

SJR

32



Alaska State Legislature

Senate Committee on State Affairs

Vic Fischer, Chair • Pouch V
Juneau, Alaska 99811
(907) 465-4954

Official Business

February 29, 1984

Norm Gorsuch
Attorney General
Pouch K
Juneau, AK 99811

Dear Norm:

I have many reservations about SJR 32, which would set up the major capital projects fund. However, even if I thought it a good idea, I would oppose the resolution as now drawn because the proposed language would desecrate the state constitution!

SJR 32 does violence to Alaska's constitution in terms of basic drafting, style, and basic principle. It is inconceivable to me that whoever drafted SJR 32 had any understanding of these elements as they were considered in writing the constitution originally.

Though, I must admit, the proposed new section 17 of article IX is certainly not much worse than what Hammond perpetrated in pushing section 16, which ought to be totally rewritten if SJR 32 goes ahead.

(As a first step toward dealing with this, I would suggest a close comparison of language with the present constitution. And if anyone cares, I'm sure Tom Stewart, Burke Riley, Katherine Nordale and others associated with writing the constitution would happily join me in offering their services toward a better approach to style and drafting.)

Yours, for a clean constitution,

Senator Vic Fischer

cc: Senator Bill Ray

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

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	3278	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 2

REVENUE 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 3

REVENUE 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.
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%	8%
% 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.

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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

MEMORANDUM


State of Alaska

TO: The Honorable Bill Sheffield

DATE: April 4, 1984

FILE NO: 84E-7

TELEPHONE NO: 465-3568

FROM: Gordon S. Harrison 
Associate Director
Division of Strategic Planning

SUBJECT: Updated Budget
Worksheet

These budget numbers supersede those that Peter McDowell provided you over the weekend. They incorporate the recent DOR revenue estimates. As you see, there is almost \$4 billion on the table. Note that we have added to the "unfunded requirements" list. For example, we show the Major Projects Fund and HB 684 at \$259 million; and we added an FY 85 deposit to the Permanent Fund of \$100 million (?).

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cc: John Shively, Chief of Staff
Peter B. McDowell, Director, Office of Management
and Budget
Ray Gillespie, Director of Legislative Relations
Jay Hogan, Associate Director, Division of Budget Review

BUDGET WORKSHEET

(\$ Millions, Unrestricted General Funds)

FY 85 Funds Available for Appropriation	3,957.9
Governor's Recommended Operating Budget	(2,224.9)
Loans	(170.0)
FY 84 Operating Supplementals	(8.0)
Seven Capital Appropriation Bills Signed to Date	<u>(715.2)</u> 400
Balance Available for Remaining Requirements	<u><u>839.8</u></u>

Remaining Requirements (Estimates)

HB 684	
Deposit to Power Development Fund	200.0
Rate Stabilization	49.0
Power Cost Assistance	10.0
Susitna Licensing	32.0
Anchorage - Fairbanks Intertie	17.0
Alaska Railroad	60.0
Major Projects Fund	300.0 - *
Tobeluk Consent Decree	8.0
Corrections	36.6
Eklutna	34.0
Pribilof Harbor	12.0
Permanent Fund Contribution (FY 85)	100.0
FY 85 Year End Balance	<u>75.0</u>
	<u><u>TOTAL 933.6</u></u>

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UNRESTRICTED GENERAL FUND BALANCES AVAILABLE
FOR APPROPRIATION: FY 84 - 85
(\$ Millions, March 1984 Estimate)

Fiscal Year 1984

FY 1983 Balance Forward	79.9
Projected FY 84 Revenue ¹	3,418.4
Estimated Lapse of Prior Appropriations	100.0
Repayment of Principal on Restricted Investments	24.0
Exploratory Well Drilling Credit	(12.0)
Appropriations During 1983 Session	(2,832.6)
Transferred to Permanent Fund as of April 3, 1984	<u>(300.0)</u>

Fiscal Year End Balance Available for Appropriation	477.7
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Fiscal Year 1985

FY 84 Balance Forward	477.7
Projected FY 85 Revenue ²	3,418.2
Estimated Lapse of Prior Appropriations	50.0
Repayment of Principal on Restricted Investments	24.0
Exploratory Well Drilling Credit	<u>(12.0)</u>
Available for Appropriation	3,957.9

¹ Department of Revenue mean estimate.

² Department of Revenue 30th percentile estimate.

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