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BUDGET AMENDMENT #11

OFFERED IN: The House

TO: HCS CSSB 221(FIN)

OFFERED BY: Representative Meyer

Add a new section to read:

Sec. zz. CONSTITUTIONAL BUDGET RESERVE FUND. (a) The sum of \$820,000 is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Revenue, treasury division, for operating costs related to management of the budget reserve fund for the fiscal year ending June 30, 2008.

(b) The sum of \$4,080,000 is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Revenue, treasury division, for operating costs related to management of the budget reserve fund for the fiscal year ending June 30, 2009.

(c) The appropriations made by (a) and (b) of this section are made under art. IX, sec. 17(c), Constitution of the State of Alaska.

(a) needs an effective date of April 13, 2008.

(b) needs an effective date of July 1, 2008.

EXPLANATION:

With the increase in the size of the CBR and the intent language in SB 256, the Department of Revenue will incur management fees for the CBR that are significantly larger than what is budgeted.

The \$245,000 CBR management fee appropriation in the FY 09 budget was based on an approximately \$600 million subaccount balance. The department may be looking at an amount under active portfolio management that is 8 - 10 times that large with corresponding fees.

Consistent with the intent in SB 256 (below) the Department of Revenue is transferring \$4.1 billion to investments which have an average management fee of 8 basis points (.08%). The amendment is to cover those incremental costs.

“(b) It is the intent of the legislature that the Department of Revenue invest the assets of the constitutional budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) in a manner maximizing the long-term earnings of the fund while meeting the minimum liquidity requirements of the state. “

The potential annual weighted average return is 7.7% or an annual dollar amount of \$314.1 million. This amount contrasted with the earning at a cash equivalent rate of 3.5% or \$143.5 million would represent a potential earnings increase of \$170.6 million. Monthly earnings are \$14.2 million. Three months represent a potential increase in earnings to the State by \$42.6 million. The amount for FY09 assumes the additional deposit made in the FY09 budget will go into the actively managed portfolio at an average of 8 basis points.