

HJR



# STATE OF ALASKA THE LEGISLATURE

## LEGISLATIVE AFFAIRS AGENCY

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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	2-5-86	1:30 pm
" "	2-27-86	1:30 pm
" "	2-28-86	1:30 pm

# HOUSE COMMITTEE REPORT

Date referred: 1/24/86

FURTHER REFERRALS: FINANCE

DATE: 2/28/86

The JUDICIARY Committee has considered HR 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 62 (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

SIGNING DO PASS:

Mark Miller  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

SIGNING OTHER RECOMMENDATIONS:

Mark Miller NO REC  
Robert Kelly NO REC  
Mark Miller do not pass  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Mark Miller  
Chairman

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:

11 SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or  
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19 repealed and readopted to read: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  
21 state sources for a fiscal year, excluding appropriations to the  
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.

24 \* Sec. 4. Article XV, Constitution of the State of Alaska, is amended  
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  
7 before the voters of the state at the next general election in conformity  
8 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-  
9 tion laws of the state.

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

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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.

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7 before the voters of the state at the next general election in conformity  
8 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-  
9 tion laws of the state.

# STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

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

**REQUEST**

Bill/Resolution No. : CS HB513/JR 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						
<b>TOTAL OPERATING</b>		-0-	-0-	-0-	-0-	-0-
<b>CAPITAL</b>						
<b>REVENUE</b>						

**FUNDING : (Thousands of Dollars)**

GENERAL FUND		-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>						

**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

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.

# STATE OF ALASKA

## DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

BILL SHEFFIELD, GOVERNOR

POUCH K - STATE CAPITOL  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-3600

February 10, 1986

Honorable Mike Miller  
Chairman, House Judiciary Committee  
Alaska State Legislature  
P. C. Box V  
Juneau, Alaska 99811

Re: HB 513 and HJR 62 (budget  
reserve fund and appropria-  
tion limit)

Dear Mike:

As you requested at the House Judiciary Committee hearing on February 5, 1986, here are some amendments to these two measures, dealing with points raised by various committee members:

1. In the resolution, on page 2, line 14, delete the words "the governor determines that." Thus, the beginning of that subsection (b) will read "If the money received by the state from state sources in a fiscal year is less than the amount...." It is not necessary to add anything to the bill to specify whose responsibility it is to make the determination that the money received is less, because proposed AS 37.05.156(d) in the bill already refers to the governor, making that responsibility clear. This should resolve the question of the judicial reviewability of that determination, as raised by Representative Clocksin.

2. In the resolution, do something like the following:

Page 2, line 25, delete "a" and change "section" to read "sections."

Page 2, after line 29, insert:

SECTION 30. EFFECTIVE DATE. If approved by the voters, this amendment to the Constitution of the State of Alaska, consisting of an amendment to art. IX, sec. 7; the repeal and re-adoption of art. IX, sec. 16; and

the addition of art. IX, sec. 17, and art. XV, sec. 29, takes effect as follows:

(1) if, in voting again on the 1982 version of art. IX, sec. 16, as required by art. XV, sec. 27, the voters reject that version of art. IX, sec. 16, this amendment takes effect thirty days after the certification of the 1986 general election returns by the lieutenant governor;

(2) if, in voting again on the 1982 version of art. IX, sec. 16, as required by art. XV, sec. 27, the voters do not reject that version of art. IX, sec. 16, this amendment takes effect forty days after the certification of the 1986 general election returns by the lieutenant governor.

Nothing regarding this point need be done in the bill. The bill's sec. 2, regarding the lieutenant governor's explanation of the new provision's supersession of the old one, is still appropriate.

This proposal, relying on art. XIII, sec. 1's provision on the effective date of an amendment to the constitution, should resolve the question raised by Representative Gruenberg concerning the point that sec. 2 of the bill addresses. After trying some draft wording, we did not take the approach discussed at the committee hearing, to the effect that a voter's affirmative vote on both questions would nullify that voter's vote on both questions. The sensitivity of disenfranchisement issues and the need to determine voter intent deterred us. In fact, rather than two "yes" votes being totally illogical, a voter who wanted to make sure that the state did not end up with no appropriation limit may very well vote "yes" on both questions. He or she might not want to risk voting "no" on either of them. The effective-date approach offered here solves the problem of the re-vote on the old appropriation limit, while avoiding other problems. Although wordy, it is conceptually simple.

The number "forty" in paragraph (2) of the proposed sec. 30 has no special significance other than that it is a convenient number greater than thirty. Although the re-affirmation of the old appropriation limit is not exactly an amendment, which would take effect 30 days after certification of the election results, its status would be clear by that date. Giving the new spending limit a slightly later effec-

tive date avoids any issue concerning certification and effective dates. Referring to the voters "rejecting," rather than "approving," the 1982 version tracks art. XV, sec. 27.

3. A question was raised concerning the definition of "emergency" that appears in proposed AS 37.05.156(f). That definition covers two kinds of situations -- those that could be called "natural disasters" and those that relate to state income. In dealing with the former category, our definition refers to AS 26.23.230(1), a paragraph that contains the definition of "disaster" for the purposes of the Alaska Disaster Act. At the committee hearing, someone asked about the relationship between our bill and the federal Disaster Relief Act of 1974. However, the definition that we have incorporated by reference does not include a reference to that federal Act. Only AS 26.23.230(3), (4), and (6) refer to the federal Act. Our reference to paragraph (1) thus picks up only the following:

...the occurrence or imminent threat of widespread or severe damage, injury, or loss of life or property resulting from any natural or nonmilitary man-made cause including, but not limited to, fire, flood, earthquake, landslide, mudslide, avalanche, wind-driven water, weather condition, tsunami, oil spill or other water contamination requiring emergency action to avert danger or damage, volcanic activity, epidemic, air contamination, blight, infestation, explosion, riot, equipment failure, or shortage of food, water, fuel, or clothing.

Consequently, I do not think that we have a problem and the federal Act is not relevant. However, perhaps this would be made clearer by inserting on the bill's page 2, line 20, after the words "set out in," the words "the definition of 'disaster' in." Thus, the first part of the definition of "emergency" would read: "...the events set out in the definition of 'disaster' in AS 26.23.230(1) or a reduction of the revenue from nonstate sources...." Perhaps I did not understand the committee's concern about this point.

The suggestions in this letter are in addition to the one in my February 3 letter to you regarding the definition of "state source."

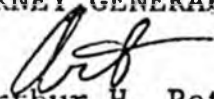
Honorable Mike Miller  
Chairman, House Judiciary Committee

February 10, 1986  
Page 4

Thank you for this opportunity to work on the bill and resolution with you and your committee.

Very truly yours,

HAROLD M. BROWN  
ATTORNEY GENERAL

By:   
Arthur H. Peterson  
Assistant Attorney General

AHP:md

cc: Milton E. Barker  
Deputy Commissioner, Treasury  
Dept. of Revenue

Gordon Harrison, Associate Director  
Div. of Strategic Planning  
OMB

Jay Hogan, Associate Director  
Div. of Budget Review  
OMB

Jim Ayers  
Director of Legislative Relations  
Governor's Office

James L. Baldwin  
Assistant Attorney General  
Juneau

Office of Management and Budget  
Division of Strategic Planning

February 3, 1986

HOUSE JOINT RESOLUTION (HJR) 62

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

SECTIONAL ANALYSIS

Section 1

This section amends Article IX (Finance and Taxation), Section 7 (Dedicated Funds), of the Alaska Constitution, by adding an exception to Section 7's prohibition against the dedication of State proceeds. The exception allows revenue receipts which exceed the Budget Reserve Fund (BRF) appropriation ceiling to be deposited in the BRF, as provided in Section 17 of Article IX.

(The BRF appropriation ceiling is established in Section 2 of the resolution. Section 17 of Article IX of the Alaska Constitution is a new section, added by Section 3 of the resolution.)

Section 2

This section repeals and readopts Article IX (Finance and Taxation), Section 16 (Appropriation Limit), of the Alaska Constitution, which currently provides for the State's existing appropriation limit. Under this section of the resolution, the existing limit would be repealed and replaced with a new appropriation limit.

(NOTE: See the Office of Management and Budget sectional analysis of House Bill 513, Section 2, for a discussion of the ballot implications surrounding this repeal and re-adoption.)

Generally, the new appropriation limit restricts appropriations for a given fiscal year to an amount not exceeding 115 percent of the total amount of appropriations enacted during the calendar year which precedes the start of that fiscal year. The calendar-year basis is employed to ensure that legislators will know at the start of legislative

sessions precisely how much money they can appropriate for the coming fiscal year's budget.

Three qualifications should be noted, however, about the scope of application of the new appropriation limit.

One qualification is that the limit applies only to appropriations of money from "state sources". "State source" is defined in Section 1, Subsection (g), of House Bill 513 as including: (1) the undistributed income account in the Permanent Fund; and, (2) all sources of money in the General Fund except federal sources, bond proceeds, and sources from which money is received in trust for a specific purpose. So defined, money from State sources closely approximates what is referred to in budgetary parlance as "unrestricted general funds". The lengthy definition is required because the phrase "unrestricted general funds", while widely understood, has not been previously defined.

A second qualification involves the exception specified at lines 23-24 of the resolution ("...except as authorized by Sec. 17 of this Article"). This exception refers to Section 3, Subsection (b) of the resolution, where certain "excess money" is authorized for appropriation even if its appropriation causes the 115 percent appropriation limit to be exceeded. This "excess money" occurs when deposits to the BRF cause the BRF's annually established capacity (maximum size) to be exceeded. (See the discussion under Section 2 of the resolution, Subsection (b), below.)

A third qualification, not apparent solely from a reading of Section 2 of the resolution, but nonetheless relevant, is that Section 4 of the resolution excludes from the new appropriation limit any appropriation to the Permanent Fund made during calendar year 1986.

### Section 3

This section amends Article IX (Finance and Taxation) of the Alaska Constitution by adding a Section 7 (Budget Reserve Fund).

Subsection (a) effectively stipulates that all surplus unrestricted general fund revenues in excess of the appropriation ceiling must be deposited directly into the BRF, until the BRF's capacity, or maximum size, is reached. The BRF's capacity is annually set equal to the total amount of appropriations enacted during the preceding calendar year. Restricting the BRF's capacity in this manner avoids the accumulation of excessively large cash balances in the BRF; i.e., it ensures that the BRF remains a cash flow management account, as opposed to becoming a savings account.

Subsection (b) effectively stipulates that, whenever deposits cause the BRF's capacity to be exceeded, the excess is to be divided between the Permanent Fund (75 percent of the excess) and the General Fund (25 percent of the excess). This subsection further stipulates that any excess money so transferred to the General Fund may be appropriated even if its appropriation causes the 115 percent appropriation ceiling to be exceeded.

Subsection (c) requires that money in the BRF must be invested at competitive market rates, and that earnings on those investments is to be retained in the BRF.

Subsection (d) effectively stipulates that money in the BRF may be appropriated and spent if the Governor determines that unrestricted general fund revenue receipts in a fiscal year have fallen below the level of total appropriations enacted during the preceding calendar year.

The provision "...as provided by law" (line 17) refers to the fact that the precise level of shortfall that triggers the Governor's determination is actually established by statute, rather than by the constitutional language appearing in this subsection. Specifically, House Bill 513 (Section 1, Subsection (d) of the bill) stipulates that the Governor shall authorize BRF outlays only when fiscal-year revenue receipts fall below a level equal to 95 percent of total appropriations enacted during the preceding calendar year. Setting this floor level in statute allows flexibility in adjusting to changing circumstances.

Subsection (d) further stipulates (lines 18-19) that, regardless of the degree of shortfall that may occur, no more than 25 percent of the BRF balance may be used to support appropriations for a given fiscal year. The exception present in line 18 ("...except as otherwise provided in this section") refers to the Governor's authority to use the BRF balance to meet State emergencies, which is provided for in Subsection (e), below.

Subsection (e) authorizes the Governor to use the money in the BRF in the event of State emergencies. The qualification in line 23 ("...as prescribed by law") refers to the fact that "emergency" is defined in House Bill 513 (Section 1, Subsection (f) as "...the events set out in AS 26.23.230(1) or a reduction of the revenue from nonstate sources which seriously impairs the ability of the state to perform essential functions."

Section 4

This section amends Article XV (Schedule of Transitional Measures) of the Alaska Constitution by adding a Section 29 (First Year of 1986 Revised Appropriation Limitation).

Effectively, this section stipulates that any appropriation made to the Permanent Fund during calendar year 1986 shall not be included in any determination of the 115 percent appropriation ceiling.

Section 5

This section stipulates that the amendments proposed in HJR 62 shall be placed before the voters in the next general election.

OPENING STATEMENT TO  
HOUSE JUDICIARY COMMITTEE  
FEBRUARY 5, 1986

BY

GORDON S. HARRISON\*

GOOD AFTERNOON, MISTER CHAIRMAN, AND MEMBERS OF THE COMMITTEE.

MY NAME IS GORDON HARRISON, AND I AM THE ASSOCIATE DIRECTOR FOR STRATEGIC PLANNING IN THE GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET. I WOULD LIKE TO THANK YOU FOR THE OPPORTUNITY TO DISCUSS WITH YOU TODAY HOUSE JOINT RESOLUTION 62 AND HOUSE BILL 513, WHICH ARE GOVERNOR SHEFFIELD'S PROPOSAL TO CREATE A BUDGET RESERVE FUND.

I WOULD LIKE TO MAKE A VERY BRIEF STATEMENT ABOUT THE BUDGET RESERVE FUND AND THE GOVERNOR'S REASONS FOR PROPOSING IT, AND THEN ASSIST IN ANY WAY THAT I CAN IN RESPONDING TO THE COMMITTEE'S QUESTIONS. HERE TO ASSIST ME IN THAT TASK IS JACK FARGNOLI, FROM MY OFFICE.

MISTER CHAIRMAN, MEMBERS OF THE COMMITTEE, HJR 62 AND HB 513 ARE COMPANION PIECES OF LEGISLATION WHICH ADDRESS ONE OF THE MOST IMPORTANT PROBLEMS FACING THE STATE. THAT PROBLEM IS FISCAL STABILITY. ITS COUNTERPART, GIVEN THE PERVASIVE ROLE

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\* ASSOCIATE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET  
DIVISION OF STRATEGIC PLANNING.

OF STATE EXPENDITURES IN ALASKA, IS OF COURSE ECONOMIC STABILITY.

MISTER CHAIRMAN, IT IS HARD TO OVER DRAMATIZE THE PRECARIOUS FISCAL POSITION OF THE STATE OF ALASKA AT THE MOMENT. WE ARE ALL UNCOMFORTABLY AWARE OF THE RECENT STEEP SLIDE OF OIL PRICES. IN THE LAST 30 DAYS, THE SPOT MARKET PRICE FOR MARKER CRUDE OILS HAS FALLEN \$10, A 40 PERCENT DECREASE.

GOVERNOR SHEFFIELD HAS PROPOSED AN FY 87 BUDGET OF \$2.66 BILLION (UNRESTRICTED GENERAL FUNDS). WHAT IS THE OUTLOOK FOR FY 88? EVEN IF THE DEPARTMENT OF REVENUE DOES NOT REVISE DOWNWARD ITS REVENUE FORECAST IN MARCH, AND IF THE GOVERNOR'S PROPOSED FY 87 BUDGET IS NOT EXCEEDED, WE STILL FACE A REDUCTION IN SPENDING IN FY 88 OF APPROXIMATELY \$400 MILLION.

HOWEVER, AS THE MEMBERS OF THIS COMMITTEE KNOW, THE GOVERNOR'S FY 87 BUDGET DOES NOT INCLUDE OUR SO-CALLED "WINDFALL" REVENUE; MONEY WE HAVE ALREADY RECEIVED, OR WILL SOON RECEIVE, FROM NEGOTIATED SETTLEMENTS OF LITIGATION WITH OIL COMPANIES. IF THIS MONEY IS PUT TO USE IN THE BUDGET RESERVE FUND, AS THE GOVERNOR PROPOSES, IT WILL BE AVAILABLE TO HELP MITIGATE THE SPENDING CUTBACKS WE ANTICIPATE NEXT YEAR AND THEREAFTER.

GRANTED, THERE ARE MANY PRESSING AND UNMET NEEDS IN ALASKA TODAY, AND EVERY DOLLAR OF OUR WINDFALL REVENUE COULD BE SPENT ON WORTHY CAPITAL PROJECTS, PUBLIC SERVICES, AND REVENUE SHARING PROGRAMS. BUT THE LONG VIEW OF OUR FISCAL SITUATION COMPELS US TO DEFER THE USE OF THIS MONEY; TO

ANTICIPATE THE FUTURE WHEN OUR NEEDS ARE LIKELY TO BE EVEN MORE ACUTE.

THE BUDGET RESERVE FUND PROVIDES THE MECHANISM TO ACCOMPLISH THIS. ITS PURPOSE IS TO STABILIZE STATE SPENDING IN THE YEARS AHEAD BY REQUIRING US TO SAVE A PORTION OF WINDFALL REVENUES WHENEVER THESE MAY APPEAR. THE BUDGET RESERVE FUND PLAN IN HJR 62 AND HB 513 DOES THIS BY ESTABLISHING A FLOOR FOR ANNUAL APPROPRIATIONS, AND A CEILING. WHEN ANNUAL REVENUE RECEIPTS FALL BELOW THE FLOOR, THE BUDGET RESERVE FUND WILL LAY OUT MONEY TO SUPPORT EXTRA APPROPRIATIONS. WHEN RECEIPTS EXCEED THE CEILING, THE SURPLUS IS USED TO REPLENISH THE FUND. THIS "BUFFERING" EFFECT, OR DAMPENING OF THE ANNUAL FLUCTUATIONS IN STATE BUDGET LEVELS, IS PRECISELY WHAT IS NEEDED TO MINIMIZE OUR VULNERABILITY TO BUDGETARY AND ECONOMIC SHOCKS.

AS REGARDS THE OPERATIONS OF THE BUDGET RESERVE FUND, MISTER CHAIRMAN, LET ME SAY THAT WE HAVE GENERALLY STRUCTURED OUR PROPOSAL SO THAT THE OPERATIVE LIMIT AND THRESHOLDS OF THE FUND ARE CONTAINED IN THE BILL, WHILE THE FUND'S ESTABLISHMENT AND THE APPROPRIATION LIMIT ARE CONTAINED IN THE CONSTITUTIONAL AMENDMENT. THIS APPROACH OFFERS A NECESSARY BALANCE BETWEEN TWO IMPORTANT CONSIDERATIONS. ONE IS TO PRESERVE THE LEGISLATURE'S ABILITY TO MODIFY THE BUDGET RESERVE FUND'S EFFECTS ON APPROPRIATIONS, ESPECIALLY AS WE ADJUST TO CHANGING CIRCUMSTANCES IN THE FUTURE. THE SECOND IS TO BRING THE STRENGTH OF CONSTITUTIONAL PROTECTION TO THE FUND'S UNDERLYING PURPOSES AND PRINCIPLES.

IN CLOSING, LET ME SAY THAT IT CERTAINLY IS GOVERNOR SHEFFIELD'S OPINION, AS WELL AS OUR OWN AT OMB, THAT THE LONG-TERM BENEFITS OF BUDGETARY AND ECONOMIC STABILITY WHICH THE BUDGET RESERVE FUND OFFERS, REPRESENT ONE OF THE MOST IMPORTANT STEPS THAT WE CAN TAKE TO ASSURE STABILITY AND PROSPERITY FOR ALL ALASKANS IN THE COMING YEARS.

MISTER CHAIRMAN, MEMBERS OF THE COMMITTEE, I HAVE INTENTIONALLY KEPT THESE COMMENTS BRIEF AND GENERAL IN NATURE, IN THE INTEREST OF GETTING DIRECTLY TO THE COMMITTEE'S CONCERNS, AND IN THE INTEREST OF NOT STARTING OUT WITH DETAILS WITH WHICH THE COMMITTEE MAY ALREADY BE FAMILIAR. AT THIS POINT, I AM PREPARED TO EITHER DEPICT MORE FULLY WHAT THE LEGISLATIVE ITEMS BEFORE YOU PROPOSE TO DO, OR TO RESPOND AS BEST I CAN TO THE COMMITTEE'S QUESTIONS.



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

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