

HJR

57

STATE OF ALASKA 1984 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date: \_\_\_\_\_

REQUEST CS FISCAL DETAIL  
 Bill/Resclution No.: HJR 57 (Res) Agency Affected: Elections  
 Title: proposing amendment to Program Category Affected: \_\_\_\_\_  
Constitution re capital projects  
 Sponsor: Rules BRU, Program or Subprogram(s) Affected: \_\_\_\_\_  
 Requestor: Governor  
 Date of Request: March 5, 1984

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES		-0-				
200 TRAVEL		-0-				
300 CONTRACTUAL		1.0				
400 SUPPLIES		-0-				
500 EQUIPMENT		-0-				
600 LAND & STRUCTURES		-0-				
700 GRANTS, CLAIMS		-0-				
800 MISCELLANEOUS		-0-				
TOTAL OPERATING		1.0				
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

the cost of one page in the Election Pamphlet is 1.0

ANALYSIS: Attach a separate page for analysis

Prepared By: T.P.Thoma, Information Officer Phone: 4611  
 Division: Elections Date: \_\_\_\_\_

Approved by Commissioner: Sally K. Hansen Date: 3/5/84  
 Agency: St. Michael's Hospital

Distribution (by Agency preparing fiscal note):

Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

12/1/83



POUCH V  
JUNEAU, ALASKA 99811  
(907) 455-4990

Alaska State Legislature  
HOUSE OF REPRESENTATIVES

REPRESENTATIVE  
CHARLIE BUSSELL  
CHAIRMAN

## Committee on Judiciary

6 March , 1984

### SECTIONAL ANALYSIS OF CS FOR HOUSE JOINT RESOLUTION NO. 57 (RES)

#### SECTION 1.

Subsection (a) is language which creates within Article IX of the Constitution a major projects fund (MPF).

- A cost threshold of \$100 million is set for projects qualifying. This minimum allows reasonable flexibility for covering major capital projects, without opening the fund to capital projects that may be effectively addressed through the normal capital budget process.

- This section also allows the money in the MPF to be invested in a manner similar to the Permanent Fund, except that it may be managed by the Department of Revenue as part of the State Treasury.

- Subsection (a)(1) establishes an annual deposit of 10% of state revenue into the fund from the following sources:

- (A) severance tax;
- (B) mineral lease rentals;
- (C) royalties;
- (D) royalty sale proceeds; and
- (E) federal mineral revenue-sharing payments and bonuses.

- Subsection (a)(2) on line 28 and 29 requires the interest earned by the money in the fund to be reinvested into the fund, rather than going into the general fund.

- Subsection (a)(3), along with subsection (c), lines 15-18, is the mechanism which provides for repayment back into the MPF, from projects financed by the MPF.

Subsection (b) establishes minimum requirements to be met before appropriations are made from the fund.

- The Legislature must approve the appropriation;
- All costs of the project must be committed;
- The project has to earn revenue; and
- The project must be owned by the State.

#### MEMBERS:

REP. JOHN LISKA, VICE CHAIRMAN; REP. RAMONA BARNES, EMERITUS;  
REP. JOE HAYES; REP. HUGH MALONE; REP. DON CLOCKSIN; REP. RON WENDTE

Subsection (c) as mentioned above is the mechanism for repayment of the MPF by a project funded by the MPF. Expenditures from the fund must be recovered and returned to the fund over the operational life of the project. The intent is to recover the principal of the fund from revenue generated by the project.

Subsection (d) allows the fund, by a two-thirds vote of the legislature, to be used to meet a declared state of disaster.

Subsection (e) requires that the first appropriation from the MPF be for construction of the Watana Dam portion of the Susitna River Hydroelectric project.

Subsection (f) requires that up to 10% of the annual revenue paid into the fund be reserved for power cost assistance.

#### SECTION 2.

Section 2 amends Article IX, section 7 of the Constitution which refers to the dedication of funds. In order to establish a stream of dedicated oil revenue into the MPF, it must be exempted from the dedication of funds section of the Constitution. This has been done in the past when the Permanent Fund was created. (Art. IX, sec. 15)

#### SECTION 3.

This section amends Article IX, sec. 16, the Appropriation Limit, by exempting the MPF. Neither deposits to the fund, nor appropriations from the fund would then be subject to the appropriation limit.

#### SECTION 4.

This section of the resolution requires approval of the voters on the November 1984 election ballot.



# Alaska State Legislature

## HOUSE OF REPRESENTATIVES COMMITTEE ON RESOURCES

JOHN RINGSTAD, CO-CHAIRMAN  
RICHARD SHULTZ, CO-CHAIRMAN  
POUCH V  
JUNEAU, ALASKA 99811  
(907) 465-3715

TO: House Resources Committee members

FROM: Committee Staff

DATE: March 5, 1984

RE: HJR 57, Creating a Major Projects Fund in the Constitution

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### I. OVERVIEW.

HJR 57 establishes a major projects fund, very much like the Permanent Fund, within Art. IX of the Constitution. This legislation does basically two things: it allows Alaskan residents the opportunity to establish by their vote a constitutionally dedicated major projects fund with the stipulation that Watana dam be the first project to be financed from the fund.

Because this is a proposed amendment to the Constitution, passage will require a 2/3 vote of both Houses, plus an affirmative vote by the people on the Nov.'84 election ballot.

The key feature of this amendment is the dedication of 10% of the State's total petroleum revenue to a major projects fund. The stream of revenue to the fund through the dedication will be sufficient to finance the largest of the projects we foresee at the present time, the Watana dam portion of the Susitna River hydroelectric development.

Another feature of this legislation is a guarantee that up to 10% of the annual revenue paid into the fund be reserved for power cost assistance.

Based on forecasts of declining revenue in the future, it is reasonable to assume that it will become increasingly difficult to appropriate sufficient funds to build major capital projects. Assuming that such projects will be in the best interest of the state, the question becomes how to best provide a financing mechanism that would enable their construction.

HJR 57 creates a mechanism which would insure a stable source of funds for such appropriations. Without this sort of mechanism, it may be difficult, if not impossible, to finance some of our major capital projects.

Another key feature is that the voters, upon considering this amendment, will be able to decide whether or not to appropriate sufficient revenue to build Watana dam.



148257

STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

January 23, 1984

The Honorable Joe Hayes  
Speaker of the House  
Pouch V  
Juneau, AK 99811

Dear Representative Hayes:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a joint resolution which proposes an amendment to the Alaska Constitution creating a major projects fund.

As you know, the state treasury will continue to receive substantial petroleum revenues for many years to come. However, our best current estimates indicate that large annual cash surpluses above operating budget requirements will cease to be available by the early 1990's. There is still time to set aside enough for one or more major capital projects that can serve as foundations for Alaska's future economy, but the opportunity to do so will probably be gone within the next six or seven years. Examples of major projects are the Susitna hydroelectric project; road and port infrastructure projects in rural Alaska for support of mining, fishing, and other economic development activities; the Knik Arm Crossing; the Bradley Lake hydroelectric project; Eklutna water supply; and renovation and extension of the Alaska Railroad.

The major projects fund is needed to accumulate the revenue for these large projects. There are two reasons for this. First, for many of these large projects and especially for Susitna, there still is not enough clear information to warrant unequivocal commitment. Actual construction might not begin for a number of years because of the length of time necessary for engineering, environmental study, obtaining permits, and demonstration of economic feasibility.

It is difficult through our conventional capital budgeting procedures to secure large, direct appropriations for projects that will not enter the construction phase for a year or more, and to which the state is not yet willing to specifically commit itself. However, if setting aside the necessary money is delayed until construction is about to begin, the chances are that the revenue surpluses will have diminished by then. The proper response is not to rush into massive financial commitments before oil production goes into decline, but to systematically set aside the money needed to accomplish major projects, and draw down on the principal only when satisfied that a commitment is prudent.

The second reason that a continuation of conventional capital budgeting practices is not likely to meet the needs for major project funding is that the revenues available for annual capital expenditure tend to be split into many small pieces. If all of these revenues are made subject to an allocation system similar to that in recent years, accumulation of enough money for any major project over several years is unlikely.

The most plausible solution to these problems is the establishment of a major projects fund in which money can be stored for major projects that are not yet specified.

I believe that the major projects fund should be created through an amendment to the Alaska Constitution. A constitutionally dedicated fund will be protected from future uses that are not in keeping with the fund's original intent. Automatic deposits to the fund are mandated, as is automatic retention of the fund's interest earnings.

The key feature of this amendment is the dedication of 10 percent of the State's total petroleum revenue to the major projects fund. The stream of revenue to the fund through this dedication should be sufficient to finance the largest of the projects we foresee at the present time, Susitna River hydroelectric development.

Excluding interest, deposits of this magnitude should create a fund of approximately \$2.2 billion by fiscal year 1991. Assuming that nine percent interest is earned and redeposited in the fund, and that no disbursements are made until fiscal year 1991, the fund could have a principal sum of as much as \$3 billion by then.

Ten percent of total petroleum revenue approximates the proportion that is currently dedicated to the permanent fund. For fiscal year 1985, this would require a deposit to the major projects fund of approximately \$300 million, which allows an operating budget of \$2.1 billion, a regular capital budget of \$700 million, loan appropriations of \$260 million, and enough remaining money for debt service and other likely obligations.

There are several other significant features of the amendment.

(1) Deposits to the fund begin in fiscal year 1985 and continue through fiscal year 1990, in keeping with current expectations of future revenue availability.

(2) Disbursements from the fund for a project cannot be made until all sources of the money necessary to complete the project (or a stand-alone phase of a larger project) has been identified and the money committed.

(3) A cost threshold of \$100 million is set for projects to qualify for financing from the fund. This minimum allows reasonable flexibility for covering such projects as the Susitna and Bradley Lake dams, the Knik Crossing, and extension of the Alaska Railroad, without opening the fund to capital projects that can be effectively addressed in the regular capital budget process.

(4) Appropriation bills to spend from the fund must have a two-thirds majority vote in order to pass the legislature. The purpose of this requirement is to assure that projects have state-wide support at the time disbursements are made.


(5) Expenditures from the fund must be recovered and returned to the fund over the operational life of the project. The intent is to recover the principal of the fund from fees generated by the project.

(6) Neither deposits to the fund nor appropriations from the fund would be subject to the appropriation limit.

Among the alternatives available, I believe that a constitutional amendment is the most effective and direct method of achieving the objectives of the major projects fund. As you know, amendments to the Alaska Constitution must be ratified by the voters at a general election. The next general election will occur in November, 1984. I believe that if ratification of the amendment is delayed until November, 1986, it would come too late to capture enough money to accomplish the intended purposes of the fund.

I look forward to working with you and members of the legislature on this important piece of legislation.

Sincerely,

  
Bill Sheffield,  
Governor

*Alaska*

MUNICIPAL

*League*

TELEPHONES  
(907) 586-1325  
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105 MUNICIPAL WAY, SUITE 301  
JUNEAU, ALASKA 99801

AML RESOLUTION SUPPORTING MAJOR PROJECTS FUND

WHEREAS Governor Sheffield has proposed a major projects fund to accumulate revenues for large capital projects in Alaska; and

WHEREAS Alaskan municipalities and their residents may benefit from the construction of major projects in their areas; and

WHEREAS it is difficult through conventional capital budgeting procedures to secure large direct appropriations for major projects; and

WHEREAS the Governor has indicated that sufficient revenues can be dedicated to this fund without reducing the amount available for other important current state programs; and

WHEREAS such a fund will help prepare the state for the day when annual cash surpluses above operating budget requirements decline substantially;

NOW THEREFORE BE IT RESOLVED by the Board of Directors of the Alaska Municipal League that the Board extends its conceptual support to a major projects fund, as long as the fund does not negatively impact other state programs which support Alaskan municipalities.

Adopted by the ANL Board of Directors, January 31, 1984 in Juneau, Alaska.

ALASKA MUNICIPAL LEAGUE

*Betty J. Glick*

Betty J. Glick

President

ATTEST:

*Scott A. Burgess*

Scott A. Burgess

Executive Director