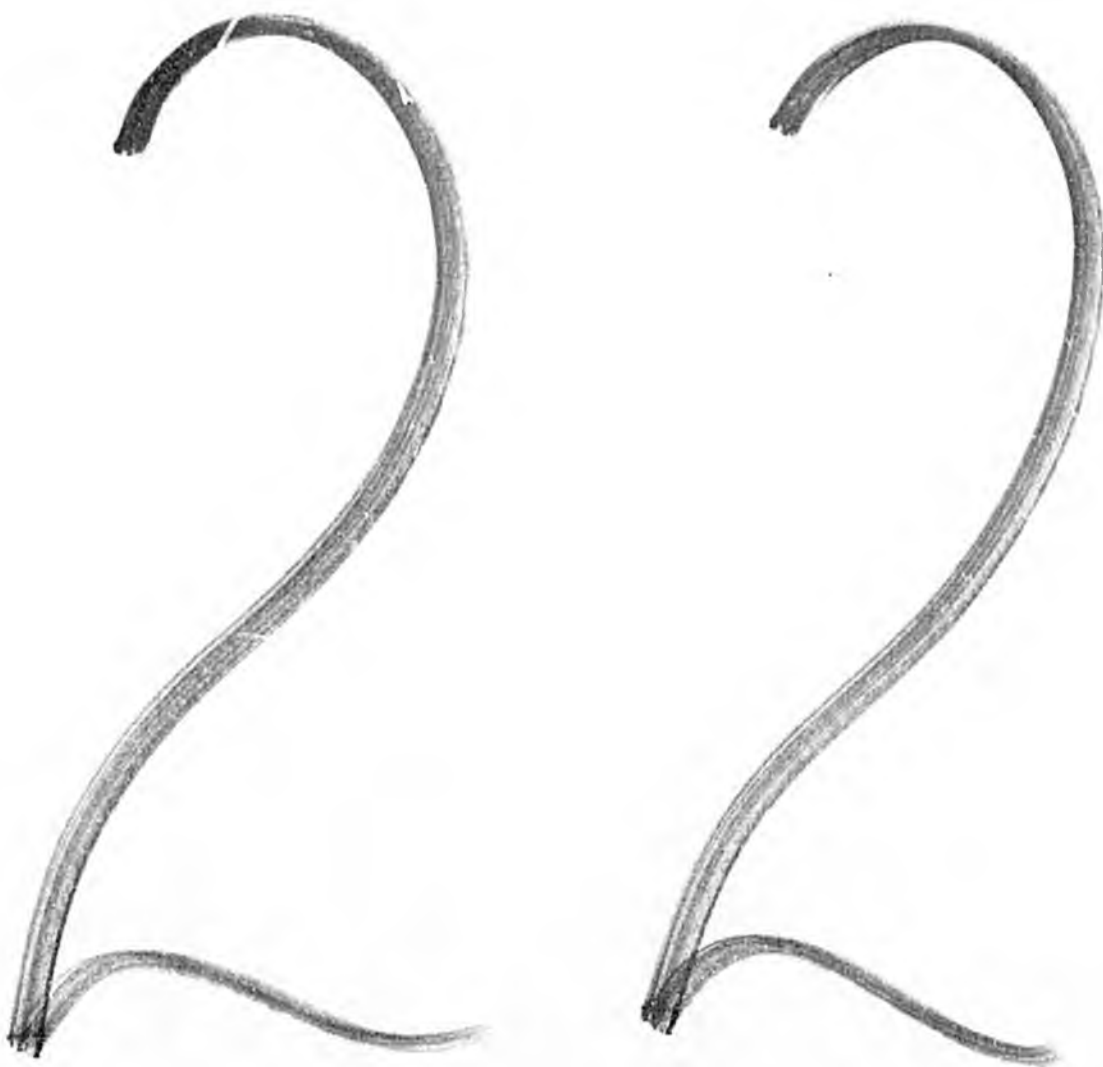


HJR



# STATE OF ALASKA THE LEGISLATURE

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May, 1986

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS date base CM 14. In order to save space copies of minutes have not been left in the files.

Jeanie Henry

House Judiciary 2-6-86  
" " 2-27-86

1:30 pm

1:30 pm

STATE OF ALASKA 1986 LEGISLATIVE SESSION  
FISCAL NOTE

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

**REQUEST**  
 Bill/Resolution No: HJR 22  
 Title: Appropriation Reserve Fund and Limitations  
 \_\_\_\_\_  
 Sponsor: M. W. Miller  
 Requestor: House Judiciary  
 Date of Request: February 27, 1986

**FISCAL DETAIL**  
 Agency Affected: Department of Revenue  
 BRU: Treasury  
 \_\_\_\_\_  
 Components: \_\_\_\_\_  
 \_\_\_\_\_

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

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
<b>OPERATING</b>						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	-	-	-	-	-
<b>CAPITAL</b>	-	-	-	-	-	-
<b>REVENUE</b>	-	-	-	-	-	-

**FUNDING: (Thousands of Dollars)**

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<b>TOTAL</b>	-	-	-	-	-	-

**POSITIONS:**

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

**ANALYSIS:** This fiscal note addresses the budgetary impact on the Treasury Division. It does not address the effect on amounts available for appropriation or limits on appropriations.

Prepared By: Milt Barker *MB*  
 Division: Treasury

Phone: 465-2350  
 Date: February 27, 1986

Approved by Commissioner: *George G. Skudale*  
 Agency: Department of Revenue

Date: 2/27/86

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget

Impacted Agency(ies)

# STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

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

**REQUEST**

Bill/Resolution No.: SSHJR22  
 Title: Proposing amendments to the  
Constitution creating an appropriation  
reserve fund.  
 Sponsor: M. W. Miller et.al.  
 Requestor: House Judiciary  
 Date of Request: February 1986

**FISCAL DETAIL**

Agency Affected: \_\_\_\_\_  
 BRU: \_\_\_\_\_  
 \_\_\_\_\_  
 Components: \_\_\_\_\_  
 \_\_\_\_\_

**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						
<b>TOTAL OPERATING</b>						
<b>CAPITAL</b>						
<b>REVENUE</b>		(see attached)				

**FUNDING : (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>						

**POSITIONS :**

FULL-TIME						
PART-TIME						
TEMPORARY						

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

The revenue impacts of this legislation vary significantly with assumptions made about spending and investment decisions. The attached analysis examines one of many possible options for disposition of windfall revenues.

Prepared by: David Tonkovich <sup>FRT</sup> Phone: 465-2173  
 Division: Revenue/Research Date: 2/18/86  
 Approved by Commissioner: *Mary G. Skudale* Date: 2/27/86  
 Agency: \_\_\_\_\_

**Distribution (by Agency preparing fiscal note):**

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

Analysis:

1. This note is based on the 30 percent, revenue projections prepared in January, 1986 (see Revenue Sources, FY 1985-88). Using FY 87 as a base year general fund unrestricted revenues decline by an average of 5.8 percent per year over the period FY 87-93. This means that unrestricted revenues rather than an appropriation base adjusted for cumulative population and inflation will be the effective limit on state expenditures for that period.
2. In this analysis these revenues are contributed to the Appropriation Reserve Fund.

<u>FY</u>	<u>ARCO</u>	<u>TAPS Tariff Adjustment</u>	<u>TAPS Legal and Refunds</u>	<u>Total</u>
86	243.0	88.6	239.3	570.9
87		238.0		238.0
88		203.5		203.5
89		160.0		160.0
90		135.9		135.9
91		124.6		124.6
92		123.9		123.9
93		109.2		109.2

Note: Adjustments will have to be made as these figures are audited and the effects of later signees to the settlement are computed. This primarily effects the figures for FY 89 and beyond.

3. The analysis assumes that the Appropriation Reserve Fund begins operation at the beginning of FY 88 with an initial deposit of \$808.9 million. The fund grows each year by additional contributions and

earnings on fund balances. An interest rate of 9 percent per year is assumed with earnings computed on a balance calculated as the FY starting balance plus one-half of the annual contributions. Prior to FY 88 interest on these monies goes to the General Fund.

4. Calculations: (Figures in millions of nominal dollars)

<u>FY</u>	<u>Beginning Balance</u>	<u>Contributions</u>	<u>Earnings</u>	<u>Ending Balance</u>
88	808.9	203.5	82.0	1094.4
89	1094.4	160.0	105.7	1360.1
90	1360.1	135.9	128.5	1624.5
91	1624.5	124.6	151.8	1900.9
92	1900.0	123.9	176.7	2001.5
93	2201.5	109.2	203.0	2513.7

It appears that in 1993 the ending balance of \$2513.7 million would be 1.5 times the FY 92 appropriations. This assumes FY 92 appropriations for purposes or the legislation are equal to unrestricted revenues less monies contributed to TAPS less FY 92 debt service.

It needs to be emphasized that these figures are subject to significant change as revenue forecasts are updated.

5. The net revenue impacts of this legislation depend on alternative uses which might be made of the money contributed to the Appropriation Reserve Fund. If the money is spent as it is received and interest earnings are negligible then the revenue impact would equal the earnings shown above.
  
6. It appears that the intent of this bill is to deposit into the Appropriation Reserve Fund that portion of future petroleum revenues due to reduced pipeline tariffs. While this seems straightforward the actual computation raises some problems. For instance, if a marginal field is only economically viable at the lower rate, is that revenue attributable to the TAPS settlement? Also, a lower tariff has some feedback on property and income taxes. Is the net increase in revenues deposited or are these considerations ignored?
  
7. The language excluding both the proceeds and debt service on general obligation bonds from the limit needs to be carefully examined. It is appropriate that debt service be excluded. However, there is a danger that the language would bias the funding of capital projects away from general funds and toward general obligation bonds.

STATE OF ALASKA 1985 LEGISLATIVE SESSION  
FISCAL NOTE

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

REQUEST

Bill/Resolution No: hJR 22  
 Title: Appropriation Reserve Fund and Limitations  
 Sponsor: M. W. Miller  
 Requestor: House Judiciary  
 Date of Request: March 11, 1985

FISCAL DETAIL

Agency Affected: Department of Revenue  
 Program Category Affected: \_\_\_\_\_  
 BRU, Program of Subprogram(s) Affected: Treasury

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
<b>OPERATING</b>						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	-	-	-	-	-
<b>CAPITAL</b>	-	-	-	-	-	-
<b>REVENUE</b>	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<b>TOTAL</b>	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

**ANALYSIS:** This fiscal note addresses the budgetary impact on the Treasury Division. It does not address the effect on amounts available for appropriation or limits on appropriations.

Prepared By: Milt Barker MB

Division: Treasury

Phone: 465-2350  
 Date: March 12, 1985

Approved by Commissioner: [Signature]

Agency: Department of Revenue

Date: 4/22/85

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor

Office of Management and Budget  
 Impacted Agency(ies)

STATE OF ALASKA 1985 LEGISLATIVE SESSION  
FISCAL NOTE

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

**REQUEST**

Bill/Resolution No: HJR 22  
 Title: Amendments creating an appro-  
 priation reserve fund and limiting  
 increases in appropriations  
 Sponsor: Miller, Pearce, et. al.  
 Requestor: House Judiciary  
 Date of Request: March 11, 1985

**FISCAL DETAIL**

Agency Affected: Revenue  
 Program Category Affected: \_\_\_\_\_  
 \_\_\_\_\_  
 BRU, Program of Subprogram(s) Affected:  
 \_\_\_\_\_  
 \_\_\_\_\_

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

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
<b>OPERATING</b>						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	-	-	-	-	-
<b>CAPITAL</b>	-	-	-	-	-	-
<b>REVENUE</b>	-	-	-	-	-	-

**FUNDING: (Thousands of Dollars)**

GENERAL FUND	-	-	-	(186,150)	(179,780)	(173,780)
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	186,150	179,780	173,780
<b>TOTAL</b>	-	-	-	-	-	-

**POSITIONS:**

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

**ANALYSIS:** Attach a separate page for analysis.

Prepared By: David Tonkovich  
 Division: Department of Revenue, Research Section

Phone: 465-2173  
 Date: April 12, 1985

Approved by Commissioner: Mary H. Sturdale  
 Agency: Revenue

Date: 4/12/85

Distribution (by Agency preparing fiscal note):

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

Analysis

1. 7.5 percent contribution of unrestricted revenues to appropriation reserve fund begins in FY 88.
2. Given the decreasing pattern of revenues it appears that available revenues rather than a limit based on population and price level increase is the effective constraint on spending throughout the period of analysis.
3. Inflation over the period ranges between 4.0 and 6.7 percent with a real rate of return on appropriation reserve fund balances of 4.0 percent.

Conclusion

1. The balance in the appropriation reserve fund exceeds 1.5 times the appropriation of unrestricted general fund revenues in FY97. The spending limit in Section 1 of the bill would become operative in FY 93. Appropriations in a fiscal year would be limited to 95% of the unrestricted revenue for the previous fiscal year.

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465 3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

January 17, 1986

SUBJECT: Appropriation Reserve Fund  
TO: Representative Mike W. Miller  
FROM: Tamara Brandt Cook  
Acting Director  
Division of Legal Services

Here is the sectional analysis of the draft SS HJR 22 dated January 13, 1985 that you requested.

Section 1 amends the section of the constitution prohibiting the dedication of state funds by adding as an exception to the prohibition a reference to Article XV, Section 29. That section is added under Section 4 of this draft and identifies (and dedicates) money from certain sources to go into the appropriation reserve fund.

Section 2 amends the section of the constitution that establishes an appropriation limit so that appropriations during a fiscal year may not exceed the lesser of the amount appropriated in the fiscal year the provision takes effect adjusted for the cumulative inflation and population growth or decline as defined by law or 95 percent of the unrestricted revenue of the state of the previous calendar year. The existing provision prohibits appropriations from exceeding \$2,500,000,000 by more than the cumulative change in population and inflation since July 1, 1981. It also requires that one-third of the appropriations be reserved for capital projects and loans, with certain exceptions. This restriction has been eliminated.

Section 3 establishes the appropriation reserve fund. Money from the fund may only be used in certain emergency situations until June 30 of the year in which the balance exceeds 1.5 times the appropriations of unrestricted revenue in the preceding fiscal year. At that time the balance of the fund lapses into the treasury and no more deposits will be made into the fund after it has lapsed. Until then, the

Representative Mike W. Miller

Page 2

January 17, 1986

fund is to be invested at competitive rates and earnings become part of the fund.

Section 4 adds several sections to the article on transitional measures in the constitution. Under Section 29 money from certain sources received by the state before the appropriation reserve fund has lapsed that is not appropriated or July 1, 1985 and is otherwise unrestricted at the time of receipt is transferred to the appropriation reserve fund established under this draft. The money is to come from the conclusion of certain law suits involving oil and gas matters, including the TAPS case, from funds the state will receive under a provision of the Outer Continental Shelf Lands Act, and from back taxes owed to the state from various oil and gas sources and paid after December 31, 1985. A temporary appropriation limit is established in Section 30 to be in effect from the beginning of fiscal year 1988 until the beginning of the fiscal year in which the appropriation reserve fund lapses into the treasury. Under the temporary limitation, with certain exceptions, appropriations during a fiscal year may not exceed the amount appropriated during the year in which the temporary limitation section becomes effective by more than the cumulative inflation and population growth or decline as prescribed by law. Seventy-five percent of the unrestricted revenue of the state that is not appropriated as allowed by this section is transferred from the general fund to the appropriation reserve fund each fiscal year and the remaining 25 percent goes to the Alaska permanent fund. While this temporary spending limitation is in effect, the spending limit contained in Section 16 of Article IX is superseded. Section 31 provides that the amendment to Section 16, Article IX contained in this draft takes effect at the beginning of the fiscal year during which the appropriation reserve fund lapses.

Section 5 requires the constitutional amendments proposed in this draft to be presented to the voters.

TBC:mkr

M2:040

1988-22

Appendix A

LEGISLATIVE INTEREST IN CASH-BASED BUDGETING

Legislative interest in cash-based budgeting in recent years has centered around two bills: HB 477 (1979) and HJR 39 (1983). These initiatives came in response to considerable legislative concern over the turmoil surrounding the budgetary process resulting from unprecedented volatility in revenue forecasts.

HB 477      1979

As early as 1979, legislation was introduced to implement a forward funding plan. The bill would have established a "budget and appropriations reserve account" and required annual appropriations to this account equal to 15 percent of the average gross receipts of the General Fund. These appropriations would have been required from 1980 until 1986, when the budget and appropriations reserve account would have been roughly equal to the prior year's budget. Beginning with FY 87, this account would lapse into the General Fund and the budget from that point on would have been based on revenues collected during the previous fiscal year.

HB 477 made little progress during the 1979 session, but by FY 82, interest in forward funding had revived when nearly 90 percent of the State's revenues were generated by levies on oil and gas production and the volatility of oil prices resulted in substantial uncertainty over future State revenues. In the three-month period from December 1981 to March 1982, the Department of Revenue forecast of FY 83 petroleum revenues fell nearly 40 percent from \$3.6 billion to \$2.2 billion. This unexpected, large drop in forecast revenues forced the legislature and the administration to make major, rapid revisions and spending reductions in the FY 83 budget. In addition, \$1 billion in FY 82 special Permanent Fund contributions was deferred to avoid a deficit in that year.

The unexpected decline in revenues and uncertainty over future income at the State level was in turn felt throughout Alaska. Local governments, school districts and other organizations which receive major State support found their funding levels difficult to predict until the FY 83 budget was finally enacted.

## LEGISLATIVE INTEREST

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In order to provide more certain revenue forecasts for budget purposes, the Department of Revenue modified its forecast presentation for FY 84 so that there would be only a 30 percent chance of revenues falling lower than their forecasts. Before this change, the department had issued forecasts which had a 50 percent chance of being too high. The more conservative estimates are termed the "risk-adjusted forecast" by the department, recognizing the substantial risk of lower oil prices and revenues and the negative effects that unexpected revenue declines have on the State budget process.\*

In spite of the efforts of the administration to deal with the revenue uncertainty problem, the legislature continued to search for a solution which insures stability in the budgetary process.

### HJR 39 (Cash-Based Budgeting)

The most recent legislative activity dealing with revenue uncertainty came with the introduction of HJR 39 in March 1983. HJR 39 would place a constitutional amendment to establish a cash-based budgeting system on the November 1984 ballot. If approved by the voters, two new sections would be added to the Alaska Constitution. The first section would establish an "appropriation reserve fund" and specify how the reserve fund is to be used. The second section would require the legislature to appropriate 15 percent of the General Fund revenues to the appropriations reserve fund each year for seven years, from FY 86 to FY 92. At the end of the seven-year period, the reserve would be large enough to fund the State's entire budget for the following year.

On July 1, 1992 (the start of FY 93), the transition to cash-based budgeting would be made, and only the amount of money contained in the appropriations reserve fund as of this date could be spent during the fiscal year (certain exceptions would be made for wars, natural disasters and other cases). After this date, all State revenues would be placed in the reserve fund, and at the end of each succeeding fiscal year the balance of the reserve fund would lapse into the treasury. HJR 39 made no mention of the investment of reserve fund holdings or of the disposition of interest earnings resulting from the investments.

Using the Department of Revenue January 1984 revenue projections, the provisions of HJR 39 are translated into dollar terms on Table A1.

Two projections of the implications of HJR 39 are shown; one for the 30th percentile revenue projection and another for the mean revenue

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\*Most other governments rely on 50th percentile revenue projections for budget purposes.

projection. Notice that the cash-based budgeting (CBB) reserve contributions are shown in the far right column, with the reserve fund totals indicating the funds available for expenditure when cash-based budgeting commences in FY 93. Specifically, under the provisions of HJR 3C, \$3.779 billion will be available for expenditure in FY 93 assuming a 30th percentile revenue forecast, while \$4.249 billion would be available in the CBB reserve fund assuming a mean revenue forecast.

## CHAPTER FOUR

### THE FISCAL MANAGEMENT BENEFITS AND LIMITATIONS OF CASH-BASED BUDGETING

The original intent of legislation proposing cash-based budgeting was to create a budgeting system in which the revenues available for appropriation were known in advance of preparing the budget. With sufficient revenues in the CBB reserve fund, appropriations can be limited, under cash-based budgeting, to the total revenues actually collected in the previous calendar year. In this way, the legislature will know by the start of the session precisely how much money can be appropriated in the budget that they will prepare. However, cash-based budgeting is more than a simple mechanism for dealing with revenue uncertainty.

#### Prohibition Against Deficit Spending

At present, State law does not prohibit deficit spending in the manner of the various "balanced budget" laws enacted recently in other states.<sup>18</sup> Nevertheless, if cash-based budgeting were enacted by a constitutional amendment, a very specific prohibition against deficit spending would become part of State law. Deficit spending under cash-based budgeting is prohibited because appropriations are limited to cash on hand. The only exception to this prohibition against deficit spending (which also applies to the contraction of State debt) would be "for the purpose of repelling invasion, suppressing insurrection, defending the state in war, meeting natural disasters,..."

#### Fiscal Restraint

Cash-based budgeting is a device for instituting fiscal restraint in the budgetary process in two ways. In the first case, because annual appropriations of between \$300 and \$420 million would effectively be taken off the top of the revenue stream, fewer funds would be available for appropriation for other purposes during the years when contributions

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<sup>18</sup>The Alaska Constitution (Article IX, Section 8) does prohibit the State from incurring debt except for the purposes of funding capital improvements which have been approved by a majority of qualified voters. Furthermore, The Executive Budget Act (AS 37.07.020 c) states that "proposed expenditures may not exceed estimated revenues for the succeeding fiscal year."

## BENEFITS AND LIMITATIONS

or debt service payments were being made.<sup>19</sup> Relative to Governor Sheffield's recommended capital budget for FY 85 totaling about \$1 billion (including the \$300 million major projects fund), CBB reserve fund contributions would represent roughly one-third of this annual capital budget figure.

A second form of fiscal restraint provided by cash-based budgeting relates to the delay between the time that a major revenue fluctuation might occur and the point at which those revenues might be appropriated. For example, if a major oil field would be expected to begin production in the coming fiscal year, this might substantially increase the revenues projected for that fiscal year. Unlike present budgeting practices, however, the legislature would be prohibited from raising appropriations for the coming fiscal year in anticipation of these revenues, since under cash-based budgeting, appropriations are limited to revenues collected in the prior calendar year.

Of course, one year later, the increased revenues caused by higher oil production levels could be rolled into the budget for the following fiscal year. Consequently, the form of fiscal restraint imposed by cash-based budgeting has only a temporary effect created by delaying access to revenues for one year.

### CBB Effects On Declining Revenues

It is important to view cash-based budgeting in the larger context of the long-term financial prospects of the State. The central question from this perspective is how would cash-based budgeting affect State finances in view of a projected revenue decline?

- Although cash-based budgeting resolves the "revenue uncertainty" problem for budgeting purposes on a year-to-year basis, it does not eliminate the considerable uncertainty concerning how the State will budget "within its means" during a period of projected declining revenues.

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<sup>19</sup>On the other hand, it should be realized that in addition to the capital projects potentially foregone as a consequence of annual contributions to the CBB reserve, there are the opportunity costs associated with these foregone appropriations. Examples of these opportunity costs include lost momentum in accelerating sectors of the fisheries, mining, timber, coal, or tourism industries that might have come with new harbors, highways, railroad spurs, and airports, or increased loans for businesses or resource enhancement. A slowing of efforts to upgrade health standards across the State through upgraded water and sewage systems, are other potential opportunity costs of funding a cash-based budgeting system.

## BENEFITS AND LIMITATIONS

- On the other hand, cash-based budgeting would mitigate the impact of declining revenues by supplementing total revenues with interest earnings on the CBB reserve balance. After cash-based budgeting begins, the General Fund would be increased by the transfer of the CBB reserve fund (projected to be about \$4.5 billion by FY 94). Assuming an average investment earnings rate of 10 percent, the General Fund should generate an additional \$450 million each year as a consequence of this transfer.
- During the period when contributions are being made to the CBB reserve fund (FY 86 through FY 93), revenues available for appropriation would be diminished by the amount of annual contributions (between \$300 and \$420 million). This effective reduction in revenues potentially makes government growth more difficult. To the extent that government growth is curbed during the CBB contribution period, the adjustment to a period of declining revenues should require somewhat less drastic measures than would be necessary if further growth were permitted.
- Should a dramatic drop in revenues occur during a single year, cash-based budgeting would provide a one-year delay in the impact of that decline before a fiscal adjustment would have to be made. Under cash-based budgeting, revenues must accumulate in the General Fund over a full calendar year before they are made available for appropriation, thus providing a cushion of time in which to react to changes in revenue trends. However, the effect of a dramatic fall in revenues cannot be avoided under cash-based budgeting, only deferred for one year.
- As a savings account to mitigate the impact of declining revenues in the future, cash-based budgeting offers little that is not offered by the Permanent Fund. Moreover, the earnings rate on funds set aside by cash-based budgeting may not match the rate possible on investments of the Permanent Fund. In the event that revenues fell sharply over a period of a few years, funds reserved under cash-based budgeting would have to be readily available to cover previously made appropriations of these funds. Consequently, investments of cash-based budgeting reserve funds must remain fairly liquid for this purpose, which means that the investment options of CBB funds and possible rates of return would be somewhat limited in comparison to Permanent Fund investments.
- The only advantage of cash-based budgeting over the Permanent Fund for this purpose is that the budgetary support function would presumably be more clearly spelled out in the enacting Constitutional provisions of cash-based budgeting.

## BENEFITS AND LIMITATIONS

### Uncertainty In The Allocation Process

Knowing exactly how much money is available for appropriation each year is different from the task of allocating available funds. Even though the size of the pie will be known under cash-based budgeting, the problems of dividing up the pie will still require difficult political decisions. For local governments and school districts, which rely on State appropriations to finalize their budgets, uncertainty over revenues would remain until the legislative allocation process is complete. This source of revenue uncertainty will become an increasing problem for local jurisdictions during a period of declining revenues as a consequence of increasingly intense competition among contenders for a piece of the budget pie.

The Constitutional provision (Article IX, Section 16) which stipulates that no less than one-third of the total annual appropriation must be reserved for capital projects and loans introduces additional allocation uncertainty under cash-based budgeting. During the years when General Fund contributions are being transferred into the CBB reserve fund, the remaining revenues available for appropriation are consequently diminished by the amount of the contribution. As total State revenues begin to decline around 1990, it is possible that the Constitutional constraints on the allocation of total appropriations may cause part of the burden of funding the CBB contribution to be borne by the Operating Budget since one-third of the total funds are reserved for the Capital Budget and loans.

### Revenue Stability - Smoothing

With the start of cash-based budgeting, an element of revenue stability would be introduced to the extent that revenues needed to cover future appropriations will be "in the bank." However, cash-based budgeting would do nothing to smooth out an erratic revenue stream (including both sharp increases and dramatic drops) since revenues would presumably be appropriated at the same level in which they were received 18 months earlier.

The cash-based budgeting program outlined in this report could be modified so that appropriation levels would follow smooth trends. The appropriation level could be tied to an average of revenues estimated for several years into the future. On the other hand, the appropriation level could be a function of the average appropriations over the past several years. Unfortunately, both smoothing techniques present substantial problems:

- When tied to an estimated average of future revenues, the smoothing technique defeats the purpose of cash-based budgeting, which is to eliminate the need to base budget preparation plans on forecasts of future revenues.

- When based on the average of past appropriation levels, the smoothing feature of cash-based budgeting fails to be effective under declining revenues. During a period of declining revenues, the average of past appropriations will always be higher than the amount of revenues available for appropriation in the coming budget year (if one assumes that all revenues are appropriated each year). In this instance, no smoothing will occur since the appropriation level each year will exactly track the revenues received.

#### Cash-Based Budgeting As An Expenditure Limitation<sup>20</sup>

The expenditure limitation concept inherent in cash-based budgeting is simply that appropriations are limited to cash on hand (revenues actually collected during the prior calendar year). Therefore, cash-based budgeting does not limit expenditures in the conventional sense. Expenditure limitation measures normally constrain appropriations to a level adjusted to account for changes in demand for government services (changes in population) and for changes in the cost of goods and services used by government (inflation). By contrast, the expenditure limit imposed by cash-based budgeting is simply bound to increases or declines in total State revenues which are in turn predominately dependent on changes in the price and production level of petroleum.

#### The Role of Cash-Based Budgeting in Fiscal Management

The potential for cash-based budgeting to serve as a fiscal management tool for addressing the concerns of deficit spending, fiscal restraint, expenditure limitation, revenue stability and the uncertainty of budgeting in a period of declining revenues has been outlined in this chapter. However, the concept of fiscal management requires an analysis of long-term budgeting considerations that should be a companion to this analysis of cash-based budgeting.

A conclusion which can be drawn from this report is that a comprehensive fiscal management analysis which examines all of the management tools at the State's disposal should be undertaken.

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<sup>20</sup>The concept of cash-based budgeting as an expenditure limitation mechanism discussed here relates only to those characteristics inherent in the concept of cash-based budgeting. CS HJR 39 contains two expenditure limitation provisions which differ from the concept described here. One of these provisions addresses the conventional link to population and inflation changes.

ARTICLE IX

Section 16

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

CURRENT CONSTITUTIONAL  
SPENDING LIMIT



ALASKA STATE LEGISLATURE  
HOUSE OF REPRESENTATIVES  
RESEARCH AGENCY

Pouch Y, State Capitol  
Juneau, Alaska 99811  
(907) 465-3991

September 21, 1984

MEMORANDUM

TO: Representative Joe Hayes

FROM: O. Alexander Hoke  
Legislative Analyst *O. Alexander Hoke*

Re: Cash-Based Budgeting Update and Review of OMB Report  
Research Request 85-010

As requested by Neil Phelps-Munson of your staff, this memorandum contains: 1) an analysis of the revenue requirements of Cash-Based Budgeting using current Department of Revenue forecasts; and 2) a review of the April 1984 report on Cash-Based Budgeting prepared by the Office of Management and Budget.

Four computer printouts showing alternatives for the development of a Cash-Based Budgeting (CBB) reserve fund are attached to this memorandum. All four cases are designed to use the smallest annual percentage contribution of General Fund unrestricted revenues that permit Cash-Based Budgeting to begin in FY 95. These printouts are similar to those used in our 1983 interim report on Cash-Based Budgeting. All four scenarios are based on the July 1984 revenue projections issued by the Department of Revenue. A new set of revenue projections is anticipated to be released by the Department of Revenue within the next few weeks. I have been informed that forecasts of petroleum revenues for the next few years may increase slightly in the new projections, but the long-range forecast should closely parallel those used in this analysis.

Tables 1 and 2 are based on the Department of Revenue 30th percentile forecast, while Tables 3 and 4 are based on mean revenue projections. Tables 2 and 4 differ from 1 and 3 in that a front-end "grubstake" contribution is assumed in FY 87. The size of the front-end contribution (\$675 million) is equivalent to the FY 87 forecast of the Permanent Fund undistributed income account balance. The four scenarios are summarized in the following table.

C.B.B. UPDATE AND  
REVIEW OF O.M.B. REPORT

<u>Table</u>	<u>Front-End Contribution</u>	<u>Revenue Forecast</u>	<u>Percentage Contribution of General Fund Unrestricted Revenues Required to Completely Fund the CBB Reserve for the Start of Cash-Based Budgeting in FY 95</u>
1	none	30th %	13.3
2	\$675 million	30th %	11.3
3	none	Mean	14.4
4	\$675 million	Mean	12.5

You will note that the percentage contributions shown in these projections are higher than those presented in our interim project report on Cash-Based Budgeting. The higher contribution percentages are a consequence of the delay in the start of the contribution period until FY 88. This delay is predicated on the assumption that the constitutional amendments necessary to implement Cash-Based Budgeting cannot be approved by the voters until the 1986 general election.

A second factor contributing to the higher contribution percentages is the arbitrary choice of FY 95 for the start of Cash-Based Budgeting. This start-up date was selected in response to the concerns you have expressed previously that the reserve be funded before State revenues decline too dramatically. Of course, I can execute the computer programs using any set of assumptions that you desire.

To give you a better feel for how the minimum percentage of General Fund revenues required to fund the CBB reserve relates to a compressed contribution period, I have included Table 5. This table shows a spread of contribution percentages which will fund the reserve for fiscal years ranging from 1993 to 1996. In general, as the contribution period becomes more compressed, a larger percentage contribution of General Fund revenues is required annually to fund the CBB reserve. A front-end contribution will effectively allow a shorter contribution period or a smaller contribution percentage.

#### Review of OMB Report on Cash-Based Budgeting

The Office of Management and Budget released a report on Cash-Based Budgeting in April of 1984.<sup>1</sup> This report contained three major

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<sup>1</sup>The OMB report was the third major study on Cash-Based Budgeting released during the 1984 legislative session. "Cash-Based Budgeting: A Response To Revenue Uncertainty" was published by the House Research Agency in January 1984. "Background Report: Forward Funding Budget System" was issued in March 1984 by the University of Alaska Institute of Social and Economic Research under contract with the Senate Advisory Council.

sections covering: 1) advantages and limitations of Cash-Based Budgeting; 2) alternatives for financing Cash-Based Budgeting; and 3) implementation issues. This report presented substantially the same issues and arguments that were presented in the House Research Agency study. Rather than point out areas of agreement in these two reports, we will focus our comments on the relatively few differences in our findings.

The OMB report begins by justifying Cash-Based Budgeting on the grounds that Alaska is "unusually susceptible to revenue uncertainty" and this uncertainty "results in a variety of budget-related problems and disruptions" (page 6-7). The report finds that Cash-Based Budgeting "would eliminate only some of the many interruptions in the budget process...probably would not contribute to shorter legislative sessions, and it probably would not provide any meaningful certainty for the recipients of State funds." (page 10) We agree that knowledge of the amount of revenues for appropriation is only one of many factors that can contribute to a smooth flow in the legislative deliberations of the State budget. There is some disagreement, however, on the potential for increased efficiency in budget preparation and ultimately shorter sessions. Certainly, time can be saved if all members of the legislature know from the outset exactly what amount of revenues are available for appropriation. There are a number of recent examples of mid-session adjusted forecasts causing a flurry of legislative discussions on alternatives for fine tuning the budget given the new revenue estimates. Cash-Based Budgeting would eliminate these disturbances and the time lost in reworking the budget.

We agree that much of the uncertainty over legislative appropriations among recipients of State funds would remain in spite of Cash-Based Budgeting. The difficult legislative process of setting priorities and allocating resources would be relatively unchanged by Cash-Based Budgeting. On the other hand, municipalities and school districts would likely have a better feel for formula-based allocations early in the session if total available funds were known at the outset.

The OMB report finds that "cash based budgeting would have no lasting effects on State savings,...would exert no lasting influence over State spending,...and imposes no restrictions on lawmaker's appropriation authority" (pages 11 and 12). The report argues that the savings function ends when the last contribution is made to the CBB reserve fund. As regards the influence on State spending, the OMB report explains that Cash-Based Budgeting limits spending only to available revenues, a restriction that essentially exists in the Executive Budget Act prohibition against deficit spending. Finally, the OMB report explains that Cash-Based Budgeting offers no restrictions to lawmaker's appropriation authority.

Although similar arguments are made in the House Research Agency report, we feel that the OMB findings overstate the limitations of Cash-Based Budgeting both as a savings instrument and as a restriction on State spending. It is quite true that the savings function of Cash-Based Budgeting occurs only while contributions are being made to the reserve fund. The significance of Cash-Based Budgeting as a savings device, however, lies in the timing of the savings function relative to projected State revenues. Cash-Based Budgeting, as it has been proposed, is designed to perform a savings function while State revenue surpluses are projected to exist. It would be counter-productive for Cash-Based Budgeting to continue the savings function during a period when State government may run short on revenues available to meet the costs of its operations. Continued diversion of revenues into a savings account (reserve fund) would only compound the problems of adjusting to diminished resources.

The OMB findings that Cash-Based Budgeting has no lasting influence on State spending misses two important considerations. First, Cash-Based Budgeting potentially permits an increase in State spending above the level that would be possible without Cash-Based Budgeting. Because Cash-Based Budgeting has the effect of maintaining a perpetual appropriation reserve (in the General Fund) equal to 1.5 times the level of annual revenue collections, the interest earnings on the reserve provide additional revenues available for expenditure each year. In other words, revenues available for appropriation each year would be augmented by the increased General Fund interest earnings that result from Cash-Based Budgeting.

The second point overlooked by the OMB findings is that the annual contributions of General Fund unrestricted revenues during the CBB reserve fund development period potentially has a long-term impact on State expenditure habits. Without this diversion of general funds during years of surplus revenues, the State could conceivably acquire an appetite for revenues sufficient to absorb any surpluses. With the diversion of surplus revenues into a CBB reserve fund, the State's appetite for increased appropriations would be limited to a level determined by the amount of the annual reserve fund contributions. Once Cash-based Budgeting begins and revenues start to decline, a habit of reduced expenditures and a lower expectation level of State government services would have been established. Consequently, a more disciplined government would emerge into the period of revenue declines than might otherwise have been the case.

The OMB report raises a concern that special and supplemental appropriations could present a problem under Cash-Based Budgeting (page 73). If, under Cash-Based Budgeting, all available revenues were appropriated in a given fiscal year, any special or supplemental appropriations

Representative Hayes  
September 21, 1984  
Page 5

measures would be prohibited, since Cash-Based Budgeting does not permit appropriations beyond the total revenues collected during the preceding calendar year. As suggested in the OMB study, this problem could be resolved by the creation of a contingency fund of sufficient size to handle special and supplemental appropriation requirements. For similar reasons, the OMB report suggests that an additional contingency fund (perhaps an augmented "rainy day fund") would be advisable in order to stabilize government expenditure levels during a year in which unusually low revenues were received. Current budgeting practices allow a little more flexibility in dealing with sporadic revenue shortages than is allowed under Cash-Based Budgeting.

The OMB report concludes (page 76) that when weighing benefits against costs, Cash-Based Budgeting probably fails to meet its two major objectives efficiently. Those objectives are: 1) to mitigate the budgetary problems associated with revenue uncertainty; and 2) to save surplus revenues in the near term in order to supplement revenues in a period of revenue decline. As a savings device, the OMB study suggests that the Permanent Fund is superior to Cash-based Budgeting. This finding relates to the expectation of somewhat lower interest earnings on CBB reserve (or General Fund) investments as compared to Permanent Fund investments due to the requirement that revenues under Cash-Based Budgeting be invested in liquid, short-term investments which generally yield lower rates of interest. As a device for addressing problems relating to revenue uncertainty, the OMB report finds "a well considered spending limitation" to be a less costly and more appropriate alternative to Cash-Based Budgeting.

The answer to these charges against Cash-Based Budgeting lies with the political probability that one or the other of these approaches would be implemented. Although the combination of increased contributions to the Permanent Fund (up to \$400 or \$500 million per year) coupled with consistent legislative restraint or an effective constitutional spending limit would be more efficient at achieving the above goals, what is the likelihood that this approach will be successful? Proponents of Cash-based Budgeting contend that the probability for political acceptance of Cash-Based Budgeting as a means of accomplishing these goals is greater than the likelihood that consistent Permanent Fund appropriations and conservative spending habits can be achieved year after year without Cash-Based Budgeting.

If you have any questions regarding this memorandum, or would like additional information, please call.

GAH

Attachments



ALASKA STATE LEGISLATURE  
HOUSE OF REPRESENTATIVES  
RESEARCH AGENCY

Pouch Y. State Capitol  
Juneau, Alaska 99811  
(907) 465-1991

MEMORANDUM

January 9, 1984

TO: Neil Phelps-Munson

FROM: Alexander Hoke

*Alexander Hoke*

REGARDING: Accelerated Start-up of Cash-Based Budgeting

I would like to bring to your attention two alternatives for accelerating the initiation date (start-up) of Cash-Based Budgeting. These options were not included in our outline for legislation.

Other than by simply increasing the percentage contributions to the CBB reserve fund each year, the following mechanisms could shorten the contribution period by one year each:

Early CBB Contribution. The point at which the CBB reserve fund would be sufficient to begin Cash-Based Budgeting could be made to occur one year earlier if an initial contribution were made as a "grubstake" to the reserve fund. If an appropriation to the CBB reserve fund of between \$250 and \$300 million (comparable to the annual percentage contribution) were made at the start of the contribution period, this amount and its interest earnings would effectively reduce the need for further contributions by \$600 million when Cash-Based Budgeting begins some seven to nine years later. Our preliminary calculations show that this early contribution could potentially cause the automatic CBB initiation to occur one year earlier than it otherwise would. Presumably, the "grubstake" appropriation would be made during this session and would be contingent on voter approval of the Cash-Based Budgeting constitutional amendment during the next general election.

Advanced Cash-Based Budgeting. According to the provisions in our CBB legislation outline, Cash-Based Budgeting would begin once the reserve fund equalled or exceeded the prior 18-months' revenues. This means that at the start of the fiscal year when this condition exists, probably between July 1, 1993 and July 1, 1995, the administration will begin to prepare the budget for the following fiscal year based on the

CASH BASED BUDGETING  
ACCELERATED START-UP PLAN

principles of Cash-Based Budgeting. By the time that the legislature approves this budget and it becomes effective, one year would have elapsed from the point at which the CBB reserve fund was large enough to fund Cash-Based Budgeting. In other words, there will be a one-year delay between the time that the CBB reserve fund is large enough and the point at which the first Cash-Based Budget becomes effective. During the elapsed year, additional investment earnings will accrue to the reserve fund, causing it to grow further beyond what is minimally required to start Cash-Based Budgeting.

The advanced Cash-Based Budgeting alternative would require that the Administration and the legislature project the growth of the CBB reserve fund each year and forecast the point at which reserve funds would be sufficient to start Cash-Based Budgeting. For example, if by July of 1993, the reserve fund contained about 90 percent of the funds needed to start Cash-Based Budgeting, and it became evident to the administration that the monthly percentage contributions would cause the fund to exceed the amount necessary for CBB startup by the end of the current fiscal year, then the next budget would be designed as a Cash-Based Budget assuming that CBB would start the following July 1. Likewise, the legislature would prepare a budget which anticipates that Cash-Based Budgeting will be effective at the start of the coming fiscal year. Consequently, the first Cash-Based Budget would become effective on the first July 1 for which the CBB reserve is sufficiently large to begin Cash-Based Budgeting, not one year later.

Of course, there exists the possibility that the administration and/or the legislature will inaccurately predict the size of the CBB reserve fund. The consequences of this error would be that the budget would be designed within the constraints of Cash-Based Budgeting; that total appropriations would be limited to the lesser of 95 percent of the prior calendar year's revenues or the total previous fiscal year appropriations adjusted for inflation and population changes.

With an annual growth rate of about \$600 to \$700 million towards the end of the contribution period, the CBB reserve fund will likely fall short of or exceed the required amount by several hundred million dollars making prediction of Cash-Based Budgeting start-up a simple matter. However, there would remain a chance that a prediction of whether or not Cash-Based Budgeting will become effective may result in a hair-

splitting decision for the legislature and even more so for the administration because of the greater uncertainty of their forecast. This may mean that the budget would have to be designed within the constraints of Cash-Based Budgeting even though this may not be required should the total CRB reserve fall short of having the funds needed to initiate Cash-Based Budgeting by the start of the fiscal year.

If you have any questions about these alternatives, please call me.

CS HJR 39 Sectional Analysis  
(Finance Committee Substitute)  
Prepared by House Research Agency

Chronological Sequence of Provisions

- 1) An appropriation reserve fund is created upon voter approval in the next general election.
- 2) Contributions to the reserve fund (as provided in Section 3 of this resolution) begin July 31, 1985 and continue through June 30 of the year in which the reserve balance exceeds 1.5 times the preceding year appropriations of unrestricted revenues.
- 3) General fund appropriations are limited (as provided in Section 4 of this resolution) during the period of time in which contributions are made to the reserve fund.
- 4) When sufficient funds to begin cash-based budgeting have been collected, the reserve fund balance is transferred into the treasury.
- 5) Once cash-based budgeting begins, a new spending limit (as defined in Section 1 of this resolution) is imposed.

Section 1.

This section replaces the existing State Constitutional spending limit provisions. According to Article 9, Section 16 of the Alaska Constitution, the present appropriation limit is equal to \$2.5 billion adjusted for federal indices of change in population and inflation since July 1, 1981, except for appropriations for permanent fund dividends, revenue bond proceeds, debt service on general obligation bonds, and non-State trust funds. Article 9 Section 16 further provides that within the appropriation limit, "at least one-third shall be reserved for capital projects and loan appropriations." Appropriations for capital projects above the appropriation limit are permitted if approved by the governor or passed by a three-fourths legislative veto override and if approved by the Alaska voters.

54-27

Section 1 of CS HJR 39 proposes to substitute for the current appropriation limit one of the following limitations, whichever is less:

1) the appropriations for the year that this constitutional limit becomes effective (see Section 5 for effective date), adjusted each year for changes in population and inflation; or

2) "95 percent of the unrestricted revenue of the State in the previous calendar year." (In a period of declining revenues, this would likely be the effective limit on State appropriations).

These limitation provisions become effective once cash-based budgeting begins (see Section 5 for the effective date). Appropriations which fall within the limits of this section exclude appropriations "to the permanent fund, appropriations of the proceeds of revenue or general obligations bonds and appropriations required to pay the principal and interest on general obligation bonds..."

#### Section 2.

An appropriation reserve fund is created in this section and is protected from appropriation except in a state of emergency or for meeting the general obligation bonded debt of the State. During a period of (roughly 7 to 9) years, contributions to the reserve fund will be made from unrestricted revenues as described in section 3 below. The reserve fund will be transferred into the treasury once the balance exceeds 1.5 times the preceding fiscal year appropriations of unrestricted revenue. This automatic termination of contributions to the reserve fund insures that cash-based budgeting will begin with the equivalent of 18 month's of State appropriations in the reserve.

This section further provides that the appropriation reserve balance is to be invested at competitive market rates and that all earnings from these investments will be retained by the reserve fund during the years when contributions are being made to the fund.

#### Section 3.

This section provides that 3.8 percent of unrestricted revenues received each month will be transferred into the appropriation reserve fund from July 31, 1985 until the reserve fund exceeds 1.5 times the appropriations of the preceding year. In other words, until the appropriation reserve fund contains a balance sufficient to begin cash-based budgeting, monthly contributions equal to 3.8 percent of the previous month's unrestricted revenues are deposited into the reserve fund.

#### Section 4.

This section provides for an interim appropriation limit to be effective during the period when contributions are being made to the appropriations reserve fund. Except for appropriations to the permanent fund or for bonded debt service, spending is limited under this section to the fiscal year appropriations on the effective date of this section adjusted annually for changes in population and inflation. Appropriations above this limit may be made only in a state of emergency.

A supplementary source of contributions to the reserve fund is provided in this section. These contributions equal 25 percent of any unappropriated revenues remaining at the end of each fiscal year during the contribution period. For example, unappropriated revenues would remain in the event that actual revenues received during the year exceed expectations, and more importantly, exceed total appropriations for the year.

#### Section 5.

This section establishes an effective date for the appropriation limitation defined in Section 1 of this resolution. The effective date is July 1 of the year following the fiscal year in which the appropriation reserve fund balance exceeds 1.5 times the preceding fiscal year appropriations.

#### Section 6.

This section provides that the Constitutional amendments proposed in this resolution shall be placed before the voters in the next general election.

## CS HJR 39 Appropriation Limitation Comparison to Existing Law

The appropriation limitation in Section 1 of CS HJR 39 differs from the existing appropriation limit (Article IX Section 16 of the Alaska Constitution) in the following ways:

### Appropriation Limit

The existing Constitutional limit equals \$2.5 billion adjusted annually for changes in population and inflation. Section 1 of CS HJR 39 provides that appropriations are limited by one of two limits, whichever is less:

- 1) the appropriations for the year that this constitutional limit becomes effective, adjusted each year for changes in population and inflation; or
- 2) "95 percent of the unrestricted revenue of the State in the previous calendar year."

### Base of Appropriation Limit

The existing Constitutional limit identifies a base amount of \$2.5 billion. By comparison, the first limit of Section 1 of CS HJR 39 identifies a base equal to "the amount appropriated in the fiscal year this section takes effect ...". Section 5 of CS HJR 39 defines the effective date of this section as the year following the fiscal year in which the balance of the appropriation reserve fund exceeds 1.5 times the appropriation of unrestricted revenue in the preceding fiscal year. This effective date can be thought of as the fiscal year in which cash-based budgeting begins (approximately FY 95).

### Population and Inflation Adjustment Indices

The existing Constitutional limit specifies that the base appropriation limit is to be adjusted by federal indices of change in inflation and population. CS HJR 39 states that the base limit is to be adjusted by changes in population and inflation as defined by law.

### One Third Capital Budget Reservation

The existing Constitutional expenditure limit states that within the limit of appropriations, "at least one-third shall be reserved for capital projects and loan appropriations." CS HJR 39 makes no such provisions.

### State of Disaster/Emergency

The existing Constitutional limit allows appropriations in excess of the limit "to meet a state of disaster declared by the governor as prescribed by law." CS HJR 39 similarly permits appropriations in excess of the limit when "a state of emergency is declared by the governor as provided by law."

FINANCE CS HJR 39  
COMPARISON TO EXISTING LAW

#### Other Exceptions for Appropriations Beyond the Limit

The existing Constitutional limit excludes from the limit: appropriations for Alaska permanent fund dividends. CS HJR 39 provides that Alaska permanent fund appropriations are excluded from the limit.

The existing Constitutional limit excludes from the limit: appropriations of revenue bond proceeds and appropriations to pay the principal and interest on general obligation bonds. CS HJR 39 excludes from the limit "appropriations of the proceeds of revenue or general obligation bonds and appropriations required to pay the principal and interest on general obligation bonds."

The existing Constitutional limit excludes from the limit: "appropriations of money received from a non-State source in trust for a specific purpose, including revenues of a public enterprise or public corporation of the State that issues revenue bonds...". CS HJR 39 makes no such provisions.

#### Appropriations During/For a Fiscal Year

The existing Constitutional limit applies to appropriations "made for a fiscal year". CS HJR 39 limits appropriations from the treasury "during a fiscal year".

#### Interim Appropriation Limit

Section 4 of CS HJR 39 contains provisions for an interim appropriation limit to be effective during the period when contributions are being made to the reserve fund. The provisions in this section differ from the appropriation limitation provisions of Section 1 in that Section 1 provides for a second limit based on "95 percent of the unrestricted revenue of the state for the previous calendar year." The interim limit does not impose this additional limitation.

SECTION 1

Section one amends the Constitution of the State of Alaska to allow the creation of a dedicated fund called the Appropriation Reserve Fund.

SECTION 2

Section two establishes a new constitutional appropriation limit that goes into effect in the same fiscal year that cash-based budgeting is implemented. The year that this new limit goes into effect is established as a base year that future budgets will be compared to. The new appropriation limit allows for growth in the state budget equal to the base year plus adjustments for population growth and inflation OR 95 percent of the unrestricted revenue from the previous calendar year, whichever is less. This new limit can only be broken if the governor uses his authority to declare a state of emergency.

SECTION 3

Section three creates the Appropriation Reserve Fund. Appropriations can only be made from the fund for emergency purposes or pay the principal and interest of general obligation bonds. During the accumulation period, the balance of the reserve fund is to be invested at competitive national market rates with all earnings being deposited back into the fund. On June 30th of the year that the reserve fund is greater than or equal to 1.5 times the previous fiscal years expenditure, the balance of the fund will be transferred to the general fund; no deposits shall be made into the fund after that date.

SECTION 4

Section four identifies the funding sources for the appropriation reserve fund. All funds generated by the settlement of the following litigations and disputes, that are unencumbered and unrestricted on or after July 1, 1985, will be deposited in the appropriation reserve fund.

- 1) TAPS pipeline tariff case
- 2) State of Alaska v. Amerada Hess
- 3) U.S. v. Alaska (Dinkum Sands)
- 4) State of Alaska v. U.S. (OCS case)

In addition to these sources, disputed oil and gas taxes for a tax year prior to January 5, 1985 that are paid after December 31, 1985 shall be deposited in the appropriation reserve fund.

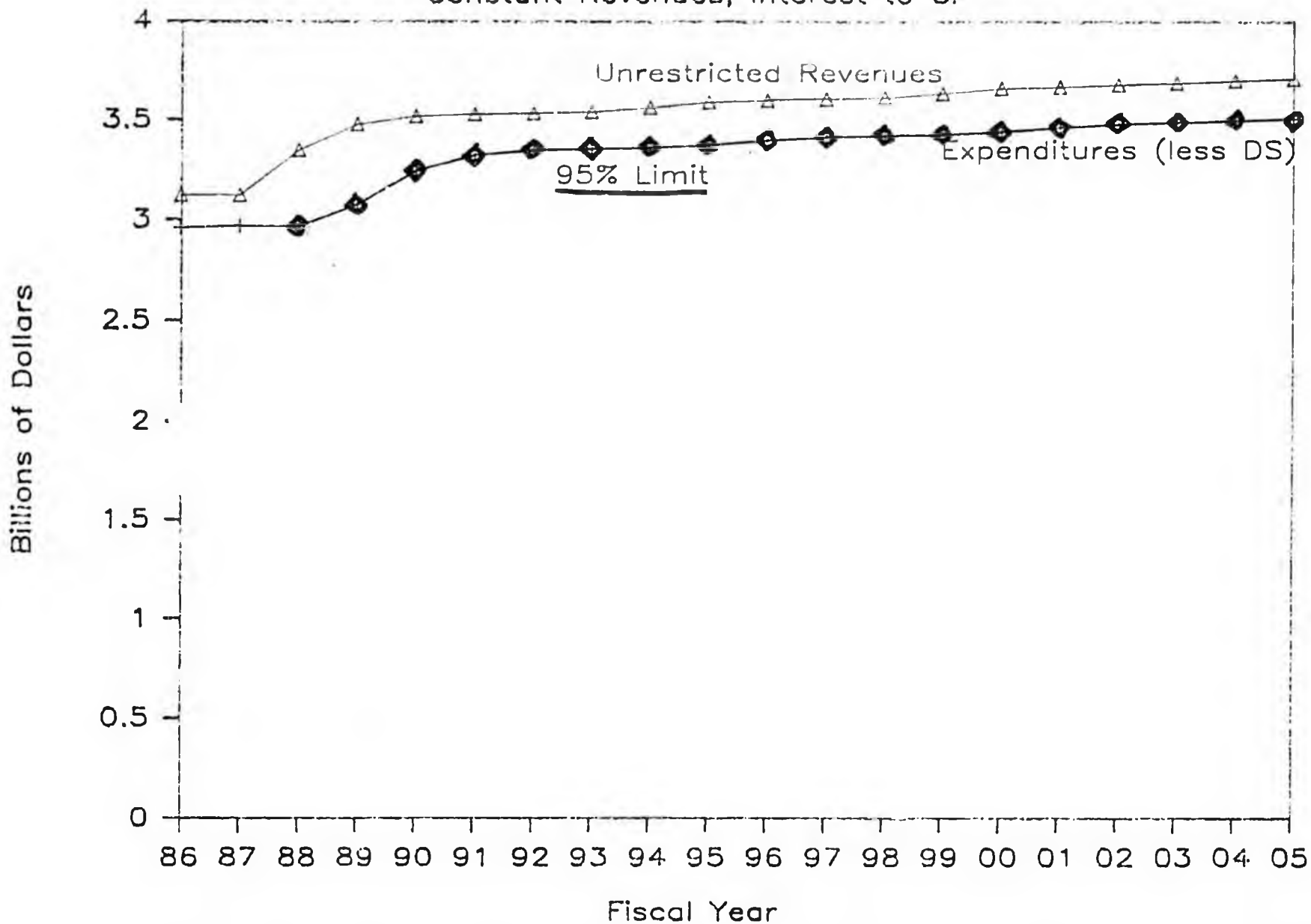
Section four also establishes a temporary appropriation limit that is in effect during the deposit period of the appropriation reserve fund. The temporary limit establishes FY 88 as a base year to compare future budgets against. During the deposit period of the reserve fund, growth of the state budget is restricted to the base year plus allowances for population growth and inflation. At the end of each fiscal year if there are any unencumbered, unrestricted revenues left, 75 percent of them will be deposited in the appropriation reserve fund and the remaining 25 percent are to be deposited into the Alaska permanent fund. This temporary appropriation limit is in effect until the switch to CBB is made; at that time the spending limit established in section two is implemented.

SECTION 5

Section five places the constitutional amendments proposed by this resolution before the voters on the 1986 general election ballot.

# EXPENDITURES UNDER HJR 22

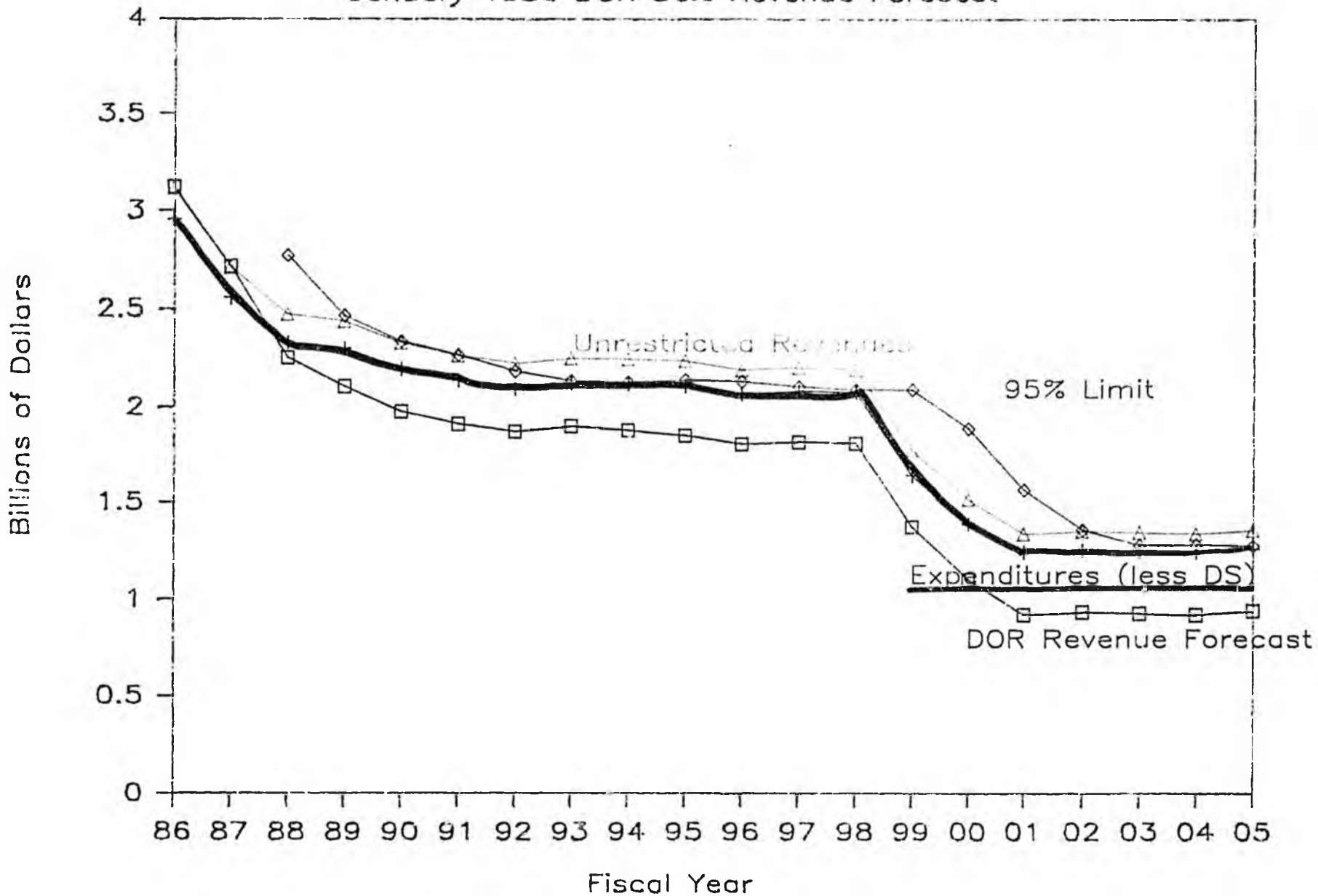
Constant Revenues, Interest to G.



NOTE: Assumes that cash-based budgeting begins in FY 88 with an initial General Fund balance of \$4.4 billion.

# EXPENDITURES UNDER HJR 22

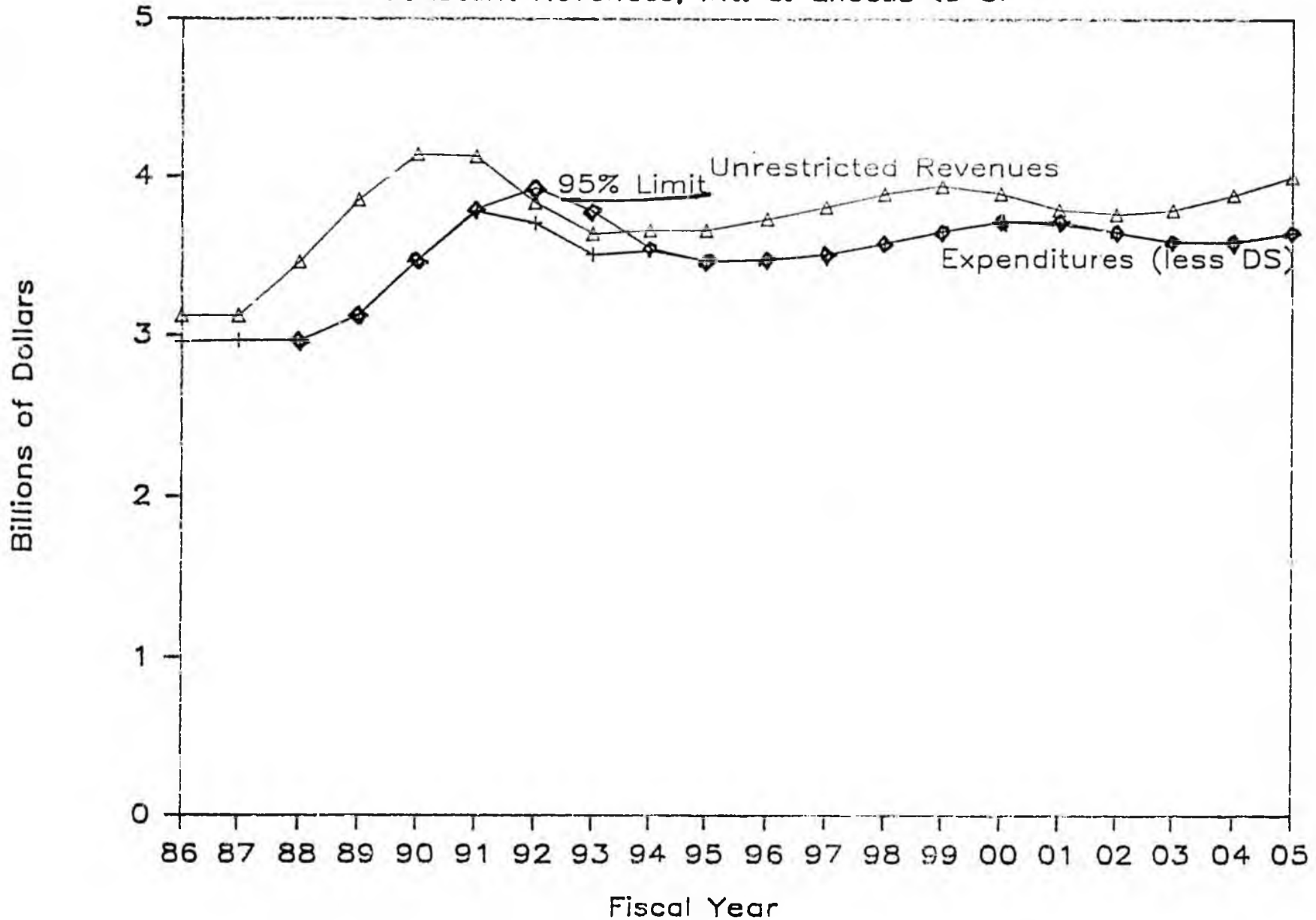
January 1986 DOR 30% Revenue Forecast



NOTE: Assumes that cash-based budgeting begins in FY 88 with an initial General Fund balance of \$4.4 billion.

# EXPENDITURES UNDER HJR 22

Constant Revenues, Int. & Excess to GF



NOTE: Assumes that cash-based budgeting begins in FY 88 with an initial General Fund balance of \$4.4 billion.