



HOUSE  
COMMITTEE REPORT

3/3

Date referred: 1/24/86

FURTHER REFERRALS: FINANCE

DATE: 2/28/86

The JUDICIARY Committee has considered HJR 62

Proposing an amendment to the Constitution of the State of Alaska relating to the use and expenditure of state money

and recommends:

- do pass
- do not pass
- do pass with attached amendment(s)
- no recommendation
- replace with CS HJR 102 (JUD)  same title  new title

and recommends \_\_\_\_\_

further referral to the \_\_\_\_\_ Committee

and attaches:

- letter of intent
- first fiscal note
- new fiscal note
- zero fiscal note w/analysis Sup 93

SIGNING DO PASS:

Mike Miller

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SIGNING OTHER RECOMMENDATIONS:

Mr. F. [unclear] NO REC

Reed [unclear] No Rec

[unclear] do not pass

Robin L. Taylor (NO REC)

Mike Miller

Chairman

Offered: 3/3/86  
Referred: Finance

*zero financial note analysis  
Sep 97*

*Cook*

Original sponsor: Rules/governor

1 IN THE HOUSE

BY THE JUDICIARY COMMITTEE

2 CS FOR HOUSE JOINT RESOLUTION NO. 62 (Judiciary)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the Constitu-  
6 tion of the State of Alaska relating to  
7 the use and expenditure of state money.

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

9 \* Section 1. Article IX, sec. 7, Constitution of the State of Alaska,  
10 is amended to read:

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12 license shall not be dedicated to any special purpose, except as  
13 provided in sections [SECTION] 15 and 17 of this article or when  
14 required by the federal government for state participation in federal  
15 programs. This provision shall not prohibit the continuance of any  
16 dedication for special purposes existing upon the date of ratification  
17 of this section by the people of Alaska.

18 \* Sec. 2. Article IX, sec. 16, Constitution of the State of Alaska, is  
19 repealed and readopted to read:

20 SECTION 16. APPROPRIATION LIMIT. Appropriations of money from  
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22 permanent fund, may not increase by more than fifteen percent of the  
23 amount appropriated from state sources during the preceding calendar  
24 year, except as authorized by section 17 of this article.

25 \* Sec. 3. Article IX, Constitution of the State of Alaska, is amended  
26 by adding a new section to read:

27 SECTION 17. BUDGET RESERVE FUND. (a) Money received by the  
28 State from state sources, that is not dedicated or appropriated to the  
29 permanent fund and that exceeds the appropriation limit imposed by

1 section 16 of this article, shall be deposited in the budget reserve  
2 fund until the balance of the reserve fund equals the amount appropri-  
3 ated from state sources during the preceding calendar year.

4 (b) At least fifty percent of the money received by the State,  
5 described in (a) of this section, that exceeds the maximum balance of  
6 the budget reserve fund shall be deposited in the permanent fund, as  
7 provided by law. The remainder of any excess money shall be deposited  
8 in the general fund. Notwithstanding the appropriation limit imposed  
9 by section 16 of this article, the excess money deposited in the  
10 general fund under this subsection may be appropriated.

11 (c) Money in the budget reserve fund shall be invested so as to  
12 yield competitive market rates to the fund. Income from investment of  
13 the fund shall be retained in the fund.

14 (d) If the money received by the State from state sources in a  
15 fiscal year is less than the amount appropriated from state sources  
16 during the preceding calendar year, money may be appropriated from the  
17 budget reserve fund. Except as otherwise provided in this section,  
18 not more than twenty-five percent of the budget reserve fund balance  
19 may be appropriated for any fiscal year.

20 (e) Notwithstanding the spending limitations in this section or  
21 in section 16 of this article, additional amounts may be appropriated  
22 from the budget reserve fund to meet a state emergency declared by the  
23 governor as prescribed by law.

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25 by adding a new section to read:

26 SECTION 29. EFFECTIVE DATE. If a majority of those voting in  
27 1986 on the reconsideration of the 1982 amendment limiting appropria-  
28 tion increases approves the 1982 amendment, the 1986 amendment repeal-  
29 ing and readopting section 16 of article IX takes effect forty days

1 after the certification of the 1986 general election returns by the  
2 lieutenant governor. If a majority rejects the 1982 amendment, the  
3 1986 amendment repealing and readopting section 16 of article IX takes  
4 effect thirty days after certification of the 1986 general election  
5 returns.

6 \* Sec. 5. The amendments proposed by this resolution shall be placed  
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8 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-  
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*Letter <sup>some</sup> for HB 513*

Introduced: 1/24/86  
Referred: Judiciary and  
Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

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COMMITTEE COPY

1 of this article, must be deposited in the Alaska budget reserve fund  
2 until the balance of the reserve fund equals the amount appropriated  
3 from state sources during the preceding calendar year.

4 (b) A portion of the money received by the state, described in  
5 (a) of this section, which exceeds the maximum balance of the fund  
6 must be deposited in the Alaska permanent fund, as provided by law.  
7 The remainder of any excess money must be deposited in the general  
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11 (c) Money in the budget reserve fund must be invested so as to  
12 yield competitive market rates to the fund. Income from investment of  
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14 (d) If the governor determines that the money received by the  
15 state from state sources in a fiscal year is less than the amount  
16 appropriated from state sources during the preceding calendar year,  
17 money may be spent from the budget reserve fund, as provided by law.  
18 Except as otherwise provided in this section, not more than 25 percent  
19 of the budget reserve fund balance may be spent for any fiscal year.

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21 in sec. 16 of this article, the governor may spend additional amounts  
22 from the budget reserve fund to meet a state emergency declared by the  
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24 \* Sec. 4. Article XV, Constitution of the State of Alaska, is amended  
25 by adding a new section to read:

26 SECTION 29. FIRST YEAR OF 1986 REVISED APPROPRIATION LIMITATION.

27 In determining the limitation under art. IX, sec. 16, as amended in  
28 1986, an appropriation to the permanent fund, made in calendar year  
29 1986, is not to be included.

1 \* Sec. 5. The amendments proposed by this resolution shall be placed  
2 before the voters of the state at the next general election in conformity  
3 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-  
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BILL SHEFFIELD  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

NGR 62  
11B 513

JS  
1/24

January 24, 1986

The Honorable Ben Grussendorf  
Speaker of the House  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a joint resolution proposing amendments to the Alaska Constitution relating to a budget reserve fund and an appropriation limit, and a bill to implement the joint resolution.

I am placing the bill implementing the proposed constitutional amendments before the legislature during this session to ensure that legislators and voters facing that proposal in the 1986 general election understand the scope, details, and implications of the amendments.

The bill would take effect following voter approval of the constitutional amendments. At that time, AS 37.05.159, establishing what is commonly known as the "rainy day fund," would be repealed and replaced by a new statute establishing the budget reserve fund. The balance of the money in the rainy day fund would follow the constitutional and statutory change and would be transferred to the budget reserve fund at that time. The budget reserve fund is designed to meet revenue contingencies contemplated by the rainy day fund as well as broader revenue stability needs.

At the outset, it must be emphasized that the budget reserve fund is very different in purpose and function from forward funding and cash-based budgeting proposals. We have carefully evaluated all these options, and we believe that the budget reserve fund is the fiscal management tool that is best suited to the State's situation. This fund seeks to

dampen annual budget swings. Neither forward funding nor cash-based budgeting protect us from annual budget fluctuations caused by volatility in world oil markets.

The budget reserve fund works in the following manner. In years of rising revenues, as specified in the constitutional amendments, appropriations are limited to 115 percent of appropriations made during the preceding calendar year. Any surplus money above the 115 percent limit is used first to replenish the budget reserve fund; any remaining surplus is then divided between deposits to the permanent fund and to the general fund. In years of revenue decline, as specified in the constitutional amendments and proposed statute, money is made available from the budget reserve fund in an amount that brings appropriations up to 95 percent of the appropriations in the preceding calendar year, or an amount that equals no more than 25 percent of the fund's balance, whichever is less.

These two operations of the budget reserve fund will provide a smoother expenditure pattern over the years than would result from the fluctuations of petroleum revenue alone. This is because, in high revenue years, revenue increases will flow into the budget reserve fund for subsequent appropriation during years of revenue decline, buffering fluctuations in the state's revenue stream caused by petroleum price variations. The upper limit to appropriations (the 115 percent level) will provide an effective appropriation limit, in contrast with the ineffective limit now in our constitution. We will therefore have a meaningful constitutional spending limit as desired by the people of Alaska.

Both the joint resolution and the bill specify that the appropriation limit applies only to unrestricted general fund money and to expenditures from the undistributed income account of the permanent fund (except for a deposit of that money to the permanent fund made in 1986). In turn, "money received" by the state includes only money in the undistributed income account and unrestricted general fund money. Excluded from both, for example, are federal receipts. The joint resolution and bill also specify that appropriations for a fiscal year are limited to 115 percent of appropriations made during the preceding calendar year. The calendar-year basis is used to ensure certainty in the determination of allowable appropriation levels for the coming fiscal year. It also avoids problems caused by supplemental appropriations late in a fiscal year.

New AS 37.05.156(c), in sec. 1 of the bill, addresses the question of how reappropriations should be treated for purposes of the appropriation limit. The intent of that provision is to distinguish between "old" and "new" money. This distinction is needed because it is sometimes difficult to determine whether a reappropriation consists entirely of money appropriated in a prior year, or exceeds the amount of money actually available from those prior appropriations, thereby entailing an appropriation of new money. Any reappropriation not clearly identifiable is also considered a new appropriation.

The maximum balance of the budget reserve fund in any fiscal year equals the amount of general fund appropriations enacted during the preceding calendar year. Money in excess of the 115 percent limit is used to bring the fund balance up to the fund's capacity. A portion of the money in excess of the budget reserve fund capacity must then be deposited in the permanent fund as savings. The bill specifies that that portion is 75 percent. The remaining excess (25 percent) must be deposited in the general fund, and is available for appropriation (effectively increasing the 115 percent limit). Any of that excess money subsequently appropriated from the general fund becomes part of the calculation of the base for the next fiscal year.

The bill specifies that if general fund revenue in a fiscal year falls to a level below 95 percent of appropriations made during the preceding calendar year, an amount may be transferred from the budget reserve fund into the general fund. That transferrable amount is limited to the lesser of (1) the amount needed to bring appropriations up to the 95 percent level, or (2) the maximum amount of the fund that may be spent in a fiscal year, which is 25 percent of the budget reserve fund balance.

As specified in the joint resolution, the budget reserve fund retains its income earnings to help ensure an adequate level of capitalization to meet appropriation demand in years of revenue decline.

The constitutional amendments permit expenditures from the fund beyond the 115 percent appropriation limit and the 25 percent fund expenditure limit to meet declared states of emergency. The bill cites existing statutory language to provide further clarification of "emergencies."

The constitutional amendments proposed in the joint resolution and the implementing statutory provisions together can

provide elected officials with the tools of sound fiscal management, and promise to the citizens of the state a means of avoiding the social and economic shocks that may result from extreme volatility in our revenue stream.

Article XV, sec. 27, of the Alaska Constitution now requires the lieutenant governor to place on the ballot in 1986 the proposition for the existing appropriation limitation, which was approved by the voters in 1982. Since that vote will occur at the same election as the vote on the attached proposal, there is the possibility that both constitutional provisions would be approved -- resulting in a direct conflict between them. To avoid confusion and to preclude legal questions arising as to this later amendment, while still having the lieutenant governor comply with art. XV, sec. 27, the attached bill (see sec. 2) requires the lieutenant governor to include an appropriate explanation on the ballot. It is expected that this explanation will be brief, with some amplification in the voter pamphlet.

Sincerely,



Bill Sheffield  
Governor

**STATE OF ALASKA 1986 LEGISLATIVE SESSION  
FISCAL NOTE**

Page 1 of 2

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

**REQUEST**

Bill/Resolution No. : CS HB513/HJR 62  
 Title : Appropriation Limit of  
Budget Reserve Fund  
 Sponsor : Governor  
 Requestor : House Judiciary  
 Date of Request : 2/27/86

**FISCAL DETAIL**

Agency Affected : ALL  
 BRU : N/A  
 Components : N/A

**EXPENDITURES/REVENUES : (Thousands of Dollars)**

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

**FUNDING : (Thousands of Dollars)**

GENERAL FUND		-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

**POSITIONS :**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS :** Attach a separate page if necessary

Neither bill will require additional state expenditures.  
 See attached summary for an explanation of the appropriation limit  
 and the budget reserve fund.

Prepared by : Gordon Harrison Phone : 465-3568  
 Division : Division of Strategic Planning Date : 2/27/86

Approved by Commissioner : \_\_\_\_\_ Date : \_\_\_\_\_  
 Agency : \_\_\_\_\_

Distribution (by Agency preparing fiscal note) :

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

Office of Management and Budget  
Division of Strategic Planning  
January 31, 1986

CSHB 513/HJR 62 -- Page 2 of 2

SUMMARY--BUDGET RESERVE FUND

The basic principles of Governor Sheffield's proposed Budget Reserve Fund (BRF) may be summarized as follows:

- o The BRF replaces the Rainy Day Fund.
- o Potential sources of capitalization for the BRF include the balance of the Rainy Day Fund, windfall revenue, retained BRF earnings, and future revenue surpluses.
- o The BRF appropriation limit replaces the existing appropriation limit.
- o The BRF appropriation limit applies only to unrestricted general fund revenues, and defines "Base Year" as the calendar year preceding the start of a given fiscal year.
- o Annual appropriations are limited to 115 percent of total appropriations enacted during the Base Year.
- o If revenue receipts in a fiscal year fall below 95 percent of total appropriations enacted during the Base Year, the BRF pays out the lesser of two amounts for general fund appropriations: (a) enough to raise appropriations to the 95 percent level; or, (b) 25 percent of the BRF balance.
- o If revenue receipts in a fiscal year surpass 115 percent of total appropriations enacted during the Base Year, the surplus above the 115 percent level is transferred into the BRF.
- o If a transfer or any other event causes the BRF balance to exceed the BRF's capacity (annually set equal to total appropriations enacted during the Base Year), the excess is divided between the Permanent Fund (75 percent) and the General Fund (25 percent). The latter 25 percent may be appropriated without regard to the 115 percent appropriation limit, but is included in calculations for the next fiscal year's Base Year.
- o The balance of the BRF is accessible in cases of emergencies, as defined by law.

ALASKA STATE LEGISLATURE

14th... Legislature SECOND Session

JOINT HOUSE RESOLUTION... NO. 62....

By ..RULE. BY. REQUEST. OF. THE... GOVERNOR

Proposing an amendment to the Constitution of the State of Alaska relating to the use and expenditure of state money.

amendment to Constitution

Introduced in the House ...1/24... , 19. 86

HISTORY IN THE HOUSE

1986

Jan 24

Read first time and referred to Committee on

JUDICIARY AND FINANCE

Reported back with recommendation that

Read second time and

Read third time and

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reconsideration

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reported correctly engrossed  
Signed by Speaker  
Sent to Senate

CHIEF CLERK OF THE HOUSE

HISTORY IN THE SENATE

19

Read first time and referred to Committee on

Reported back with recommendation that

Read second time and

Read third time and

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reconsideration

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reported correctly engrossed  
Signed by President  
Returned to House

SECRETARY OF THE SENATE

HISTORY IN THE HOUSE

19

Received from Senate

Concurred in Senate amendment thus adopting:  
VOTE

Failed to concur in Senate amendment; asked Senate to recede  
VOTE

Senate receded from amendment  
VOTE

Senate failed to recede from amendment  
VOTE

CC appointed by House

CC appointed by Senate

CC adopted by House  
VOTE

CC adopted by Senate  
VOTE

To enrolling  
Reported correctly enrolled  
Sent to Governor

..... by Governor

Filed with Lt. Governor

Chapter No. ....

Offered: 3/3/86  
Referred: Finance

Original sponsor: Rules/governor

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