

A RESOLUTION

1 **Relating to offsetting the projected annual general fund revenue shortfall through equal**
2 **appropriations from the constitutional budget reserve fund and the earnings reserve**
3 **account.**

4 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 **WHEREAS**, of the \$2,332,000,000 appropriated from the state's unrestricted general
6 fund for the state fiscal year 2005 (FY 2005) operating and capital budgets, unrestricted
7 general fund revenue will fund only \$1,960,000,000 of that amount; the shortfall of
8 \$372,000,000 in general fund revenue must be offset by funds from the constitutional budget
9 reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) and other sources; and

10 **WHEREAS** the largest component of the unrestricted general fund revenue is derived
11 from the petroleum industry operating in the state; and

12 **WHEREAS** the annual revenue generated from taxes and royalties levied on and
13 collected from the petroleum industry varies directly with the price of oil and the amount of
14 oil produced in the state, so that when oil prices increase, state general fund revenue increases
15 correspondingly; and

1 **WHEREAS** only if the price of oil is sustained at the level of \$35 per barrel
2 throughout FY 2005 would the amount of general fund revenue be sufficient to fully fund the
3 operating and capital general fund appropriations made for FY 2005; and

4 **WHEREAS** the latest forecast for oil prices projects a long-term price of \$22 per
5 barrel and a short-term price of \$28.30 per barrel, each of which is clearly below the \$35 per
6 barrel required to fund FY 2005 operating and capital general fund appropriations; and

7 **WHEREAS** the shortfall between the amount appropriated from the state general fund
8 and the amount of general fund revenue generated from taxes and royalties levied on and
9 collected from the petroleum industry based on the short-term oil price forecast of \$28.30 per
10 barrel results in a \$372,000,000 shortfall in unrestricted general fund revenue for FY 2005
11 without considering the possibility of a decline in oil production or a shortfall in other
12 unrestricted general fund revenue from non-petroleum revenue sources; and

13 **WHEREAS** experience indicates that it is not likely that the break-even oil price of
14 \$35 per barrel can be sustained and that, without significant additional revenue from new
15 sources, revenue derived from the petroleum industry cannot satisfy the state's general fund
16 revenue requirements; and

17 **WHEREAS** the state faces recurring shortfalls in general fund revenue and has, in
18 nine of the last 11 fiscal years, drawn funds from the constitutional budget reserve fund to
19 cover shortfalls between annual general fund appropriations and general fund revenue; and

20 **WHEREAS** an average of \$350,000,000 has been drawn from the constitutional
21 budget reserve fund during the last 11 fiscal years to cover general fund revenue shortfalls;
22 and

23 **WHEREAS** the projected average shortfall in general fund revenue for the next 10
24 fiscal years (FY 2005 through FY 2014) is \$550,000,000 a year; after FY 2014, potential
25 future oil and gas revenue derived from the North Slope gas line and development of new oil
26 and gas discoveries are expected to bridge the fiscal gap between general fund appropriations
27 and revenue; and

28 **WHEREAS** the current balance of the constitutional budget reserve fund is slightly in
29 excess of \$2,000,000,000; and

30 **WHEREAS** the current balance of the constitutional budget reserve fund would be
31 exhausted within the next few fiscal years if the constitutional budget reserve fund is the only

1 source of funds to offset general fund revenue shortfalls; and

2 **WHEREAS** the life expectancy of the constitutional budget reserve fund can be
3 extended well into the future if the burden of filling the fiscal gap is equally shared with the
4 earnings reserve account under AS 37.13.145; and

5 **WHEREAS** the earnings reserve account, the crown jewel of Alaska's fiscal future
6 and an abutment to the bridge to development of Alaska, is the result of wise investment of
7 the Alaska permanent fund; and

8 **WHEREAS** the permanent fund dividend and inflation-proofing of the Alaska
9 permanent fund are paid from a portion of the funds that accumulate in the earnings reserve
10 account each year; and

11 **WHEREAS** the use of a portion of the earnings reserve account to offset the projected
12 average general fund revenue shortfalls for the next 10 fiscal years would result in only a
13 relatively minor reduction of the permanent fund dividend; the projected amount of the
14 dividend would decline from \$1,921 to \$1,889, a reduction of only \$32, in the fifth year, and
15 from \$2,177 to \$2,057, a reduction of \$120, in the 10th year; and

16 **WHEREAS** the use of a portion of the earnings reserve account to offset the projected
17 average general fund revenue shortfalls would have a smaller financial effect on Alaskans
18 than would a state income tax or a state sales tax; in order to raise \$275,000,000 to cover half
19 of the projected annual general fund revenue shortfall for the next 10 fiscal years from either a
20 state income tax or a state sales tax, the income tax may cost each family of four \$1,059 a
21 year and the state sales tax may cost a family of four \$1,035 a year; and

22 **WHEREAS** the use of a portion of the earnings reserve account to offset general fund
23 revenue shortfalls for the next 10 fiscal years is projected to extend the life of the
24 constitutional budget reserve fund until FY 2012; and

25 **WHEREAS** the use of a portion of the earnings reserve account to offset the projected
26 average general fund revenue shortfalls for the next 10 fiscal years would not prevent the
27 earnings reserve account from continuing to grow; after paying to inflation-proof the Alaska
28 permanent fund, paying the annual permanent fund dividend, and offsetting half of the general
29 fund revenue shortfall, the earnings reserve account is still projected to grow from a balance
30 of a little over \$1,000,000,000 in FY 2005 to almost \$2,000,000,000 by FY 2014; and

31 **WHEREAS** the use of the earnings reserve account to offset a portion of the projected

1 general fund revenue shortfalls for the next 10 fiscal years will promote fiscal accountability
2 by the legislature because the earnings reserve account is the people's money and because the
3 legislature will have to answer to the people on how much is spent from the earnings reserve
4 account to fund state services each fiscal year;

5 **BE IT RESOLVED** by the Alaska State Legislature that the amounts necessary to
6 fund the projected annual shortfall in general fund revenue through fiscal year 2014 be
7 appropriated equally from the constitutional budget reserve fund (art. IX, sec. 17, Constitution
8 of the State of Alaska) and the earnings reserve account (AS 37.13.145).