

HJR

57

PETROLEUM REVENUE
(\$ Million; Nominal)

FY	<u>DOR</u> 50%	<u>DOR</u> 50%	<u>OMB</u> <u>Estimate</u>	<u>OMB</u> <u>Estimate</u>	<u>OMB</u> <u>Estimate</u>	Total Petroleum Revenue
	Gross Royalties	Severance Taxes	Corporate Petroleum Income Tax	Property Tax (Oil/Gas)	Federal Mineral Revenue Sharing	
1985	1,370	1,370	300	222	17	3,279
1986	1,480	1,450	325	226	18	3,499
1987	1,670	1,630	350	259	18	3,927
1988	1,820	1,520	363	257	18	3,978
1989	2,080	1,730	384	277	18	4,489
1990	2,140	1,770	374	230	18	4,582
1991	1,950	1,540	361	285	18	4,154
1992	1,940	1,460	359	309	18	4,086
1993	1,940	1,430	350	337	18	4,075
1994	1,900	1,370	341	352	18	3,981
1995	1,770	1,270	331	364	18	3,753
1996	1,650	1,100	322	339	18	3,429
1997	1,700	1,140	325	388	18	3,571
1998	1,750	1,150	327	405	18	3,650

OMB
3-5-84

Warrigell
Type Petroleum
45,000,000 Grant
40,000,000 Grant
85,000,000 Total Grant
130,000,000 Total Price

Contributions to MPF (\$ Million; Nominal)				Contributions to Permanent Fund (\$ Million; Nominal)		
FY	Total Petroleum Revenue	10% to MPF FY 85 - 90	10% to MPF FY 85 - 90 5% to MPF FY 91 - 98	Non. Tax. Pet. Rev. (Excl. Bonuses)	Perm. Fund Contribution Rate	Perm. Fund Contributions
1985	3,279	328	328	1,387	.25	347
1986	3,499	350	350	1,498	.25	375
1987	3,927	393	393	1,698	.25	422
1988	3,978	398	398	1,838	.25	460
1989	4,489	449	449	2,098	.25	525
1990	4,582	458	458	2,158	.25	540
1991	4,154		208	1,968	.25	492
1992	4,086		204	1,958	.27	529
1993	4,075		204	1,958	.27	529
1994	3,981		199	1,918	.28	537
1995	3,753		188	1,788	.28	501
1996	3,429		171	1,668	.29	484
1997	3,571		179	1,718	.30	515
1998	3,650		183	1,768	.30	530
TOTAL		2,376	3,912			

OMB
3-5-84

UNRESTRICTED GENERAL FUND REVENUE
(\$ Million)

FY	Pet. Rev. Minus P.F. Contr.	<u>CMB</u> <u>Estimate</u> Investment Income	<u>OMB</u> <u>Estimate</u> Other (Non-Pet.) Revenue	Unrestricted Gen. Fund Revenue	Unrestricted Gen. Fund Revenue (1985 dollars)
	1985	2,932	250	253	3,435
1986	3,124	250	272	3,646	3,440
1987	3,505	250	287	4,042	3,609
1988	3,518	250	303	4,071	3,421
1989	3,964	250	320	4,534	3,598
1990	4,042	250	337	4,629	3,454
1991	3,662	250	355	4,268	3,006
1992	3,557	250	376	4,183	2,789
1993	3,546	250	397	4,193	2,637
1994	3,444	250	420	4,114	2,434
1995	3,252	250	443	3,945	2,204
1996	2,945	250	469	3,604	1,928
1997	3,056	250	495	3,801	1,891
1998	3,120	250	524	3,894	1,828

MPF CUMULATIVE BALANCE

<u>Deposit Date</u>	<u>Deposit Amount</u>	<u>9% Interest</u>	<u>Balance</u>	<u>Balance Date</u>	<u>Balance in \$ 1985 (6% inflation)</u>
1-1-85	328	30	358	12-31-85	358
1-1-86	350	64	772	12-31-86	728
1-1-87	393	105	1,270	12-31-87	1,134
1-1-88	398	150	1,818	12-31-88	1,528
1-1-89	449	204	2,471	12-31-89	1,961
1-1-90	458	254	3,193	12-31-90	2,383
1-1-91	208	306	3,707	12-31-91	2,611
1-1-92	204	352	4,263	12-31-92	2,842
1-1-93	204	402	4,869	12-31-93	3,062
1-1-94	199	456	5,524	12-31-94	3,269
1-1-95	188	514	6,226	12-31-95	3,478
1-1-96	171	570	6,973	12-31-96	3,670
1-1-97	179	644	7,796	12-31-97	3,879
1-1-98	183	718	8,697	12-31-98	4,083

Assumptions: 1) 10% 1985 - 1990; 5% 1991 - 1998.

2) No expenditures from the fund.

3) MPF lump sum deposit in the middle of the fiscal year.

OMB

841-57

3-5-84

AMENDMENT 2

In Section 1, amending proposed Section 17(a) after "exceed \$100,000,000 in cost" add "and provide money for the weatherization fund".
Add a new Section 17(b) which reads ^{Notwithstanding (b) and (c) of this section,} "10 per cent of the annual revenue paid into the major projects fund shall be paid into a fund reserved for weatherization" ^{under A.S. 44.47.050 (18) and Residential Energy Conservation Fund under A.S. 45.89.0}
Add a new Section 17(g) which reads "Notwithstanding (c) of this section money may expended from the major projects fund for weatherization."

This amendment is designed to make up for deficiencies in the present approach of subsidization of energy costs which reduces the incentive to conserve energy and save money in that manner. By paying instead for the weatherization of homes across the state significant savings would be realized to consumers.

7:15 PM

ANCHORAGE

TO TESTIFY:

- 1.) BILL BATT; AK. POWER AUTHORITY
- 2.) ~~DEAN~~ GRIMES; FIRST SOUTHWEST; DALLAS, TX
- 3.) TONY DEAN; JOHN NEULLER CO.; CHICAGO, ILL.

TO OBSERVE + ANSWER QUESTIONS:

- 1.) LEWIS GREEN BAUM; BOYES PITT; CHICAGO
- 2.) STEVEN McALEN; FIRST BOSTON CORP. N.Y.
- 3.) TIM SEAGRAVES; R.W. BECK + ASSOCIATES;
SEATTLE, WA.

160 Don Grimes (Add) - 3% differential
\$176 million more over 25 yrs
2% - 119 million

209 Liska - What is hold-up on power sales agreement with Wrangell/P. Burg -
Wrangell: economy
P. Burg: Vote of people hope to get agreement on Thurs - Diesel less than originally projected.

235 Don Grimes - Further costs associated w/ not repeal of blackmail clause - If notes are tendered 7-days notice -
back-up rates - 90 million @ 60% of Prime
115 million @ 75% Prime
remaining 65 at 100%

294 Furnace → Grimes - rollover fees Δ av. 50% prime on Bankers trust, 65% Morgan - "should" be able to achieve close to same if rolled over. But close to 80% of prime if tendered.

340 Furnace - how long could be extended if rolled over Δ With Cash approp in Escrow - could go for whatever length of time you need.

379 Furnace - Why cash in Escrow instead of full faith & credit of state - Wd. require GO Bond election.

388 Uehling - how much approp. \$ - 225 million m/l - assuming 9% interest rate.

400 Goll - What were orig. cash flows - intended to take out debt by power sales agrmts

(4)

735

425 Coll - what effect on state's credit if notes are tendered?

442 Coll - How manage 3 bills - Δ Recommend original bills, not make contingent upon repeal of S.B.C. Susitua large project, requires lot of bonds, need good credit.

480 Liska - Type - ? Δ lots of changes in project combined to make hydro more expensive than hydro.

540 Uehling - Can be no rollover w/o cash? Δ Yes
in my opinion Grimes

570 Uehling - Cash out - Δ Grimes - loan against future approp. pay on date certain / long-term debt.

600 Rings - If cash approp. how communities pay debt - Δ Terms & Conditions subject to negotiation - depends on legis.

Tape
Change
000

Ron Wendte -

Tried to point out problems w/ changes in L&C - hopes point clearly made

- 1 - importance of power sales agreement
- 2 - cost of delaying repeal of SSB/C
- 3 - cost to state of refinancing notes, etc

recommends original HB 989.

125 Coll - Bandaid?

Δ Wendte - moral obligation of state to repay

(5)

- 160 Goll - Bills work to set up 4-dam pool and stabilize energy program for AK?
Yes - until L&C - Would kill Bradley Lake.
- 182 Liska - How previous legislature play in this?
A Orig. legislation - changed in SB 9 1981 w/ Surtura clause & pooling project.
- 200 Crowley - Commitment made in to leadership that amendments ok - A Not w/ Wendte, maybe Crawford.
- 222 Furnace - Sufficient votes in House or Senate to pass bills w/o amendments - A Would hope that if issues are dealt with w/o jeopardizing short and long term.
- 245 Furnace → Crowf. Why not \$200 million pay-off.
A Crowf - no interest in \$200 million in direction to find solution - Communities making economic, business decision, not political.
- 280 Furnace - any attempt to identify funds under admin. control to pay-off - A If legis. & Admin agree.
- 300 Bussell - What happens if legis appropriates 85 million for first 2 dates, & APA sells 115 million fund part to communities.
Discussion ensued.

Recess at 505 til 700

705 Goll, Lawson, Uaska, Cowd, Cehle
Called back to order
Rings
Busselle
Vaska

419 Rep Wendte - resp to Busselle's concerns

500
tape
change
Cowdery - wd use funds going to PF
to pay off 4 dam pool - Δ Wendte -
this is a second perm. fund. - people
pm strongly - would not use PF money

540 Uehling - Q re: power sales agreement and
approp. 35 & 50 million. A Wendte - would
go a long way to getting agreements signed.

595 Uehling - Comment - got to solve APH problem
now and not jeopardize future railbelt needs.

620 Goll → Uehling - summarize & make points
a Pay off may be oct \$35 million

645 Gordon
Narrison - OMB - Overview of revenue situation

680 Ringstad - Discussed figures -
Exclude: co.porate, prop petroleum income tax
oil & gas property tax

720 Vaska - would like accurate picture of revenue
to be expected under CS Δ could go back
and do it for CS

745 Vaska - asked for projection at 30% Δ Discrepancy
over longrun between 30%, 50% is substantial -
30% quite a bit lower

825 Wendte - when drop to 5% - 1990 -
after 1990, double figures

854 Ernie Haugen - Petersburg -
\$85 million grant started \$40 million/10 megawatt
\$125-130 million Locally would not
have supported that big - Now 20 megawatts
firm, can expand to 30 megawatts

978 Bussell - discuss of surplus kW - what reaction
^

Tape
Change

026 Don Grimes - currently not take or pay, but
take and pay variation

055 Vaska - if state defaults on bonds, what effect
on other bonds & Grimes - would be
disasterous, impairing state's ability to
sell bonds for any purpose.

Grimes
075 Vaska - how will financial world view state
and its abilities to pay debts - would not
be acceptable.

089 Vaska - would affect bonding capabilities
of municipalities & probably would carry over

100 Vaska - how about in international market?
all over the world; no question about it.

107 Vaska - Any connection w/ N.S.B. - downgrade
of credit ratings & still able to sell bonds
but had to pay penalty

125 Goll - GO bonded indebtedness highest in country?
yes

(7)

- 130 Goll - Management of GO debt
Grimes - percent, tied in w/ Prudhoe
production curve
- 150 Goll - Should payoff, would cast doubt
on State & no, only says state concerned
enough to keep good credit.
- 160 Uehling - Would paying 35 1/2 SD keep
problem down until Nov. & Depends on
whether utilities will sign w/o repeal of
SBC. Will have rate penalty associated
with SBC stigma - 2% if drop 1 letter
in rating (A - BAA)
- 238 At ease 5 min 755
- 240 800
- 242 Rep Malone - Who is testifying for Gov's
etc? & Gov's etc. declined to testify ^{Ringstead}
- 295 Vaska
- 272 Uehling moved, asked v/c. adopt CS
Vaska obj.
- 277 Vaska removed obj., adopted CS
- 284 Uehling moved to pass BJR 57, Vaska obj.
Vaska said he had an amend.
- 292 Uehling withdraws motion
- 298 Pq 1 line 17, change 17 to 16 to Genl Fund
Moved amend., Burt obj.
- 310 Vaska explained his amendment to
make management parallel to that
of the genl fund, rather than savings
account philosophy of pension fund.

350 Asked Gordon Harrison to respond -
Harrison felt he could not speak to it

360 Malone gave his view.

- 1 - easier to manage
 - 2 - more liquidity
 - 3 - more likely to avoid bad investment
- better investments

390 Larsson -> Malone - would bring into play
the spending limit & doesn't think so
as CS is written.

425 Larsson - Appropriation from GF to MPT not
subject to spending limit? G&A: legislatively
approved would not be, but appears
out of world be.

446 1 Got-Vaska Year - Others Army

461 Vaska - 2nd Amendment - New Sec 6.

as [insert] moved, objection. Lisa
Discussion of amendment and
power cost assistance program

572 Ringstad - agrees w/ Bush problem - power cost
assistance tries to address it.
Further discussion

670 Larsson if PCA program not effective, why
not reduce to 9%, give remainder to weatherization
& weather negotiations not opposed

700 Gussler - MPT, not subsidies

Goll
Tape
change

730 - supports amend. #2 - doesn't like lengthy const. amends. - would be cost effective.

764 Larson - supports amend., but wd reduce 10% to 5%.

776 Cowdery - called for Goll Vaska Larson yea - all others nay

780 Uehling moved w/indiv. rec. Vaska Oby Vaska, Goll opposed Larson, Cowd, Uehl. Bust, Rings, Yea.

795 Uehling moved adopt 35 34/no obj

800 Uehling asked for explanation of change in sec. 3. Rings expl., no to disbursed until all com. municipalities sign off

835 Goll asked For Larry Crawford's view - If all don't sign, 35 million wd not be adequate.

875 Cowdery - thought 35 wd be adequate - only if all 5 sign

885 Wendte - shouldn't give each community veto power

892 [Andi] needs technical correction - 2 parties are co-ops, 3 are municipalities

Greebaum - "Power Purchasers"

910 Vaska - who ma hangup - Cmte or admin.
Cmte. Ann

925 Busl - Crawford should give us names
of 5 specific indiv.

930 Crawford - "power purchasers" should do

940 Vaska - how specific should we be -
Vehling asked for names
Cities of Ken, Wroq, Plover,
Kodiak Electric Assn. Copper Valley Electric Assn

970 - Larson - Bond Council says "Power Purchasers"
Lisa - might need new section defining

980 Greenbaum - if purposes is clarity would
advise it.

992 Russell read proposed amendment & moved,
asked ok - no obj.

030 Goll and Vaska made point regarding
3rd party purchasers.

045 Vehling moved, asked v/c CS as amended
Indiv. rec Vaska Obj.
Busl, Lisa, Cowd, Vehl, Ring. ~~Larson~~ Yea Vaska No
Larson, Goll did not vote

064 Vehling moved ~~obj.~~ CS adopt. vaska obj.
Busl, Lisa, Cowd, Vehl, Ring. Yea Vaska No
Larson, Goll did not vote

080 Vaska moved amend #1 [INSERT]
obj. Cowd.

Vaska - supported amendment - Sustina
should stand on its own

140 Goll Vaska yea -
Burl, Listka, Crowl, Lars, Uehl, Rings-Nay

150 Uehling moved up. indiv. rec 589
Vaska obj

157 - Burl, Crowl, Listka Uehling Rings Yea
Vaska - No - Larson, Goll did not vote

163 adjourn 9pm

Mar 5 305

all members
Furnace & Wendt



0003 EPA Resoe

0014 Don Kubley - Statement in favor of SJR 42

0065 Dehling moved a ske U/C pass SJR 42.

0074 Bussell - Legislature should be making much stronger statement regarding federal classification of streams, etc.

090 HB 589, 684, HJR 57 -
CS HB 589 - Ringstad Sectional

205 Cowd - Question re. appropriation from fund
▷ Same as any other - simple majority -
veto override 3/4 - Not veto proof -

Rings continued w overview

372 Larry Crawford - APA -

639 Bill - Update diesel cost on Graph?
▷ Generalization - some disagreement by
some communities on price of diesel - we think
reasonable & realistic

Crawford contd.

700 - Problems w/CS - repeal of Susitna Equity
Bill st.

748 HR 4170 - Cap on Industrial Devel. Bonds

765 Rings - Power from 4 dam pools - Δ Solomon Gulch at O&M - no debt service ? Less?
 Δ Yes, compared to what paying later -

780 Goll - how will money be used? Δ Interest

003 Furnace - No. of subscribers - how much annual revenue

015 Discussion ensued -
No debt outstanding on Solomon Gulch

057 Furnace - how determine rate until sales agreement in hand - Δ no mechanism

065 Cowdery - what better plan to protect railbelt if Susitna Equity Clause repealed? Δ APA's objective to solve 4-dam pool problem - CSAR 97 delays problem to Nov. - Hindon's more than helps Susitna

100 Uehling - how much higher if ^{HR} 4170 passes - Δ 10.5 now 13% later - Δ 20 million more

120 Rings - how does APA approach until Nov - Δ Wait n see what legal. actually does - will cost State more \$\$\$

140 Goll - State's obligation - delay - Δ Essentially correct - extending payment on notes - Morgan Guaranty 35, Banker's Trust 165



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 Resource Committee Members

FROM: Committee Staff

DATE: March 5, 1984

RE: Sectional Analysis of HJR 57, establishing a major projects fund

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 Dept. 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.

These are:

1. legislature must approve the appropriation.
2. all costs of the project must be committed;
3. the project has to earn revenue, and
4. the project must be owned by the State.

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 Art. 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 Resource Committee Members
FROM: Committee Staff
DATE: March 5, 1984
RE: CS HB 589, APA CLEAN-UP BILL, SECTIONAL ANALYSIS

SECTION 1.

Eliminates restrictions on industrial power rates.

Also provides for the combination of the Lake Tyee, Swan Lake, Solomon Gulch, and Terror Lake hydroelectric projects into one power project for purposes of the wholesale power rate calculation.

SECTION 2.

Describes the method for determining the wholesale power rate for the projects of the authority. As the four dams are combined into project, they would share the debt service for the entire "initial project", and there is a single cents-per-kilowatt-hour rate for debt service. The rate to cover costs of maintenance, operation, equipment replacement, safety inspections and investigations is determined separately for each facility.

In the original bill, Section 2 repealed the "Susitna Blackmail Clause." This has been reversed in the CS, and the blackmail clause is addressed in section 8.

SECTION 3.

Adds a sentence to AS 44.83.398(e) to allow the power authority to contractually limit the amount of debt service payable by power purchasers as a consequence of the later of new projects to the energy program for Alaska.

SECTION 4 and SECTION 5.

Refer to the "Susitna Blackmail Clause" and would be repealed by Sec. 8.

SECTION 6.

Repeals AS 44.83.398(d) upon immediate effective date. Section refers to wholesale power rates amended in Section 1 of the bill.

SECTION 7.

Provides immediate effective date for Sections 1-3 and 6.

SECTION 8.

Provides that sections 4 and 5 take effect upon approval of a constitutional amendment creating the major projects fund, which would require the financing of Watana portion of the Susitna Project.

Introduced: 2/13/84
Referred: Labor & Commerce,
Resources and Finance

Funding Information

General Fund	\$35,000,000
Other Funds	\$ -0-
	<u>\$35,000,000</u>

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 684

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the Alaska
7 Power Authority; and providing for an effective
8 date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. The sum of \$35,000,000 is appropriated from the general
11 fund to the Alaska Power Authority for the purpose of rate stabilization in
12 accordance with the terms of power sales agreements and bond covenants for
13 the issuance of revenue bonds for the Lake Tye, Swan Lake, Terror Lake,
14 and Solomon Gulch hydroelectric facilities.

15 * Sec. 2. The appropriation made in sec. 1 of this Act is not a one-
16 year appropriation and does not lapse under AS 37.25.010.

17 * Sec. 3. This Act takes effect immediately in accordance with AS 01.-
18 10.070(c).

19
20  PLEASE NOTE:

21
22 Resources CS will provide a new effective date contingent
23 upon signing of power sales agreements by the affected
24 communities.
25
26
27
28
29

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 CS FOR HOUSE JOINT RESOLUTION NO. 57 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the Constitu-
6 tion of the State of Alaska creating a
7 fund to finance the construction of cap-
8 ital projects.

9 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. Article IX, Constitution of the State of Alaska, is amend-
11 ed by adding a new section to read:

12 SECTION 17. MAJOR PROJECTS FUND. (a) There is created in the
13 State treasury a major projects fund. The purpose of the major proj-
14 ects fund is to finance capital projects which exceed \$100,000,000 in
15 cost. Money in the fund may be invested in the manner specified in
16 section ¹⁶[15] of this article for the ^{General Fund}Alaska Permanent Fund^(rather language). The major
17 projects fund consists of ^{investment in anything} ^{* competitive}

18 (1) an annual deposit of ten percent of state revenue
19 earned after June 30, 1985, from the following sources:

- 20 (A) severance tax;
21 (B) mineral lease rentals;
22 (C) royalties;
23 (D) royalty sale proceeds; and
24 (E) federal mineral revenue-sharing payments and

25 bonuses;

26 (2) interest earned each fiscal year from investment of
27 money in the major projects fund;

28 (3) revenue dedicated to the major projects fund in accor-
29 dance with (c) of this section; and

1 (4) appropriations made by the legislature.

2 (b) Money may not be expended from the major projects fund un-
3 less

4 (1) the expenditure is authorized in an appropriation bill
5 passed by the legislature;

6 (2) the appropriation, together with any other money com-
7 mitted to finance the capital project, is sufficient to provide for
8 all costs of constructing the capital project;

9 (3) the capital project is projected to earn enough revenue
10 during its useful life to repay the money appropriated from the major
11 projects fund and other borrowed money used to finance the project;
12 and

13 (4) the capital project being funded is owned by the state.

14 (c) The legislature shall dedicate by law sufficient revenue
15 earned by a capital project financed by the major projects fund to
16 ensure that the amount appropriated from the fund for the project is
17 repaid during the useful life of the project.

18 (d) Notwithstanding the dedication of revenue required by this
19 section, the legislature, by an affirmative vote of two-thirds of the
20 membership of each house, may appropriate revenue dedicated under this
21 section to meet a state of disaster declared by the governor as pre-
22 scribed by law.

23 (e) The first appropriation from the major projects fund shall
24 be for the Watana Dam portion of the Susitna River hydroelectric
25 project, unless the legislature, by a vote of two-thirds of the member-
26 ship of each house, disapproves the project. Notwithstanding art. II,
27 sec. 15 of the Constitution of the State of Alaska, the appropriation
28 made under this subsection may not be vetoed by the governor.

29 * Sec. 2. Article IX, sec. 7, Constitution of the State of Alaska is

1 amended to read:

2 SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or
3 license shall not be dedicated to any special purpose, except as pro-
4 vided in sections [SECTION] 15 and 17 of this article or when required
5 by the federal government for state participation in federal programs.
6 This provision shall not prohibit the continuance of any dedication
7 for special purposes existing upon the date of ratification of this
8 section by the people of Alaska.

9 * Sec. 3. Article IX, sec. 16, Constitution of the State of Alaska is
10 amended to read:

11 SECTION 16. APPROPRIATION LIMIT. Except for appropriations for
12 Alaska permanent fund dividends, appropriations from the major proj-
13 ects fund established by section 17 of this article, appropriations of
14 revenue bond proceeds, appropriations required to pay the principal
15 and interest on general obligation bonds, and appropriations of money
16 received from an non-State source in trust for a specific purpose, in-
17 cluding revenues of a public enterprise or public corporation of the
18 State that issues revenue bonds, appropriations from the treasury made
19 for a fiscal year shall not exceed \$2,500,000,000 by more than the
20 cumulative change, derived from federal indices as prescribed by law,
21 in population and inflation since July 1, 1981. Within this limit, at
22 least one-third shall be reserved for capital projects and loan appro-
23 priations. The legislature may exceed this limit in bills for appro-
24 priations to the Alaska permanent fund and in bills for appropriations
25 for capital projects, whether of bond proceeds or otherwise, if each
26 bill is approved by the governor, or passed by affirmative vote of
27 three-fourths of the membership of the legislature over a veto or item
28 veto, or becomes law without signature, and is also approved by the
29 voters as prescribed by law. Each bill for appropriations for capital

1 projects in excess of the limit shall be confined to capital projects
2 of the same type, and the voters shall, as provided by law, be in-
3 formed of the cost of operations and maintenance of the capital proj-
4 ects. No other appropriation in excess of this limit may be made ex-
5 cept to meet a state of disaster declared by the governor as pre-
6 scribed by law. The governor shall cause any unexpended and unappro-
7 priated balance to be invested so as to yield competitive market rates
8 to the treasury.

9 * Sec. 4. The amendments proposed by this resolution shall be placed
10 before the voters of the state at the next general election in conformity
11 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-
12 tion laws of the state.
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

EXHIBIT H

RATE STABILIZATION FUND SCHEDULE**

<u>Fiscal Year</u>	<u>Copper Valley</u>	<u>Ketchikan</u>	<u>Kodiak</u>	<u>Petersburg</u>	<u>Wrangell</u>	<u>Total</u>
1985	\$3,167,486	\$3,114,153	\$4,701,936	\$1,115,967	\$1,160,650	\$13,260,192
1986	2,795,816	2,900,562	5,113,937	1,047,279	922,701	12,840,295
1987	2,464,771	2,607,345	4,474,900	471,433	1,134,154	11,152,603
1988	2,203,183	2,321,229	3,749,084	473,619	922,711	9,669,826
1989	1,560,540	1,920,336	2,776,647	354,398	826,998	7,438,919
1990	1,267,577	1,444,022	1,708,624	270,913	682,829	5,373,965
1991	975,502	890,397	546,722	---	511,810	2,924,431
1992	657,130	205,299	---	---	259,105	1,121,534
1993	298,906	---	---	---	54,142	353,048
1994	---	---	---	---	---	---
1995	---	---	---	---	---	---
	<u>\$15,390,911</u>	<u>\$15,403,343</u>	<u>\$23,131,850</u>	<u>\$3,733,609</u>	<u>\$6,475,100</u>	<u>\$64,134,813</u>

Subject to change to reflect actual par value of bonds and interest rates.

Larson

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 CS FOR HOUSE JOINT RESOLUTION NO. 57 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the Constitu-
6 tion of the State of Alaska creating a
7 fund to finance the construction of cap-
8 ital projects.

9 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. Article IX, Constitution of the State of Alaska, is amend-
11 ed by adding a new section to read:

12 SECTION 17. MAJOR PROJECTS FUND. (a) There is created in the
13 State treasury a major projects fund. The purpose of the major proj-
14 ects fund is to finance capital projects which exceed \$100,000,000 in
15 cost. Money in the fund may be invested in the manner specified in
16 section 15 of this article for the Alaska Permanent Fund. The major
17 projects fund consists of

18 (1) an annual deposit of ten percent of state revenue
19 earned after June 30, 1985, from the following sources:

- 20 (A) corporate income tax on oil and gas producers;
- 21 (B) severance tax;
- 22 (C) oil and gas production property tax;
- 23 (D) mineral lease rentals;
- 24 (E) royalties;
- 25 (F) royalty sale proceeds; and
- 26 (G) federal mineral revenue-sharing payments and
- 27 bonuses;

28 (2) interest earned each fiscal year from investment of
29 money in the major projects fund;

1 (3) revenue dedicated to the major projects fund in accor-
2 dance with (c) of this section; and

3 (4) appropriations made by the legislature.

4 (b) Money may not be expended from the major projects fund un-
5 less

6 (1) the expenditure is authorized in an appropriation bill
7 passed by the legislature;

8 (2) the appropriation, together with any other money com-
9 mitted to finance the capital project, is sufficient to provide for
10 all costs of constructing the capital project;

11 (3) the capital project is projected to earn enough revenue
12 during its useful life to repay the money appropriated from the major
13 projects fund to finance the project; and

14 (4) the capital project being funded is owned by the state.

15 (c) The legislature shall dedicate by law sufficient revenue
16 earned by a capital project financed by the major projects fund to
17 ensure that the amount appropriated from the fund for the project is
18 repaid during the useful life of the project.

19 (d) Notwithstanding the dedication of revenue required by this
20 section, the legislature, by an affirmative vote of two-thirds of the
21 membership of each house, may appropriate revenue dedicated under this
22 section to meet a state of disaster declared by the governor as pre-
23 scribed by law.

24 (e) The first appropriation from the major projects fund shall
25 be for the Watana Dam ^{portion of the SUSITNA RIVER HYDROELECTRIC DEVELOPMENT} project, unless the legislature, by a vote of
26 two-thirds of the membership of each house, disapproves the project.

27 * Sec. 2. Article IX, sec. 7, Constitution of the State of Alaska is
28 amended to read:

29 SECTION 7. DEDICATED FUNDS. The proceeds of any state tax

1 license shall not be dedicated to any special purpose, except as pro-
2 vided in sections [SECTION] 15 and 17 of this article or when required
3 by the federal government for state participation in federal programs.
4 This provision shall not prohibit the continuance of any dedication
5 for special purposes existing upon the date of ratification of this
6 section by the people of Alaska.

7 * Sec. 3. Article IX, sec. 16, Constitution of the State of Alaska is
8 amended to read:

9 SECTION 16. APPROPRIATION LIMIT. Except for appropriations for
10 Alaska permanent fund dividends, appropriations from the major proj-
11 ects fund established by section 17 of this article, appropriations of
12 revenue bond proceeds, appropriations required to pay the principal
13 and interest on general obligation bonds, and appropriations of money
14 received from a non-State source in trust for a specific purpose, in-
15 cluding revenues of a public enterprise or public corporation of the
16 State that issues revenue bonds, appropriations from the treasury made
17 for a fiscal year shall not exceed \$2,500,000,000 by more than the
18 cumulative change, derived from federal indices as prescribed by law,
19 in population and inflation since July 1, 1981. Within this limit, at
20 least one-third shall be reserved for capital projects and loan appro-
21 priations. The legislature may exceed this limit in bills for appro-
22 priations to the Alaska permanent fund and in bills for appropriations
23 for capital projects, whether of bond proceeds or otherwise, if each
24 bill is approved by the governor, or passed by affirmative vote of
25 three-fourths of the membership of the legislature over a veto or item
26 veto, or becomes law without signature, and is also approved by the
27 voters as prescribed by law. Each bill for appropriations for capital
28 projects in excess of the limit shall be confined to capital projects
29 of the same type, and the voters shall, as provided by law, be

1 informed of the cost of operations and maintenance of the capital
2 projects. No other appropriation in excess of this limit may be made
3 except to meet a state of disaster declared by the governor as pre-
4 scribed by law. The governor shall cause any unexpended and unappro-
5 priated balance to be invested so as to yield competitive market rates
6 to the treasury.

7 * Sec. 4. The amendments proposed by this resolution shall be placed
8 before the voters of the state at the next general election in conformity
9 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-
10 tion laws of the state.
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

Alaska MUNICIPAL League

TELEPHONES
(907) 586-1325
(907) 586-6526

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

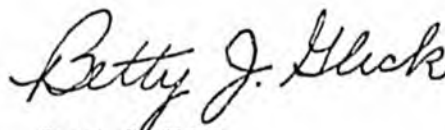
WHEREAS the Governor has indicated that sufficient revenues can be dedicated to this fund without reducing the amount available for other important current state programs; and

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 extend 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 AML Board of Directors, January 31, 1984 in Juneau, Alaska.

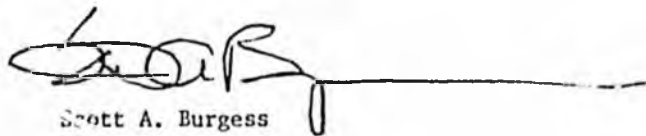
ALASKA MUNICIPAL LEAGUE



Betty J. Glick

President

ATTEST:



Scott A. Burgess

Executive Director

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: HJR 57
 Title: proposing amendment to
Constitution re capital projects
 Sponsor: Rules
 Requestor: Governor
 Date of Request: March 5, 1984

FISCAL DETAIL

Agency Affected: Elections
 Program Category Affected: _____
 BRU, Program or Subprogram(s) Affected: _____

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. Hamer Date: 3/5/84
 Agency: St. Dennis Stephen McAllister

Distribution (by Agency preparing fiscal note):

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

12/1/83

Alaska MUNICIPAL League

TELEPHONES
(907) 586-1325
(907) 586-6526

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

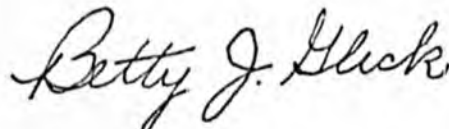
WHEREAS the Governor has indicated that sufficient revenues can be dedicated to this fund without reducing the amount available for other important current state programs; and

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 AML Board of Directors, January 31, 1984 in Juneau, Alaska.

ALASKA MUNICIPAL LEAGUE



Betty J. Glick

President

ATTEST:



Scott A. Burgess

Executive Director

AMENDMENT 2

In Section 1, amending proposed Section 17(a) after "exceed \$100,000,000 in cost" add "and provide money for the weatherization fund".
Add a new Section 17(b) which reads ^{Notwithstanding (b) and (c) of this section,} "10 per cent of the annual revenue paid into the major projects fund shall be paid into a fund reserved for weatherization" ^{under A.S. 44.47.050 (18) and Residential Energy Conservation Fund under A.S. 45.89.}
Add a new Section 17(g) which reads "Notwithstanding (c) of this section money may expended from the major projects fund for weatherization."

This amendment is designed to make up for deficiencies in the present approach of subsidization of energy costs which reduces the incentive to conserve energy and save money in that manner. By paying instead for the weatherization of homes across the state significant savings would be realized to consumers.

1. Easier on the managers.
General fund has a
different investment list
from permanent fund

2. Consistent with
strategy — gen. fund.
is managed for liquidity,
which projects fund
needs.

3. "Competitive market rates"
is more secure language
than article 15 has.

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: HJR 57
 Title: proposing amendment to
Constitution re capital projects
 Sponsor: Rules
 Requestor: Governor
 Date of Request: March 5, 1984

FISCAL DETAIL

Agency Affected: Elections
 Program Category Affected: _____
 BRU, Program or Subprogram(s) Affected: _____

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 R. Hamrick 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

MEMORANDUM

State of Alaska

TO: Honorable Bill Sheffield
Governor

DATE: January 5, 1984

THROUGH: Gordon Harrison, Associate Director
Division of Strategic Planning

FILE NO: 83I-172

TELEPHONE NO: 465-3568

FROM: Richard Emerman, Manager RE
Office of Management and Budget
Division of Strategic Planning

SUBJECT: Major Project Fund

Although the State treasury will continue to receive substantial petroleum revenues for many years to come, best 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 use these surpluses for one or more major capital projects that can serve as foundations for Alaska's future economy, but that opportunity will probably be gone within the next six or seven years. Primary examples of such projects are Susitna hydro and the Knik Arm crossing, while other examples with lower price tags include Bradley Lake hydro, Eklutna water supply, road and port infrastructure for the Red Dog mine and other nearby mining prospects, and renovation and/or extension of the Alaska Railroad.

Currently, it appears that several hundred million dollars per year would have to be set aside for the rest of this decade in order for Susitna to be financially viable. Each year of delay substantially reduces the probability that enough funds will be available to build it. Even if Susitna is not built, it is unlikely that a major share of the funding necessary to build other large and important projects will be set aside unless it is begun in the very near future.

There are at least two reasons why a "business as usual" approach is likely to produce less than is needed for these projects. The first is that, 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 due to the time necessary for required engineering, environmental study, permitting, and demonstration of economic feasibility. It is difficult under "business as usual" to secure large, advance 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. Yet, if setting aside the necessary funds is delayed until construction is about to begin, the chances are that the financial window of opportunity will be too far closed. The proper response is not to rush into massive financial commitments before oil production goes into decline,

but to systematically set aside the funds needed to accomplish major projects, and draw down on the funds only when satisfied that a full scale commitment is in order.

The second reason that a continuation of conventional capital budgeting practices is not likely to meet the needs for large project funding is that the funds available for annual capital expenditure tend to be split into many small pieces for purposes of geographic and political equity. If all such funds are made subject to a political allocation system similar to that in recent years, accumulation of sufficient funds over several years for any major project would seem to be an unlikely outcome.

The most plausible solution to these problems is the establishment of a major project fund in which dollars can be stored for large projects that are not yet specified. Among the questions raised by this proposal are the following:

1. Should the fund be established by statute or by constitutional amendment?
2. What rules should be established for making disbursements from the fund?
3. Will it be necessary for the pattern of fund disbursements to exhibit geographic equity, or is there another way to assure that such equity concerns will be effectively addressed?
4. How much money should be deposited in the fund, from what source, and for how long?

Statute or Constitutional Amendment?

A dedicated fund created by constitutional amendment would enjoy the highest level of protection against future uses that are not in keeping with the fund's original intent. In addition, automatic deposits to the fund could be mandated, as well as automatic retention of the fund's interest earnings. However, it is necessary to persuade two-thirds of each house in the Legislature to propose such an amendment in order to get it on the ballot at a general election. The next general election opportunities will occur in November, 1984 and November, 1986. As explained below, there is reason to think that an amendment passed in November, 1986 would come too late in the expected life of surplus oil revenues to accomplish the intended purposes of the fund. In order to be fully effective, a constitutional amendment to establish the fund should appear on the November, 1984 ballot. This means that two-thirds of each house in the Legislature would have to approve the proposal during 1984. Before pursuing this approach to the exclusion of others, it

will be important to assess the likelihood of passage in the current Legislature.

A statutory fund is easier to create. It is also easier to amend or repeal. A statutory fund can be effective only as long as support for its original purpose resides in the Legislature and the Governor's office. Each deposit to a statutory fund would require enactment of an appropriation bill. On the positive side, the relative ease with which statutes can be changed might turn out to be a welcome feature should the state be faced with abrupt and unanticipated declines in petroleum revenue.

Rules for Fund Disbursements

It would be simplest to require only that an appropriation bill be passed by the Legislature and signed by the Governor. But there are other possibilities that warrant some discussion. Should the statute or constitutional amendment creating the fund require that it be spent only for projects that cost more than some threshold amount? Should it require that disbursements be made only after the full amount needed to complete a project, or perhaps to complete a "stand-alone" phase of a project, has already been accumulated or obtained? Should any sort of advisory group be established to recommend uses of the fund based on estimates of relative need, merit, and feasibility?

Geographic Equity

It will be difficult to deal with questions of geographic equity until the projects to be financed by the fund are specifically identified, and they are not likely to be identified until after the fund is created.

Perhaps the Legislature and the Governor can provide for disproportionate spending in other areas of the state at the time that fund disbursements are made. This could be encouraged by providing that disbursements from the fund require more than a simple majority vote in the Legislature.

Size of the Fund

Under current financing projections, construction of Susitna hydro will require accumulation of at least \$3 billion (in nominal dollars) by the end of this decade. In establishing the deposit rates for an investment fund, it will be necessary to determine whether the State is willing to forego alternative expenditures of this magnitude, or settle instead for a smaller accumulation that, while still very significant, would not be adequate for Susitna.

The analysis below is intended to illustrate the Administration's evolving view of the fiscal situation we face. It is

1980
DOLLARS

based on the Department of Revenue December 1983 forecast of petroleum royalties and severance taxes, supplemented by the OMB long-range forecast of other revenue sources. It assumes no reimposition of personal income taxes nor repeal of the permanent fund dividend program. Annual inflation of 6 percent is assumed. The many features and assumptions of the analysis are important subjects for debate; the intention of presenting this information is to communicate the broad contours of the Administration's current view. Spending assumptions are made for purposes of illustration only.

Table 1 displays estimates of total, unrestricted general fund revenue based on 30th and 50th percentile petroleum revenue forecasts, and general fund operating budget expenditures at 6 percent annual growth and 8.5 percent annual growth (the latter reflecting adjustment for both inflation and expected population increase).

Table 1

UNRESTRICTED GENERAL FUND REVENUES AND OPERATING EXPENDITURES

FY	<u>Revenues</u>		<u>Expenditures</u>	
	30th Percentile Forecast	50th Percentile Forecast	Oper. Budget Growth @ 6%	Oper. Budget Growth @ 8.5%
1985	\$ 3238	\$ 3436	\$2023	\$2023
1986	3359	3622	2144	2195
1987	3633	3961	2273	2382
1988	3625	3999	2409	2584
1989	3941	4436	2554	2804
1990	3786	4546	2707	3042
1991	3509	4179	2870	3300
1992	3431	4085	3042	3581
1993	3279	4050	3224	3885
1994	3169	3973	3418	4216
1995	3074	3784	3623	4574
1996	2902	3533	3840	4963
1997	2954	3625	4071	5385
1998	3007	3695	4315	5842

In tables 2 and 3, operating expenditures are subtracted from expected revenues. In this case, the lower spending figures are subtracted from the more conservative, 30th percentile revenues; and the higher spending figures from the 50th percentile revenues. In addition, currently known G.O. debt service obligations are deducted in each case:

Table 2REVENUE AND EXPENDITURE ANALYSIS: 30th PERCENTILE REVENUES

FY	30th Percentile Total Revenue	Operating Budget @ 6% Growth	G.O. Debt Service	Residual Funds
1985	\$ 3238	\$2023	\$ 170	\$1045
1986	3359	2144	163	1052
1987	3633	2273	155	1205
1988	3625	2409	148	1068
1989	3941	2554	136	1251
1990	3786	2707	120	959
1991	3509	2870	95	544
1992	3431	3042	68	321
1993	3278	3224	60	neg.
1994	3169	3418	34	neg.
1995	3074	3623	23	neg.
1996	2902	3840	21	neg.
1997	2954	4071	17	neg.
1998	3007	4315	14	neg.

Table 3REVENUE AND EXPENDITURE ANALYSIS: 50th PERCENTILE REVENUES

FY	50th Percentile Total Revenue	Operating Budget @ 8.5% Growth	G.O. Debt Service	Residual Funds
1985	\$ 3436	\$2023	\$170	\$1243
1986	3622	2195	163	1264
1987	3961	2382	155	1424
1988	3999	2584	148	1267
1989	4436	2804	136	1496
1990	4546	3042	120	1384
1991	4179	3300	95	784
1992	4085	3581	68	436
1993	4050	3885	60	105
1994	3973	4216	34	neg.
1995	3784	4574	23	neg.
1996	3533	4963	21	neg.
1997	3625	5385	17	neg.
1998	3695	5842	14	neg.

For these cases, the forecasts show eight to nine years of surpluses in excess of operating needs. To these surpluses must be added the FY 85 expected carryover of available general funds. From the surpluses must be subtracted all the loan

appropriations, supplementals and planned special deposits to the Permanent Fund to calculate net funds available for capital purposes. Here again some assumptions are necessary:

1. Loan appropriations of \$260 million per year from FY 1985 through FY 1992.
2. Special Permanent Fund deposits of \$100 million per year for eight years. *(limits amount available)*
3. Supplementals of \$50 million per year.

Tables 4 and 5 show the calculation of funds available for capital in view of these various adjustments:

Table 4

MONEY AVAILABLE FOR CAPITAL AT 30th PERCENTILE REVENUES

FY	Residual Funds	Loan Appropriations	Special PF Deposits	Supplementals	Available For Total Capital
1985	\$1445*	\$ 260	\$ 100	\$ 50	\$ 1035
1986	1052	260	100	50	642
1987	1205	260	100	50	795
1988	1068	260	100	50	658
1989	1251	260	100	50	841
1990	959	260	100	50	549
1991	544	260	100	50	134
1992	321	260	100	50	--

* Includes \$400 million in estimated GF carry forward.

Table 5

MONEY AVAILABLE FOR CAPITAL AT 50th PERCENTILE REVENUES

FY	Residual Funds	Loan Appropriations	Special PF Deposits	Supplementals	Available For Total Capital
1985	\$ 1643 *	\$ 260	\$ 100	\$ 50	\$ 1233
1986	1264	260	100	50	854
1987	1424	260	100	50	1014
1988	1267	260	100	50	857
1989	1496	260	100	50	1086
1990	1384	260	100	50	974
1991	784	260	100	50	374
1992	436	260	100	50	26

* Includes \$400 million of estimated GF carry forward.

Table 6 displays the amounts that could be available for deposit in a major project fund assuming "regular" capital budgets of \$500 million per year and \$700 million per year (unadjusted for inflation) through 1990:

Table 6

MONEY AVAILABLE FOR DEPOSIT
IN A MAJOR PROJECT
FUND

(in millions)

FY	<u>30th Percentile Revenues</u>		<u>50th Percentile Revenues</u>	
	@ \$500 Other Capital	@ \$700 Other Capital	@ \$500 Other Capital	@ \$700 Other Capital
1985	535	335	733	533
1986	142	---	354	154
1987	295	95	514	314
1988	158	---	357	157
1989	341	141	586	386
1990	<u>49</u>	<u>---</u>	<u>474</u>	<u>274</u>
Total	1520	571	3018	1818

These funds would earn interest prior to being expended, and might thereby increase the total depending on whether the earnings are retained in the major project fund or deposited in the general fund. The amount of interest accumulated would also depend on the schedule of disbursements from the fund.

The analysis suggests that deposits to the fund should be scheduled to end in FY 1990, since the projection of funds available for all capital spending indicates serious decline by FY 1991. The State should have a maximum level of fiscal flexibility once the expected contraction in revenues begins in earnest.

Finally, Table 7 displays the percentage of various revenue streams that would have to be dedicated to generate the target fund levels shown in Table 6:

Table 7

ANNUAL CONTRIBUTIONS REQUIRED TO REACH
TARGETED FUND LEVELS

Contribution	<u>30th Percentile</u>		<u>50th Percentile</u>	
	(\$1520)	(\$571)	(\$3018)	(\$1818)
% of non-tax petroleum revenue*	17%	6%	28%	17%
% of total petroleum revenue*	7%	3%	13%	3%
% of total unrestricted G.F. revenue	7%	3%	13%	8%

Thus, for example, 8 percent of total petroleum revenue** (before Permanent Fund deposits) would have to be dedicated to build a fund of approximately \$1.8 billion assuming that the 50th percentile forecast were realized, and without consideration of reinvested interest earnings.

* Before any Permanent Fund deposits

** Total petroleum revenue includes primarily royalties, severance taxes, corporate income tax on oil and gas producers, and property tax on oil and gas production property.

Draft of Alternatives

Draft language for the following alternatives has been prepared by the Department of Law and is attached to this memo:

- A. a joint resolution to place on the ballot a constitutional amendment creating a Major Project Fund (MPF)
- B. a bill to create a statutory MPF
- C. a bill to appropriate \$300 million to the Power Development Fund for construction of unspecified energy projects other than those already under construction.

Characteristics of these options are discussed topically below:

Time Frame for Deposits

The proposed constitutional amendment would mandate that deposits to the MPF begin in FY85 and continue through FY90, in keeping with current expectations for future revenue availability. There would be no mention of future deposits at all in the proposed statutory alternatives, since statutory language regarding such deposits could not be binding on future Legislatures.

Amount of Deposits

The proposed constitutional amendment would require that annual deposits to the MPF amount to 10 percent of total petroleum revenue, for the following reasons:

- 1. This appears to be enough to consider the possibility of financing Susitna sometime in the future. Excluding interest, deposits of this magnitude should create a fund of approximately \$2.2 billion by FY91 (assuming 6 percent inflation, 50th percentile petroleum revenue forecasts from December, 1983). Assuming that 9 percent interest is earned and redeposited in the MPF, and that no disbursements are made until FY91, the fund could amount to approximately \$3.0 billion at that time.
- 2. Ten percent of total petroleum revenue is a concept that is easily grasped, approximates the proportion that is currently dedicated to the Permanent Fund, and the amount should not seem overwhelming. For FY85, this would require a deposit of approximately \$300 million, which still allows an operating budget of \$2.1 billion, a regular capital budget of \$700

million, loan appropriations of \$260 million, and sufficient remaining funds for debt service and other likely obligations.

Use of MPF Interest

The proposed constitutional amendment requires that interest earned on deposits automatically accrues to the MPF. The same intent is written into the proposed bill creating a statutory fund. However, interest on an FY85 deposit to the Power Development Fund would accrue to the general fund in the absence of a separate appropriation of such interest back into the Power Development Fund.

Threshold Size of Eligible Projects

A minimum cost of \$100 million per project is proposed in both the constitutional and statutory versions. This is set to allow a reasonable amount of flexibility for covering such projects as Bradley Lake, the Knik Arm crossing, or extension of the Alaska Railroad, without opening the fund to capital projects that can be effectively addressed in the regular capital budget process.

Complete Financing Must Be In Place

Both the constitutional and statutory versions provide that disbursements for a project cannot be made from the MPF until financing for the complete project (or for a stand-alone phase of a project) is in place. "Financing" includes both debt and equity sources of funds.

Two-Thirds Majority Required

The constitutional version provides that appropriation bills to spend from the MPF must have two-thirds majority vote in order to pass the Legislature. The intention is to assure that geographic equity concerns are properly addressed at the time that disbursements are made. This provision is not mentioned in the statutory fund language since it would be pointless to do so (a simple majority could repeal the provision).

Self-Liquidating Feature

Both the constitutional and statutory versions provide that appropriations from the Fund be recovered and returned to the State during the operational life of the project. The intent is to recover principal, without interest, from user fees.

Relation to Constitutional Appropriation Limit

For the constitutional MPF, deposits would not require appropriations and would therefore not be subject to the

appropriation limit. Disbursements would require appropriations, but would be exempted from the limit by language proposed in the constitutional amendment.

Appropriations to the Power Development Fund would be subject to the limit. However, expenditures from the Fund require simply that the Legislature approve the project, not that another appropriation bill be passed. Therefore, expenditures from the Power Development Fund are not subject to the limit.

Draft language to create a statutory MPF is analogous to the Power Development Fund in this regard. Appropriations that are subject to the limit would be required to make deposits to the MPF. However, expenditures would simply require passage of legislation approving a particular project, and would not require an additional appropriation bill that would be subject to the limit.

11

Attachments

cc: w/attachments

Norman Gorsuch, Attorney General, Department of Law
Peter McDowell, Director, Office of Management and Budget
Emil Notti, Commissioner, Department of Community and
Regional Affairs
John Shively, Chief of Staff, Office of the Governor

DRAFT #4
LW 577-101-84R
LPS1 1/4/84

1 IN THE _____

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR.

2 _____ JOINT RESOLUTION NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the Constitu
6 tion of the State of Alaska creating
7 fund to finance the construction of cap
8 ital projects.

9 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. Article IX, Constitution of the State of Alaska is amended
11 by adding a new section to read:

12 SECTION 17. MAJOR PROJECT FUND. (a) There is created in the
13 state treasury a major project fund. The purpose of the major project
14 fund is to finance the construction of capital projects which exceed
15 \$100,000,000 in cost. The major project fund consists of

16 (1) an annual deposit of ten percent of state revenue
17 earned during the period beginning July 1, 1984, and ending June 30,
18 1990, from the following sources:

- 19 (A) corporate income tax on oil and gas producers;
- 20 (B) severance tax;
- 21 (C) oil and gas production property tax;
- 22 (D) mineral lease rentals;
- 23 (E) royalties;
- 24 (F) royalty sale proceeds; and
- 25 (G) federal mineral revenue sharing payments and
26 bonuses;

27 (2) interest earned each fiscal year from investment of
28 money in the major project fund; and

29 (3) revenue dedicated to the major project fund in accor-

1 dance with this section.

2 (b) No money shall be expended from the major project fund un
3 less:

4 (1) the expenditure is in accordance with an appropriation
5 enacted by the affirmative vote of two-thirds of the membership of
6 each house of the legislature;

7 (2) the appropriation, together with any other money com
8 mitted to finance the capital project, will provide for all costs of
9 constructing the capital project; and

10 (3) the capital project will earn enough revenue during the
11 life of the project to repay the money expended to finance the proj
12 ect.

13 (c) The legislature shall dedicate by law sufficient revenue
14 earned by a capital project financed by the major project fund so that
15 the amount expended from the fund to finance the project is repaid
16 during the life of the project. Notwithstanding the dedication of
17 revenue required by this section, the legislature may appropriate
18 revenue dedicated under this section to meet a state of disaster
19 declared by the governor as prescribed by law.

20 * Sec. 2. Article IX, sec. 7, Constitution of the State of Alaska is
21 amended to read:

22 SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or
23 license shall not be dedicated to any special purpose, except as pro-
24 vided in sections [SECTION] 15 and 17 of this article or when required
25 by the federal government for state participation in federal programs.
26 This provision shall not prohibit the continuance of any dedication
27 for special purposes existing upon the date of ratification of this
28 section by the people of Alaska.

29 * Sec. 3. Article IX, sec. 16, Constitution of the State of Alaska is

*not original /
unauthorized*

1 amended to read:

2 SECTION 16. APPROPRIATION LIMIT. Except for appropriations for
3 Alaska permanent fund dividends, appropriations from the major project
4 fund established by section 17 of this article, appropriations of revenue
5 bond proceeds, appropriations required to pay the principal and
6 interest on general obligation bonds, and appropriations of money received
7 from a non-State source in trust for a specific purpose, including revenues
8 of a public enterprise or public corporation of the State that issues revenue
9 bonds, appropriations from the treasury made for a fiscal year shall not exceed
10 \$2,500,000,000 by more than the cumulative change, derived from Federal indices
11 as prescribed by law in population and inflation since July 1, 1981. Within this
12 limit, at least one-third shall be reserved for capital projects and loan
13 appropriations. The legislature may exceed this limit in bills for appropriations
14 to the Alaska permanent fund and in bills for appropriations for capital
15 projects, whether of bond proceeds or otherwise, if each bill is approved by the
16 governor, or passed by affirmative vote of three-fourths of the membership of
17 the legislature over a veto or item veto, or becomes law without signature, and
18 is also approved by the voters as prescribed by law. Each bill for appropriations
19 for capital projects in excess of the limit shall be confined to capital projects
20 of the same type, and the voters shall, as provided by law, be informed of the
21 cost of operations and maintenance of the capital projects. No other appropriation
22 in excess of this limit may be made except to meet a state of disaster declared
23 by the governor as prescribed by law. The governor shall cause any unexpended
24 and unappropriated balance to be invested so as to yield competitive market rates
25 to the treasury.

26
27
28
29 * Sec. 4. The amendments proposed by this resolution shall be placed

DRAFT
Law

1 before the voters of the state at the next general election in conformity
2 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec
3 tion laws of the state.
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

DRAFT #4
Law 377-101-84
LPS 1. 1/4/84

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

IN THE _____

_____ BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA
THIRTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act creating a fund to finance the construction
of capital projects; and providing for an effective
date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37.____ is amended by adding a new section to read:

AS 37.____. MAJOR PROJECT FUND. There is created in the general fund a major project fund. The purpose of the major project fund is to finance the construction of capital projects which exceed \$100,000,000 in cost. The major project fund consists of appropriations made by the legislature and interest earned each fiscal year from investment of money in the project fund. The commissioner of revenue shall administer the fund. No money shall be expended from the project fund unless:

*Capital
Bond Proposals*

(1) the expenditure is authorized by law;
(2) the money expended from the major project fund, together with any other money committed to finance the capital project, will provide for all costs of constructing the capital project; and

(3) the capital project will earn enough revenue during the life of the project to repay the money expended to finance the project. The legislature may appropriate revenue earned by a project financed by the major project fund to that fund.

* Sec. 2. This Act takes effect July 1, 1984.

DRAFT
Law #2 H.S. 1 1/2

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

IN THE _____

BY THE RULES COMMITTEE
REQUEST OF THE GOVERNOR

_____ BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the power development fund for the construction of power projects; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The sum of \$300,000,000 is appropriated from the general fund to the power development fund (AS 44.83.382) for the purpose of financing the construction of any power project under the jurisdiction of the Alaska Power Authority which is not under construction on the effective date of this Act.

* Sec. 2. The appropriation made by this Act is for a capital project and is subject to the provisions of AS 37.25.020.

* Sec. 3. This Act takes effect July 1, 1984.



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 23, 1984

The Honorable Jalmar Kerttula
President of the Senate
Pouch V
Juneau, AK 99811

Dear Senator Kerttula:

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