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Testimony to Senate Judiciary Committee
March 18, 1986

Senate Bill 362

by
Senator Josephson

Thank you for the opportunity to testify on Senate Bill 362, introduced by the request of Governor Sheffield.

I firmly support the concept of the Budget Reserve Fund. As I see it the Budget Reserve Fund is the most practical solution for cushioning the precipitous revenue declines that we are now experiencing.

The Governor deserves credit for introducing the concept of the Budget Reserve Fund. However, the idea was conceived before there was indication that state revenues would drop as steeply as they have during the past several weeks. Because of the fiscal situation we are now in, we need to expedite enactment of the Budget Reserve Fund. Also, we need to consider some amendments that would improve its utility.

I have introduced SB 446 which establishes a Budget Reserve Fund similar in concept to that proposed by the Governor but with changes that are more in line with our current revenue picture. The differences between SB 362 and SB 446 include:

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	<u>SB 362</u>	<u>SB 446</u>
Enactment	Constitutional Amendment	Statute
Capitalization	Windfall revenues	Windfall revenues & UIA
Capacity Limit	100% of previous year appropriation	50% of previous year appropriation
Maximum use of Fund	25% a year	33.3% a year

1. SB 446 establishes a Budget Reserve Fund by statute rather than constitutional amendment. The advantages of a statutory fund are:

- a. It could be in effect before FY'87 appropriations are made.
- b. There would be no uncertainty about approval by two-thirds of the voters.
- c. If the fund needs fine tuning, legislation can accomplish this without another constitutional amendment.
- d. A statutory fund and constitutional fund are not mutually exclusive. A statutory fund could be established now and then repealed by a constitutional amendment if approved by the voter.

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2. SB 446 allows appropriations from the Undistributed Income Account of the Permanent Fund to the Budget Reserve Fund. Without this source of revenue, there would not be enough windfall revenues to cover FY'86 revenue shortfalls, FY'87 revenue reductions, and capitalization of the Budget Reserve Fund. Chart A gives an accounting of these revenues.

I am aware that there are other settlements pending which, during the next year or two, could yield more than a billion dollars of windfall revenues to the State. However, the risks and costs of these windfall revenues are too high to count on.

It is important to realize that using the Undistributed Income Account to capitalize the Budget Reserve Fund does not touch the corpus of the Permanent Fund nor change how earnings flow to the dividend program and inflation proofing. My bill would provide a spigot from the earnings of the Permanent Fund to the General Fund - but with a control valve which would allow earnings to be drained only when revenues decline and only to predetermined levels.

3. SB 446 establishes a capacity limit to the size of the Budget Reserve Fund of no greater than 50% of the

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General Fund appropriation for the previous year. SB 362 sets the capacity limit at 100%. I chose 50% because it is a more achievable level of capitalization.

4. SB 446 as now written states that no more than 25% of the Budget Reserve Fund can be utilized in any one year. I plan to amend this and raise that to 33.3%. I did not think that 25% provides a big enough cushion, particularly under current circumstances.

Attached are amendments to SB 362 that I would like you to consider. These amendments would make SB 362 and SB 446 virtually identical.

Attachment

Senator Joe Josephson
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Senate Bill 446
 Chart A

Assumptions:

1. March 1986 revenue forecast
2. BRF capitalized first with settlement revenues then
 UIA

	(in \$ millions)		
	<u>FY'86</u>	<u>FY'87</u>	<u>FY'88</u>
G.F. Unrestricted Revenues	2,636.1	1,907.6	1,531.2
TAPS Tariff	85.0	170.0	83.0
TAPS Refunds	216.0		
ARCO Settlement	243.0		
TOTAL REVENUES	3,180.1	2,077.6	1,614.2
APPROPRIATIONS	2,838.3	2,665.1*	
Surplus/Shortfall	341.8	(587.5)	
BRF	(341.8)	473.1	425.1
Adjusted Surplus/Shortfall	0	(114.4)	
Adjusted Revenues	2,838.3	2,550.7	2,039.3
Budget Reserve Fund			
Capacity		1,419.3	1,275.4
95% Limit		2,696.5	2,423.2
1/3 Utilization		473.1	425.1
Capitalization			
- FY86 Surplus	341.8		
- Rainy Day Fund	280.0		
- 8(g) Settlement	51.0		
- UIA	746.5		
- Other settlements		329.2	
TOTAL	1,419.3	1,275.4	

* Governors Budget Proposal

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Amendments for Consideration
Senate Bill 362

1. Title change: lines 6-7; delete "constitutional appropriation limitation and"
2. Delete: in Section 1 (a), page 1, lines 13-14; after "money" delete "dedicated"; and after "to that fund" delete "by art. IX, sec. 17 of the Alaska Constitution."
3. And insert: money "appropriated" to that fund "from the Undistributed Income Account of the Alaska Permanent Fund and other sources of unrestricted revenues from the General Fund. The maximum amount in the Fund may not exceed 50 percent of the total amount of appropriations made from unrestricted revenues of the General Fund, not including appropriations to the Alaska Permanent Fund, during the preceding fiscal year."
4. Delete: Section 1 (b), page 1, lines 15-25.
5. Delete: in Section 1 (d), page 2, line 4 "governor" and insert "legislature".
6. Delete: in Section 1 (d), page 2, line 8 "25" and insert "33.3".
7. Delete: Section 1 (e), lines 14-18, page 2.
8. Delete: Section 1 (f); lines 19-22, page 2.
9. Delete: in Section 1 (g); lines 23-24, page 2; "and art. IX, secs. 16 and 17, of the Alaska Constitution"
10. Delete: Section 1 (g); lines 24-25, page 2; "(1) the undistributed income account in the permanent fund, and (2)"
11. Delete: Section 1 (g); line 26, page 2; "and".
12. Insert: Section 1 (g); page 2, line 27; after "for a specific purpose" insert "and (D) windfall revenues."
13. Delete: Section 2, page 2-3, lines 28-29 and 1-4.
14. Delete: Section 4, page 3, lines 8-10.
15. Delete: Section 5, page 3, line 11: "Section 2 of"
16. Renumber all sections and subsections accordingly.