

**ALASKA STATE LEGISLATURE  
HOUSE STATE AFFAIRS STANDING COMMITTEE**

April 2, 2009

8:05 a.m.

**MEMBERS PRESENT**

Representative Bob Lynn, Chair  
Representative Paul Seaton, Vice Chair  
Representative Carl Gatto  
Representative Craig Johnson  
Representative Peggy Wilson  
Representative Max Gruenberg

**MEMBERS ABSENT**

Representative Pete Petersen

**COMMITTEE CALENDAR**

HOUSE JOINT RESOLUTION NO. 8

Proposing amendments to the Constitution of the State of Alaska limiting appropriations from certain mineral revenue, relating to the balanced budget account, and relating to an appropriation limit.

- HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HJR 8

SHORT TITLE: CONST. AM: APPROP. LIMIT/MINERAL REVENUE

SPONSOR(S): REPRESENTATIVE(S) KELLY

01/26/09	(H)	READ THE FIRST TIME - REFERRALS
01/26/09	(H)	STA, JUD, FIN
04/02/09	(H)	STA AT 8:00 AM CAPITOL 106

**WITNESS REGISTER**

REPRESENTATIVE MIKE KELLY  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** As prime sponsor, introduced HJR 8.

DEREK MILLER, Staff  
Representative Mike Kelly

Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented HJR 8 on behalf of Representative Kelly, prime sponsor.

**ACTION NARRATIVE**

[8:05:06 AM](#)

**CHAIR BOB LYNN** called the House State Affairs Standing Committee meeting to order at 8:05 a.m. Representatives Lynn, Gatto, Johnson, and Wilson were present at the call to order. Representatives Seaton and Gruenberg arrived as the meeting was in progress.

HJR 8-CONST. AM: APPROP. LIMIT/MINERAL REVENUE

[8:05:55 AM](#)

CHAIR LYNN announced that the only order of business was HOUSE JOINT RESOLUTION NO. 8, Proposing amendments to the Constitution of the State of Alaska limiting appropriations from certain mineral revenue, relating to the balanced budget account, and relating to an appropriation limit.

[8:06:08 AM](#)

REPRESENTATIVE MIKE KELLY, Alaska State Legislature, as prime sponsor of HJR 8, talked about the fluctuation of oil from \$9 a barrel ten years ago to \$145 a barrel in 2008. He said Alaska needs a fiscal policy, and HJR 8 is one step in that direction. The legislation proposes that in any given year, the legislature would be allowed to spend a five-year rolling average of the mineral revenues to the state. Mineral revenues make up 80-90 percent of the state's total revenues. The proposed resolution would prevent over-spending when oil revenues are high, which would leave money in the state's balance when oil revenues are low. He noted Representatives Stoltze and Hawker had expressed interest in assisting with this legislation. He said similar legislation was proposed during the last legislative session, and HJR 8 is virtually the same.

[8:09:14 AM](#)

DEREK MILLER, Staff, Representative Mike Kelly, Alaska State Legislature, presented HJR 8 on behalf of Representative Kelly. He said mineral revenue is defined [on page 1, lines 8-10] of

HJR 8 as "mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses, and every State tax on minerals, mineral production, or mineral transportation." If the proposed legislation is passed in 2010, it would apply to all appropriations made in fiscal year 2012 (FY 12) and thereafter.

MR. MILLER offered a slide presentation [hard copy for which is included in the committee packet]. As shown on slides 2-4, he related that in 1982, voters approved an amendment to the Constitution of the State of Alaska to control state spending. The amendment established an annual appropriations limit of \$2.5 billion, plus adjustments for changes in population and inflation. The State of Alaska Comprehensive Financial Report for FY 08 shows that the constitutional appropriation limit would be approximately \$7.9 billion. The FY 08 budget, after passage by the legislature and subsequent vetoes, was \$5.5 billion, which was \$2.4 billion less than the 1982 constitutional spending limit. Mr. Miller said that means either the 1982 spending limit was ineffective or "we're doing a heck of a job controlling government growth." Mr. Miller added that he thinks most people would agree that the former is accurate.

MR. MILLER, highlighting slides 5 and 6, noted that in 1990, in another attempt to impose budget stability, voters approved a constitutional amendment creating the Constitutional Budget Reserve Fund (CBRF). He stated that the CBRF was "created to receive and protect excess revenues generated in high revenue years rather than leaving excess funds in the General Fund." Taking money out of the CBRF requires a three-quarters vote, making the money more difficult to tap.

[8:11:39 AM](#)

MR. MILLER directed attention to slides 7-9, on which are graphs showing State of Alaska General Fund spending for FY 90 - FY 09. The graph on slide 7 shows spending in 1990 at \$2.3 million, which Mr. Miller point out is less than the 1982 annual appropriation limit amount of \$2.5 billion. He said the disparity shows "ineffectiveness." He said the spending shown in the chart on page 7 has been inflation adjusted. The amount for FY 09 is about \$4 million. He indicated that the inflation adjustment is 3 percent.

MR. MILLER said [slide 8] represents "spending from operating, capital budget, and statewide operations." Statewide

operations, he related, include debt service, fund caps, revenue sharing, and direct appropriations to the retirement system. He stated, "This does not include, for example, ... the substantial amount of savings that we put away in FY 08 and FY 09, on a scale of \$5-6 billion; this includes all of the other spending."

[8:12:59 AM](#)

MR. MILLER, in response to Representative Seaton, confirmed that includes deposits to the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS).

REPRESENTATIVE SEATON asked if Mr. Miller is saying that the state would have to use other money, for example, money allotted to education, in order to make up for the unfunded liability.

MR. MILLER responded that if the proposed legislation passes, the legislature would have to make [further] appropriation decisions.

REPRESENTATIVE SEATON asked Mr. Miller to confirm that any money - even that which is generated from mineral resources - is "free and clear" once it is deposited into the CBRF.

MR. MILLER answered that that is his understanding.

[8:14:40 AM](#)

REPRESENTATIVE KELLY noted that any excess revenues above the five-year average would be deposited in a "day tank."

[8:15:15 AM](#)

REPRESENTATIVE GATTO noted that teachers have automatic step raises, without there being any salary increase in the budget; therefore, even if the legislature froze increases to education, there would still be increases to the education budget. That money would have to come from someplace else in the budget. He said, "I just want to be clear that that's part of the plan."

REPRESENTATIVE KELLY responded that HJR 8 does not allocate; it just proposes that the stream of oil and mineral revenue would be available to the legislature "on a five-year average." What the legislature does with that money is not constrained by HJR 8, except that the amount above the five-year average would automatically go in to the [Balanced Budget Account (BBA)]. He said the remaining presentation would show how that money could

be used to balance budgets in lean years, and that if the amount ever exceeds twice the five-year average, any additional cash from [the BBA] would then be ejected into the CBRF. He opined that it is a pretty sound mechanism for preserving the CBRF, giving the state a fund buffer, and disciplining the state in its spending.

[8:17:08 AM](#)

MR. MILLER continued to a graph on slide 9, which shows inflation adjusted spending as a blue line, actual General Fund (GF) spending as a red line, and total GF revenue, including non-mineral, as a yellow line. The graph illustrates there was a spike in total GF revenue between FY 08 and FY 09, which Mr. Miller explained was a result of oil rising to \$145 a barrel.

MR. MILLER directed attention to slide 10, which shows the State of Alaska General Fund spending from FY 00 - FY 10. The chart shows inflation adjusted in blue, actual GF spending in red, total GF revenue, including non-mineral, in yellow, and the effects of HJR 8, including non-mineral, in black. It shows that in FY 02 the spending limit was a little bit greater than the total GF fund available. [If HJR 8 had been in place that year], the legislature would have had the option to take money from the BBA. The chart also shows that "this year we would be able to draw from the Balanced Budget Account to fill that gap ... between the yellow line and the black line here in FY 10."

REPRESENTATIVE KELLY explained the reason he decided to add non-mineral revenue to the black line figure of HJR 8 was to provide an "apples to apples" comparison.

REPRESENTATIVE SEATON said, "So, this is dealing with just mineral revenue." He asked if HJR 9 would put the legislature in a position such that it would have to increase non-mineral revenue either by instituting a sales tax or an income tax, even though it had money in the bank and could balance the budget without "having to live under the constraints of this bill."

REPRESENTATIVE KELLY responded that the short answer is yes, the state could do anything "on the non-mineral side" as far as changing sources of revenue. He said the beauty of HJR 8 is that it would put money away for the state to use when it has a need. He clarified, "So, I would submit that although the answer is yes, you can adjust revenue in any way you can, you may not need to if we could impose this discipline on ourselves."

[8:21:18 AM](#)

MR. KELLY added that the proposed legislation aims to stabilize the most volatile component of the state's revenue stream, which is also 85-90 percent of the state's revenue stream. In that regard, he said, the legislation "looks to something else besides mineral resources for the legislature to go out and promote." He stated that he sees HJR 8 as a benefit to the revenue stream for the State of Alaska.

[8:21:43 AM](#)

REPRESENTATIVE JOHNSON pointed out that bringing a decision before the citizens of the state may serve to make the legislature more prudent in its request.

[8:22:24 AM](#)

REPRESENTATIVE GATTO asked if he is correct that the resolution only includes mineral resources - that it does not include timber and fish.

MR. MILLER offered his understanding that that is correct.

REPRESENTATIVE JOHNSON asked why those other resources were not included.

REPRESENTATIVE KELLY responded that timber and fish provide a lesser contribution to the state than oil does, and have fewer "wild swings."

REPRESENTATIVE JOHNSON pointed out that fewer wild swings may act as a stabilizing force, and he encouraged the sponsor to consider using a resource base rather than just a mineral base.

REPRESENTATIVE KELLY said it would be fairly easy to conduct a sensitivity report on that.

[8:24:12 AM](#)

CHAIR LYNN asked what percentage of the state's total income is derived from fish.

REPRESENTATIVE KELLY deferred to Representative Seaton.

REPRESENTATIVE SEATON said he does not know.

[8:24:39 AM](#)

REPRESENTATIVE GATTO suggested also adding tourism dollars into the mix, because tourism dollars have become difficult to manage. He suggested that HJR 8 may add some direction to those dollars if they are "inside of a formula."

[8:25:10 AM](#)

REPRESENTATIVE KELLY said he would be happy to run a report based on those suggestions.

[8:25:24 AM](#)

REPRESENTATIVE WILSON said she thinks it would be interesting to see that report.

REPRESENTATIVE KELLY echoed Representative Johnson's comment that adding these other resources could act as a stabilizing force.

[8:25:53 AM](#)

MR. MILLER directed attention to slide 11, which shows two columns. The column on the left depicts the revenue from oil after the permanent fund dividend is paid, while the one on the right shows the BBA. The chart is an explanation of how the money would come from the right-hand column to the left-hand column when revenue is low in order to meet the five-year average. It also shows how money would be taken from the left-hand column and put back into the right-hand column when revenue is high.

[8:27:45 AM](#)

REPRESENTATIVE SEATON noted that the legislature has used several mechanisms for savings, the biggest being "forward funding of education." He offered his understanding that under HJR 8, until the BBA was full the state would not be forward funding education.

REPRESENTATIVE KELLY said education was forward funded once "with a big chunk"; however, HJR 8 would not prevent the legislature from "choosing that mechanism." Furthermore, he surmised that the proposed legislation would provide a mechanism

that would probably hold back enough money "to do those sorts of things in the future."

[8:29:01 AM](#)

REPRESENTATIVE WILSON commented that any time there is a "bump" in pay for employees under PERS, the state absorbs it, but the state expects schools to absorb the cost for employees under TRS.

REPRESENTATIVE SEATON pointed out that school districts negotiate individually. He explained, "If we automatically paid it, there would be no constraints at all on negotiations."

[8:30:40 AM](#)

MR. MILLER turned to slide 12, entitled, "Sacred Cows." He explained that HJR 8 does not "touch" the following: the permanent fund dividend, the permanent fund corpus, the permanent fund earnings, or Amerada Hess. Moving on to slide 13, Mr. Miller said the BBA would not be subject to the "Constitutional Budget Reserve sweep," which he explained is a term used to describe the annual transfer of available balances in the GF to the CBRF.

[8:31:38 AM](#)

MR. MILLER, in response to a request by Representative Gruenberg, reviewed for the public the background of the CBRF. In response to a follow-up question from Representative Gruenberg, he offered his understanding that currently nothing is owed from the GF to the CBRF.

[8:32:52 AM](#)

REPRESENTATIVE KELLY offered his belief that the state made total repayment to the CBRF; however, with the budget deficit estimated to be at least \$2 billion for FY 09 and FY 10, "that victory may be fairly short-lived."

REPRESENTATIVE GRUENBERG said he was under the impression that in past years [the state] has never "repaid a substantial amount."

REPRESENTATIVE KELLY reiterated his belief that the past due amount had been recently repaid, and he said he would furnish that information to the committee.

8:34:06 AM

MR. MILLER returned to his presentation and highlighted the information on slide 14, which shows the oil revenue for FY 05 - FY 08 and the estimated oil revenue for FY 09. He read, "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 BBA exceeds two years of appropriations, any excess ... will be transferred into the CBRF."

REPRESENTATIVE KELLY said to some extent the legislature puts savings away, as it did last year. The proposed legislation would formalize the process of saving money, without allowing for arguments as to how much should be put aside.

8:36:26 AM

MR. MILLER turned to slide 15, which shows the 5-year average calculation for the FY 10 budget. The calculation is done by taking the mineral resource revenue from FY 05 - FY 08, plus the estimated revenue for FY 09, and dividing by 5, which comes to \$5.2 billion.

8:38:02 AM

REPRESENTATIVE JOHNSON remarked that the spike in oil revenues in FY 08 makes the figure on slide 15 look good. However, he questioned what the figure would look like in the future without such a spike.

8:39:06 AM

REPRESENTATIVE KELLY said he could provide the committee with a chart in which the spiked revenue amount is replaced with a more average amount.

REPRESENTATIVE JOHNSON said he just figured that out to be \$3.95 billion instead of \$5.2 billion. He questioned what that change does to the concept of the legislation.

REPRESENTATIVE KELLY submitted that HJR 8 would operate "elegantly" under either scenario. He said he thinks the public wants a fiscal plan it can understand - one that will not become dated two years after formulation, because it constantly updates itself.

CHAIR LYNN asked what other pieces of legislation are related.

REPRESENTATIVE KELLY indicated that last year HB 125 was passed, which requires departments to provide a 10-year forecast. He said it is difficult to project wages 10 years ahead. He said if HJR 8 is approved by voters, it would send the message that voters want consistency in state savings.

[8:42:04 AM](#)

REPRESENTATIVE GRUENBERG said the proposed legislation brings up a philosophical question as to how much discretion on an annual basis the legislature should be given. The Alaska State Legislature has more discretion than many other states because of its constitutional prohibition against dedicated funds. He said he supports that. He noted that a number of amendments over the years have attempted to "nibble away at that very basic prohibition," and he said he sees HJR 8 as another attempt to do so. He said he would like to have committee discussion regarding whether or not it is wise to allow or limit legislative discretion on an annual basis.

[8:43:55 AM](#)

REPRESENTATIVE KELLY said he does not disagree with anything that Representative Gruenberg said. He stated his belief that HJR 8 would allow guidance from the people "to replace the chaos that they don't like." He said he knows of no one in his district who says the state should not have a fiscal plan, and he emphasized the state does not have one now. He pointed out that the public could certainly choose not to approve the amendment. He stated his intent is not to remove any prerogatives of the legislature "in anything but a fashion that involves reasonableness and maybe a pattern for the future."

[8:46:08 AM](#)

REPRESENTATIVE GRUENBERG suggested that the committee: name the issues and decide which of those issues need to be addressed; find answers to those important issues; and examine "this particular solution."

[8:47:32 AM](#)

REPRESENTATIVE WILSON stated that she thinks the concept of the resolution is wonderful, but it needs work. She talked about

the state's failure to address deferred maintenance. She said she does not have an answer for this but wants the issue addressed.

8:49:03 AM

REPRESENTATIVE KELLY concurred with Representative Wilson. He said it costs the state more not to fix things. He stated that HJR 8 does not "harm" or advance that issue, except in one regard: "One who tends to average and plan and budget is on his or her way to thinking about fixing their stuff."

8:51:01 AM

REPRESENTATIVE SEATON said three years ago the legislature had extra money with which it funded the entire list of deferred maintenance for rural schools. He said the problem with the proposed resolution is that it would not allow the legislature to similarly use extra revenue money made in a particular year, because the state would be required to have a five-year average.

REPRESENTATIVE KELLY disagreed. He said HJR 8 "averages what we can spend based on a 5-year look back." He said he would rather manage an averaged flow of income than the highs and lows the state has been experiencing.

REPRESENTATIVE SEATON explained that he is trying to figure out if HJR 8 would really discipline spending at all, because money would automatically go either into [the BBA] or the CBRF depending on where the state's revenue balance was in relation to the five-year average. He asked, "The intention here is to limit spending in high years, right?"

REPRESENTATIVE KELLY answered that the intention is to create a more stable balance, and he directed attention back to slide 10 to illustrate his point. When revenue is highest, it would still be possible "to take a heavy cut at deferred maintenance or anything else that you feel you need to, just as now, only it's just not so wildly off of the 'x' axis."

REPRESENTATIVE SEATON interpreted slide 10 to illustrate that for each year from FY 03 through FY 09, the state "would have spent half a billion dollars less than we actually spent."

REPRESENTATIVE KELLY clarified that any time the [red] line, depicting actual GF spending, drops, [the solid black HJR 8] line is "going to tend to pump cash back in." As oil prices are

climbing, [the black line] will "smooth that out and tend to hold spending down."

[8:58:55 AM](#)

MR. MILLER added, "This year would be an example of a year where we, with a simple majority vote, could draw money from the revenue built up in the Balanced Budget Account in the prior years." He returned to slide 15 and stated:

I can go ahead and take ... FY 08, and instead of having \$10 [billion] there in mineral revenue, I can [assign an amount of] \$3.7. But that defeats the whole purpose of what we're trying to do here, because I can go to the revenue resources book - and that's exactly what the Department of Revenue does projecting out - and it's a flat line: the price per barrel of oil and the revenue coming in. If you check out your revenue resources book and you go from FY 11 on, it is a flat line. If that were the case, then we wouldn't need to be here right now with this. So, I can go ahead and I can take out revenue in FY 08 and play with the numbers all you want, but this is the most volatile component that we have, and that's the whole purpose of trying to taper this off.

[9:00:24 AM](#)

REPRESENTATIVE GATTO said typically an average is found by cancelling out the high and low numbers. He said he ran the numbers using that formula and got \$4.33 billion. However, each year this manner of finding an average is done, the state will be closer to "the real smoothing."

[9:01:21 AM](#)

REPRESENTATIVE KELLY responded that he does not disagree with what Representative Gatto, because he said that is the essence of the plan to smooth out the state's BBA.

[9:02:28 AM](#)

REPRESENTATIVE GRUENBERG said HJR 8 deals with mineral revenue, which is, perhaps for the foreseeable future, the major source of instate revenue. The resolution does not deal at all with revenue received from the federal government. He mentioned stimulus money, which he said cannot be predicted and comes with

strings attached. He said there is no requirement in Article 9, which deals with funding, that the state adopt and follow a fiscal plan. He said he thinks his constituents, like Representative Kelly's want the state to have such a plan. He recommended that the committee consider adding a requirement in the Constitution of the State of Alaska that the state have a fiscal plan and follow it.

[9:05:44 AM](#)

REPRESENTATIVE KELLY said he thinks attempts were made by the people of Alaska in 1982 and 1990 to make the state more fiscally responsible. The proposed legislation, he reiterated, would give the state a more predictable stream of income with which to make plans for the state. He indicated that without such a plan, the state makes business difficult to run for its agencies.

CHAIR LYNN remarked that those entities with the best planning tend to stay in business longest.

[9:08:06 AM](#)

REPRESENTATIVE WILSON noted that the legislature passed a bill last year mandating that "the governor was supposed to do a five-year and a ten-year plan in every single department." She said that bill is on the books, but "it didn't happen." She said she believes in having a fiscal plan, but questioned how to enforce it.

CHAIR LYNN indicated that legislation which has become part of statute does not hold the same weight as language which has amended the Constitution of the State of Alaska.

[9:09:24 AM](#)

REPRESENTATIVE KELLY told Representative Wilson he thinks this year there is a recognition that departments have been converting to a ten-year plan and they are being given some leeway to make that transition. He remarked that one of the easiest things to plan is deferred maintenance, because it is tangible. He said it would be a huge benefit to the state to address the issue of deferred maintenance.

[9:12:06 AM](#)

REPRESENTATIVE WILSON indicated that two of the committees on which she serves never broached the subject of [deferred maintenance]. She said she hopes to see more attention to the issue next year.

[9:12:42 AM](#)

REPRESENTATIVE WILSON referred to slide 10, and said she would like a "green line" depicting where [GF spending] would be when the "high year" and "low year" are taken off.

REPRESENTATIVE KELLY said he would provide that information.

[9:13:15 AM](#)

REPRESENTATIVE SEATON commented, "I appreciate that, but the whole intent is taking the low year off and the high year off by averaging five years." He said he is not hearing from his constituents that they want the state to constrain spending. Conversely, he hears requests from constituents for funding. He clarified he is not saying that his constituents want the state to spend money wildly. Referring to slide 10, he said even though the yellow line shows a spike in GF revenue, the red line shows "an even flow" - no wild swings in spending. He observed that when comparing the red line with the HJR 8 black line, the only benefit of HJR 8 appears to be that the state would constrain actual GF spending in every [fiscal] year except FY 10 by a half billion to a billion dollars and lower state spending on issues such as education and transportation, for which constituents have been requesting funding.

[9:16:36 AM](#)

REPRESENTATIVE KELLY responded that since he has been in the legislature, the budget has doubled and the number of entitlements has increased. He contended that by spending less during high mineral revenue years, the state will be more equipped to deliver the services that it has promised.

REPRESENTATIVE SEATON further clarified his interpretation of the graph [on slide 10] as follows:

It says that in every year since 2000, we would have constrained the spending, because we would have less revenue than we actually spent in every one of those years except for the 2010 fiscal budget, in which case

we would have more revenue than the actual spending is anticipated to be.

REPRESENTATIVE KELLY said Representative Seaton is interpreting the graph correctly.

[9:19:19 AM](#)

MR. MILLER noted that in FY 98 and FY 99, the revenue was \$1.3 billion and less than \$1 billion, respectively. Those years, which are not shown on the graph, are obviously affecting the five-year average, which is why the revenue for FY 00 shows as so low, he explained.

[9:19:51 AM](#)

REPRESENTATIVE JOHNSON said he interprets the graph the same way. He suggested that the question to ask is whether it is good or bad that "over the last period we spent a half a billion dollars less." He said he thinks it is good that "we would have spent less money in government under this," and he reiterated that that is what his constituents want.

[9:20:46 AM](#)

REPRESENTATIVE KELLY said:

If you look at that, that difference isn't just a half a billion. If you take [FY] 08 [and] 07, it's closer to a billion and better. ... So, it's real money.

[9:21:07 AM](#)

MR. MILLER added:

In [FY] 08 it matches inflation since 2000, so it's right there.

[9:21:23 AM](#)

MR. MILLER continued his slide presentation, moving on to slide 16, which he said recognizes the relationship between the BBA and the CBRF. He reviewed the process by which funds would be transferred from one to the other. Unlike the BBA, the CBRF has no cap on it, and the legislature would still be able to tap its funds with a three-quarter super majority vote.

REPRESENTATIVE KELLY said historically the Senate and House Finance Committees must always decide where to store money, and HJR 8 would make that decision clear.

[9:22:44 AM](#)

REPRESENTATIVE WILSON said Alaska's oil production is dropping by 6-10 percent a year, and it is not likely that the state will have any other significant resource up and running within the next ten years. She asked what the ramifications will be if the price of oil does not go back up.

REPRESENTATIVE KELLY answered that money will come out of the BBA in those times when the revenue has "dropped below the smoothing line." He explained, "As the curve is dropping down, this allows you to spend above what you would have had, had you not put some aside."

REPRESENTATIVE WILSON restated her concern regarding revenue that will consistently be dropping, and she said there will be a point where the state will still have to make cutbacks. She said, "Until we can get something going that's going to counteract that, we're going to be in trouble."

CHAIR LYNN questioned, "But would we not be in trouble with or without this plan?"

REPRESENTATIVE KELLY characterized [HJR 8] as "a shock absorber." He said there is only so much that can be set aside, but the state would be able to see the depletion of the BBA as it happens.

[9:26:52 AM](#)

REPRESENTATIVE WILSON asked for a projection of the graph on slide 10 into a hypothetical future without any upward fluctuations in revenue.

REPRESENTATIVE KELLY answered yes. He said, "It will flatten out, because what we have to use is the predicted oil price that the state has." Those predictions have historically been inconsistent, he pointed out.

REPRESENTATIVE WILSON added that she would like the sponsor to "build in the decrease in production."

[9:28:08 AM](#)

MR. MILLER skipped slide 17 and highlighted slide 18, entitled, "Why a Constitutional Amendment?" He said the sponsor thinks the best chance at having the proposed legislation adhered to is by placing it in the Constitution of the State of Alaska. Doing so would allow the people of the state to speak on the subject. Mr. Miller turned to slide 19, which read [original punctuation provided]: "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." Mr. Miller concluded his presentation by showing slide 19, which includes excerpts from Bradner's Alaska Legislative Digest No. 29/07 Dec. 19, 2007. He cited the last excerpt, which read as follows [original punctuation provided]:

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."

[9:29:54 AM](#)

REPRESENTATIVE GRUENBERG said HJR 8 "opened up a different dimension" in the committee's discussion. He opined that the legislature needs to bring back its House Ways & Means Committee. He said the House State Affairs Standing Committee is set up to talk about policy rather than to look only at numbers. The slide presentation today, he remarked, provided numbers. He said the question to the public would not be on the ballot for another year and a half, which will give the committee a chance to consider problems and look at whether there may be existing constitutional provisions that are no longer of use or whether there are other constitutional provisions needed. He stated, "The constitution is set up to trump the ability of the legislature to pass a law, and that's kind of what you're getting at here: What should there be that sets ... a sideboard on the legislature's ability to legislate?" He expressed his hope that without a House Ways & Means Committee, the House State Affairs Standing Committee would recognize its unique position in setting policy.

[9:34:03 AM](#)

CHAIR LYNN said he would like to address the resolution itself.

[9:34:58 AM](#)

REPRESENTATIVE KELLY said on page 1 the resolution speaks to identifying the type of revenue, while on page 2 it sets up the BBA. The resolution describes how the revenue would be placed in and taken out of the BBA. He concluded that the body of HJR 8 "pretty much puts in text exactly what Derek has laid out for us here in the slides."

REPRESENTATIVE KELLY, in response to Chair Lynn, talked about his hopes for the resolution as it is heard in future committees of referral.

[9:37:20 AM](#)

REPRESENTATIVE WILSON said she would like the sponsor to think about changing the language from "certain mineral revenue" to something like "natural resource revenue", so that it would include a little bit more of the state's revenues.

REPRESENTATIVE KELLY said he thinks that is a good idea. He said he supports the previously mentioned suggestions to expand the resources that would be included in the resolution.

[9:38:16 AM](#)

REPRESENTATIVE SEATON directed attention to page 1, and asked why "mineral transportation" is included in the resolution. He said he thought the idea was to include that which has volatile swings, and mineral transportation is consistent over a long period of time.

MR. MILLER said the language is taken from another article in the constitution, and he told Representative Seaton he would obtain further information for him.

REPRESENTATIVE SEATON warned that putting "everything into ... this bucket" would leave future legislatures no option to consider imposing taxes or to decide what to fund. He indicated that constituents will say they want the state to spend less money, but not if that means no port facilities, ferries, or museums, for example. He said he thinks the committee needs further discussion on HJR 8, and, regarding the graph on slide 10, he asked the sponsor to provide some parameters on "where those budgets were in each of those years, and what the effect would have been."

[9:44:17 AM](#)

CHAIR LYNN suggested [the chart] indicates that the state should have been even more conservative in its spending than it was.

REPRESENTATIVE KELLY told Representative Seaton:

That money didn't evaporate ...; every penny of that money that was captured to smooth this line went into the Balanced Budget Account to help us in the pickle we're in now, and the rest of it went to the CBR. ... Let's just say the average is \$3 billion, so ... \$6 billion is the [maximum] that you could stick in the Balanced Budget Account. And that amount, then, would be available for ... the tough times ahead as the pipeline throughput goes down, as the price of oil stays at [\$45/barrel] this morning or whatever it was, and I think that's responsible.

REPRESENTATIVE KELLY said he does not think it would be productive for him to try to go back and guess "what we might have spent it on," but he said he can go back and report where the money went - "like into the Balanced Budget Account or into the CBR."

REPRESENTATIVE SEATON stated:

If I'm understanding right, the only time you could get that out of the Balanced Budget Account is when you're below the five-year average. So, ... if you're not below the five-year average, you must maintain that in there and you have to go to the CBR and leave this other tank that is kind of available for a 21 vote but is not available for a 21 vote, because constitutionally you can't use it, you have to go to the CBR and leave that tank full and jump over to having a CBR vote. So, it seems like ... in these years in which we ... weren't having a CBR vote, we would have been sticking money into this account and requiring a CBR vote every year if we were going to ... fund our budget at the same level we did in these past years.

[9:48:14 AM](#)

REPRESENTATIVE KELLY responded that [HJR 8] would require the state to be disciplined and not touch some of its money so that it is available in a more even fashion. He opined that the elegance of the plan put forth in HJR 8 lies in its simplicity.

The resolution does not tell the legislature how to spend money, and would allow for better management of deferred maintenance.

[9:49:26 AM](#)

REPRESENTATIVE JOHNSON said Representative Seaton is talking about specific numbers, which is the purview of the House Finance Committee. He encouraged the committee to advance the discussion, and he said he thinks the people of Alaska should be involved. He compared HJR 8 to "bowling with bumpers." He explained, "We may never bowl a 300 with it or a perfect score, but we're going to do a lot better." He clarified that he does not see HJR 8 as an end-all or do-all piece of legislation, but he thinks the concept should be advanced to the next committee of referral to show that the legislature is committed to long-range planning.

CHAIR LYNN said he would like to know the thoughts of the committee members regarding whether or not a motion should be made today to advance the resolution. He related that Representative Gruenberg had previously left, but had asked him to express his preference that HJR 8 not be moved out of committee today.

[9:51:34 AM](#)

REPRESENTATIVE WILSON disagreed with Representative Johnson that the issue in this legislation is the responsibility of the Senate and House Finance Committees. She stated, "This is a policy decision and we are the policy makers. The finance people decide where they're going to spend the money." She emphasized the importance of having the Senate and House State Affairs Committees address policy decisions, especially since there is no longer a House Ways & Means Committee. She noted that most states have separate committees to deal with appropriations and finance, but Alaska does not. In response to Chair Lynn, she confirmed that she would like HJR 8 to remain in the committee for further discussion.

REPRESENTATIVE GATTO indicated he was not ready to make a decision.

[9:53:38 AM](#)

REPRESENTATIVE KELLY, in response to Chair Lynn, said he could get the previously requested information back to the committee by April 9.

REPRESENTATIVE SEATON said he does not yet understand the full implications of the resolution, and waiting until the information is brought forth may provide some answers.

[9:54:04 AM](#)

REPRESENTATIVE JOHNSON clarified that he does not want to move the resolution, but he wants to emphasize how important it is for the proposed legislation to get attention by the legislature and the public. He said he knows HJR 8 needs to be fully vetted, but he warned that many bills get stuck in the first committee of referral. He reiterated that HJR 8 may not be the right direction, but it is "a fine place to start."

[9:55:31 AM](#)

CHAIR LYNN concurred with Representative Johnson's remarks. He said he personally would like to move the resolution forward, but he respects the opinions of the committee.

[9:56:08 AM](#)

CHAIR LYNN discussed the upcoming calendar as it related to fitting in further discussion of HJR 8. He announced his intention to be a co-sponsor of HJR 8.

[HJR 8 was held over.]

[9:57:19 AM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 9:57 a.m.