

COMMITTEE REPORT

SENATE

FURTHER:

4/4/86

Date 5/6/86

Mr. President

The Committee on FINANCE considered SJR 34

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

and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for SJR 34 (Fin)
- new title
- same title and recommends _____
- and attached a "LETTER OF INTENT" NEW FISCAL NOTE
- E SFC
- reports it back without recommendation
- recommends referral to _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS

James NR
Rich Helford do not pass
Paul Fink. NR

Chairman
 Co- do pass
 Chairman recommendation

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : CSSJR 34 (Fin)
 Title : Proposing amendment to AK
Constitution re use & expenditure
of state money
 Sponsor : _____
 Requestor : _____
 Date of Request : _____

FISCAL DETAIL

Agency Affected : All
 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						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING : (Thousands of Dollars)

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

POSITIONS :

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : _____
 Division : Senator Jan Faiks, Co-chairman
Senate Finance Committee

Phone : 465- 523
 Date : 5/6/85

Approved by Commissioner : _____
 Agency : _____

Date : _____

Distribution (by Agency preparing fiscal note) :

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

Cook
5/5/86

Original sponsor: Rules/Governor

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE JOINT RESOLUTION NO. 34 (Finance)

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 amended to read:

20 SECTION 16. APPROPRIATION LIMIT. Except for appropriations to
21 the permanent fund or for Alaska permanent fund dividends, appropria-
22 tions to the budget reserve fund, appropriations of revenue bond
23 proceeds, appropriations required to pay the principal and interest on
24 general obligation bonds, and appropriations of money received from a
25 non-state source in trust for a specific purpose, including revenues
26 of a public enterprise or public corporation of the state that issues
27 revenue bonds, appropriations from the treasury made for a fiscal year
28 shall not exceed appropriations made for the preceding fiscal year
29 [\$2,500,000,000] by more than five percent plus the [CUMULATIVE]

1 change, derived [FROM FEDERAL INDICES] as prescribed by law, in popu-
2 lation and inflation since the beginning of the preceding fiscal year
3 [JULY 1, 1981. WITHIN THIS LIMIT, AT LEAST ONE-THIRD SHALL BE RE-
4 SERVED FOR CAPITAL PROJECTS AND LOAN APPROPRIATIONS]. The legislature
5 may exceed this limit in bills for appropriations [TO THE ALASKA
6 PERMANENT FUND AND IN BILLS FOR APPROPRIATIONS FOR CAPITAL PROJECTS,]
7 whether of bond proceeds or otherwise, if each bill is approved by the
8 governor, or passed by affirmative vote of three-fourths of the mem-
9 bership of the legislature over a veto or item veto, or becomes law
10 without signature, and is also approved by the voters as prescribed by
11 law. Each bill for appropriations for capital projects in excess of
12 the limit shall be confined to capital projects of the same type, and
13 the voters shall, as provided by law, be informed of the cost of
14 operations and maintenance of the capital projects. [NO OTHER APPRO-
15 PRIATION IN EXCESS OF THIS LIMIT MAY BE MADE EXCEPT TO MEET A STATE OF
16 DISASTER DECLARED BY THE GOVERNOR AS PRESCRIBED BY LAW. THE GOVERNOR
17 SHALL CAUSE ANY UNEXPENDED AND UNAPPROPRIATED BALANCE TO BE INVESTED
18 SO AS TO YIELD COMPETITIVE MARKET RATES TO THE TREASURY.]

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

21 SECTION 17. BUDGET RESERVE FUND. (a) Money received by the
22 state that is subject to the appropriation limit under Section 16 of
23 this article and that exceeds that appropriation limit, shall be
24 deposited in the budget reserve fund. Additional appropriations may
25 be made to the budget reserve fund.

26 (b) Money in the budget reserve fund shall be invested so as to
27 yield competitive market rates to the fund. Income from investment of
28 the fund shall be retained in the fund.

29 (c) If the legislature determines that the money subject to the

1 appropriation limit received by the state in a fiscal year is less
2 than the maximum amount that may be appropriated under Section 16 of
3 this article, up to twenty-five percent of the budget reserve fund
4 balance may be appropriated to the general fund.

5 (d) Notwithstanding the appropriation limit in this section and
6 in Section 16 of this article, additional amounts may be appropriated
7 from the budget reserve fund to meet a state disaster declared by the
8 governor as prescribed by law.

9 * Sec. 4. Article XV, Constitution of the State of Alaska, is amended
10 by adding new sections to read:

11 SECTION 29. EFFECTIVE DATE. If a majority of those voting in
12 1986 on the reconsideration of the 1982 amendment limiting appropria-
13 tion increases approves the 1982 amendment, the 1986 amendment repeal-
14 ing and readopting Section 16 of Article IX takes effect forty days
15 after the certification of the 1986 general election returns by the
16 lieutenant governor. If a majority rejects the 1982 amendment, the
17 1986 amendment repealing and readopting Section 16 of Article IX takes
18 effect thirty days after certification of the 1986 general election
19 returns.

20 SECTION 30. RECONSIDERATION OF AMENDMENT LIMITING INCREASE IN
21 APPROPRIATIONS. If the 1986 amendment limiting appropriation increase
22 (art. IX, sec. 16) and establishing the budget reserve fund (art. IX,
23 sec. 17) is adopted, the lieutenant governor shall cause the ballot
24 title and proposition for the amendment to be placed on the ballot
25 again at the general election in 1990. If the majority of those
26 voting on the proposition in 1990 rejects the amendment, Sections 16
27 and 17 of Article IX are repealed and the reference to Section 17 of
28 Article IX is deleted from Section 7 of Article IX.

29 * Sec. 5. The lieutenant governor shall include on the ballot for the

1 1986 general election an explanation that an affirmative vote on the con-
2 stitutional amendment providing for the budget reserve fund and revising
3 the appropriation limit will supersede an affirmative vote on the reconsid-
4 eration under art. XV, sec. 27, of the Alaska Constitution, of the 1982
5 amendment establishing the appropriation limit.

6 * Sec. 6. 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.

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Sectional Analysis
for
Proposed Senate Finance Committee Substitute
for SJR 34

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

Section 1. DEDICATED FUNDS. Amends this section of the Alaska Constitution so that the Budget Reserve Fund is an exception to the prohibition against dedicated funds.

Section 2. ALASKA PERMANENT FUND. Amends this section of the Constitution which will enable 10% of the fund's interest earnings be deposited in the Budget Reserve Fund as stipulated in Section 17(a).

Section 3. APPROPRIATION LIMIT. Amends the existing constitutional appropriation limit by providing that an appropriation for a fiscal year can not exceed the amount appropriated the preceding fiscal year by a change in population and inflation. The limit, however, can be exceeded in bills for appropriations which are approved by the voters.

Section 4. BUDGET RESERVE FUND. Adds a new section to the Constitution establishing the Budget Reserve Fund.

(a) Provides that any money which exceeds the appropriation limit shall be deposited in the Budget Reserve Fund. Also provides that after the amount necessary for payment of permanent fund dividends is calculated, 10 percent of the remaining interest earnings shall be deposited in the Budget Reserve Fund. The Legislature can make additional appropriations to the fund.

(b) Money in the fund shall be invested to yield competitive rates and that its income shall be retained in the fund.

(c) If the Legislature determines that there is less than the maximum amount permitted under the appropriation limit, it can appropriate up to 25% of the budget reserve fund balance to the general fund.

(d) Provides that additional funds above the limit can be appropriated to meet a disaster as declared by the Governor.

Section 5. Adds the following new sections to the Constitution:

Section 29. EFFECTIVE DATE. If the voters approve reconsideration of the 1982 appropriation limit, the 1986 amendment repealing and readopting the limit takes effect 40 days after the election is certified. If the voters reject the 1982 amendment, the 1986 amendment repealing and readopting the appropriation limit takes effect 30 days after certification of the returns.

Section 30. RECONSIDERATION OF AMENDMENT LIMITING INCREASE IN APPROPRIATIONS. If the 1986 appropriation limit and budget reserve fund is adopted, the two measures will be again brought before the voters in 1990. If the voters reject the two sections in 1990, Section 16 (appropriation limit) and Section 17 (budget reserve fund) are repealed.

Section 6. The 1986 ballot will include an explanation that an affirmative vote on the budget reserve fund and revisions to the appropriation limit will supersede a yes vote on the reconsideration of the 1982 appropriation limit.

Section 7. Provides that the constitutional amendments shall be before the voters at the next general election.

Sectional Analysis
for

CS SJR 34 (Finance)
(5/5/86 draft version)

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

Section 1. Amends this section of the Alaska Constitution so that the Budget Reserve Fund is an exception to the prohibition against dedicated funds.

Section 2. APPROPRIATION LIMIT. Amends existing constitutional appropriation limit by providing that an appropriation for a fiscal year can not exceed the amount appropriated the preceding calendar year by a change in population plus inflation plus 5%. Excluded from the limit are appropriations to the Permanent Fund, to the Budget Reserve Fund. The limit can be exceeded for appropriations approved by the voters.

Section 3. BUDGET RESERVE FUND.

(a) Provides that monies received above the appropriation limit shall be deposited in the budget reserve fund and that additional appropriations to the fund can be made.

(b) Provides that the fund shall be invested to yield competitive market rates and that investment income shall be retained in the fund.

(c) If the Legislature determines that there is less than the maximum amount permitted under the appropriation limit, it can appropriate up to 25% of the budget reserve fund balance to the general fund.

(d) Additional funds above the limit can be appropriated to meet a disaster as declared by the Governor.

Section 4. Adds the following new sections to the Constitution:

Section 29. EFFECTIVE DATE. If the voters approve reconsideration of the 1982 appropriation limit, the 1986 amendment repealing and readopting the limit takes effect 40 days after the election is certified. If the voters reject the 1982 amendment, the 1986 amendment repealing and readopting the appropriation limit takes effect 30 days after certification of the returns.

Section 30. RECONSIDERATION OF AMENDMENT LIMITING INCREASE IN APPROPRIATIONS. If the 1986 appropriation limit and budget reserve fund is adopted, the two measures will be again brought before the voters in 1990. If the voters reject the two sections in 1990, Section 16 (appropriation limit) and Section 17 (budget reserve fund) are repealed.

Section 5. The 1986 ballot will include an explanation that an affirmative vote on the budget reserve fund and revisions to the appropriation limit will supersede a yes vote on the reconsideration of the 1982 appropriation limit.

Section 6. Provides that the constitutional amendments shall be before the voters at the next general election.

Original sponsor: Rules/Governor

1 IN THE SENATE BY THE FINANCE COMMITTEE
 2 CS FOR SENATE JOINT RESOLUTION NO. 34 (Finance)
 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. 15, Constitution of the State of Alaska, is
 19 amended to read:

20 SECTION 15. ALASKA PERMANENT FUND. At least twenty-five percent
 21 of all mineral lease rentals, royalties, royalty sale proceeds, feder-
 22 al mineral revenue sharing payments and bonuses received by the State
 23 shall be placed in a permanent fund, the principal of which shall be
 24 used only for those income-producing investments specifically desig-
 25 nated by law as eligible for permanent fund investments. Except as
 26 provided in Section 17(a) of this article, all [ALL] income from the
 27 permanent fund shall be deposited in the general fund unless otherwise
 28 provided by law.

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

1 amended to read:

2 SECTION 16. APPROPRIATION LIMIT. Except for appropriations to
3 the permanent fund or for Alaska permanent fund dividends, appropri-
4 tions of revenue bond proceeds, appropriations required to pay the
5 principal and interest on general obligation bonds, and appropriations
6 of money received from a non-state source in trust for a specific
7 purpose, including revenues of a public enterprise or public corpora-
8 tion of the state that issues revenue bonds, appropriations from the
9 treasury made for a fiscal year shall not exceed appropriations made
10 for the preceding fiscal year [\$2,500,000,000] by more than the [CUM-
11 ULATIVE] change, derived [FROM FEDERAL INDICES] as prescribed by law,
12 in population and inflation since the preceding fiscal year [JULY 1,
13 1981. WITHIN THIS LIMIT, AT LEAST ONE-THIRD SHALL BE RESERVED FOR
14 CAPITAL PROJECTS AND LOAN APPROPRIATIONS]. The legislature may exceed
15 this limit in bills for appropriations [TO THE ALASKA PERMANENT FUND
16 AND IN BILLS FOR APPROPRIATIONS FOR CAPITAL PROJECTS, WHETHER OF BOND
17 PROCEEDS OR OTHERWISE,] if each bill is approved by the governor, or
18 passed by affirmative vote of three-fourths of the membership of the
19 legislature over a veto or item veto, or becomes law without signa-
20 ture, and is also approved by the voters as prescribed by law. Each
21 bill for appropriations for capital projects in excess of the limit
22 shall be confined to capital projects of the same type, and the voters
23 shall, as provided by law, be informed of the cost of operations and
24 maintenance of the capital projects. [NO OTHER APPROPRIATION IN
25 EXCESS OF THIS LIMIT MAY BE MADE EXCEPT TO MEET A STATE OF DISASTER
26 DECLARED BY THE GOVERNOR AS PRESCRIBED BY LAW. THE GOVERNOR SHALL
27 CAUSE ANY UNEXPENDED AND UNAPPROPRIATED BALANCE TO BE INVESTED SO AS
28 TO YIELD COMPETITIVE MARKET RATES TO THE TREASURY.]

29 * Sec. 4. Article IX, Constitution of the State of Alaska, is amended

1 by adding a new section to read:

2 SECTION 17. BUDGET RESERVE FUND. (a) Money received by the
3 state that is subject to the appropriation limit under Section 16 of
4 this article and that exceeds that appropriation limit, shall be
5 deposited in the budget reserve fund. After the amount of income
6 necessary for payment of the Alaska permanent fund dividends as pro-
7 vided by law is made available for that purpose, ten percent of the
8 remaining income from the permanent fund shall be deposited each
9 fiscal year in the budget reserve fund. Additional appropriations may
10 be made to the budget reserve fund.

11 (b) 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 (c) If the legislature determines that the money subject to the
15 appropriation limit received by the state in a fiscal year is less
16 than the maximum amount that may be appropriated under Section 16 of
17 this article, up to twenty-five percent of the budget reserve fund
18 balance may be appropriated to the general fund.

19 (d) Notwithstanding the appropriation limit in this section and
20 in Section 16 of this article, additional amounts may be appropriated
21 from the budget reserve fund to meet a state disaster declared by the
22 governor as prescribed by law.

23 * Sec. 5. Article XV, Constitution of the State of Alaska, is amended
24 by adding new sections to read:

25 SECTION 29. EFFECTIVE DATE. If a majority of those voting in
26 1986 on the reconsideration of the 1982 amendment limiting appropria-
27 tion increases approves the 1982 amendment, the 1986 amendment repeal-
28 ing and readopting Section 16 of Article IX takes effect forty days
29 after the certification of the 1986 general election returns by the

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

5 SECTION 30. RECONSIDERATION OF AMENDMENT LIMITING INCREASE IN
6 APPROPRIATIONS. If the 1986 amendment limiting appropriation increase
7 (art. IX, sec. 16) and establishing the budget reserve fund (art. IX,
8 sec. 17) is adopted, the lieutenant governor shall cause the ballot
9 title and proposition for the amendment to be placed on the ballot
10 again at the general election in 1990. If the majority of those
11 voting on the proposition in 1990 rejects the amendment, Sections 16
12 and 17 of Article IX are repealed and references to Section 17 of
13 Article IX are deleted from Sections 7 and 15 of Article IX.

14 * Sec. 6. The lieutenant governor shall include on the ballot for the
15 1986 general election an explanation that an affirmative vote on the con-
16 stitutional amendment providing for the budget reserve fund and revising
17 the appropriation limit will supersede an affirmative vote on the reconsid-
18 eration under art. XV, sec. 27, of the Alaska Constitution, of the 1982
19 amendment establishing the appropriation limit.

20 * Sec. 7. The amendments proposed by this resolution shall be placed
21 before the voters of the state at the next general election in conformity
22 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-
23 tion laws of the state.
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Introduced: 1/24/86
Referred: Judiciary
and Finance

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

1 IN THE SENATE

2 SENATE JOINT RESOLUTION NO. 34

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 may not increase by more than 15
22 percent of the amount appropriated from state sources during the
23 preceding calendar year, except as authorized by sec. 17 of this
24 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, which is not dedicated to the Alaska perman-
29 ent fund and which exceeds the appropriation limit imposed by sec. 16

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

4 (b) A portion of the money received by the state, described in
5 (a) of this section, which exceeds the maximum balance of the fund
6 must be deposited in the Alaska permanent fund, as provided by law.
7 The remainder of any excess money must be deposited in the general
8 fund. Notwithstanding the appropriation limit imposed by sec. 16 of
9 this article, the excess money deposited in the general fund may be
10 appropriated.

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

14 (d) If the governor determines that the money received by the
15 state from state sources in a fiscal year is less than the amount
16 appropriated from state sources during the preceding calendar year,
17 money may be spent from the budget reserve fund, as provided by law.
18 Except as otherwise provided in this section, not more than 25 percent
19 of the budget reserve fund balance may be spent for any fiscal year.

20 (e) Notwithstanding any spending limitations in this section or
21 in sec. 16 of this article, the governor may spend additional amounts
22 from the budget reserve fund to meet a state emergency declared by the
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. FIRST YEAR OF 1986 REVISED APPROPRIATION LIMITATION.

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

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

BILL SHEFFIELD
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

SD R 3-1
SB 362

January 24, 1986

The Honorable Don Bennett
President of the Senate
Alaska State Legislature
P. O. Box V
Juneau, AK 99811

Dear Senator Bennett:

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

COMMITTEE REPORT
SENATE

FURTHER: FINANCE

1/24/86

Date 4/3/86

Mr. President

The Committee on JUDICIARY considered SJR 34

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

and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for _____
- new title
- same title and recommends _____
- and attached a "LETTER OF INTENT" NEW FISCAL NOTE
- reports it back without recommendation
- recommends referral to _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS

Tim Kelly - Do not pass
until the Governor agrees
to fund properly.

Rich Halford. NO REC

Ernie N/R

Jan Lusk N/R

Patrick Ryden
Chairman

NO REC.
Chairman recommendation