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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.

Office of Management and Budget
Division of Strategic Planning
March 5, 1986

ADVANTAGES OF A BUDGET RESERVE FUND

The main advantages of the Budget Reserve Fund proposed by Governor Sheffield may be summarized as follows:

- o As a cashflow management system for budgeting, it represents a key element in Governor Sheffield's overall fiscal plan.
- o It stabilizes annual budget levels, allowing smoother program operations and better planning.
- o It stabilizes Alaska's economy, mitigating the jolts and disruptions which result from jumps in annual State budget levels.
- o Insofar as it assures response to unexpected revenue fluctuations, it brings an additional amount of certainty to the annual budget process.
- o It provides a "middle ground", conceptually, between spending versus saving.
- o It provides an institutional mechanism for dealing with future revenue shortfalls, and for providing for the disposition of future revenue windfalls.
- o It serves as a "buffer" for the Permanent Fund.

BRIEFING MATERIALS

Budget Reserve Fund

January 1986

State of Alaska

Office of Management and Budget



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 1986

BUDGET RESERVE FUND

Governor Bill Sheffield

My concern for fiscal planning for the State of Alaska goes back to long before my campaign for Governor. Since coming to Juneau I have emphasized long-term fiscal considerations in my annual budgets and major legislative initiatives. This year I am proposing an amendment to the State constitution that creates a Budget Reserve Fund (BRF), designed to help stabilize State spending and provide a hedge or "buffer" against revenue shortfalls.

Basically, the BRF is an account used to save money in good years and augment spending in bad years. It is a device for managing our cash flow. This proposed constitutional amendment also can help protect the assets and earnings of the Alaska Permanent Fund, which will continue to be our permanent, long-term savings account.

If approved by the Legislature and ratified by the voters, the BRF would create a new spending limit. The existing spending limit has proven to be ineffective, and it should be replaced. Under my proposal, revenues in excess of the spending limit would be used first to replenish the BRF, and then to provide for permanent savings and additional spending if sufficient.

In years when revenues are down, a portion of the money in the BRF can be withdrawn to help support the budget. There is no guarantee that this amount will be enough to keep the budget at the level of our prior year, but it will help meet the shortfall.

This packet of briefing materials has been prepared by the Office of Management and Budget to explain the details of the BRF. I encourage the widest possible public discussion of the proposal, and we are available to answer questions that you may have.

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Budget Reserve Fund

*"The Budget Reserve Fund is a spending plan, a savings plan, and a spending limit ...
Moreover, by creating the Budget Reserve Fund, Alaskans are creating
a buffer -- between impulsive spenders and the Permanent Fund."*

Governor Bill Sheffield
January 16, 1986

BUDGET RESERVE FUND

This paper proposes a Budget Reserve Fund (BRF) for the State of Alaska. The BRF is a special reserve account designed to operate with a revised appropriation limit.

The BRF performs two functions. In years of sharp revenue declines, the BRF supplies additional funds for appropriation by transferring a portion of its balance into the General Fund. In years of sudden or sustained revenue increases, the BRF temporarily holds a portion of revenue surpluses for later use.

The flow of funds into and out of the BRF will buffer the year-to-year fluctuations in the State's revenue stream caused by petroleum price changes. The net effect will be a leveling or smoothing of the revenue amounts available to the State each year for appropriations. This smoothing will provide a greater degree of stability in annual State budget levels, increased certainty in the appropriations process, and mitigation of the budgetary and economic effects produced by annual revenue fluctuations.

If established, the BRF will replace the State's current Rainy Day Fund. Similarly, its accompanying appropriation limit will replace Alaska's existing constitutional limit on appropriations.

The BRF Proposal

Central to the BRF and its accompanying appropriation limit are the following provisions:

- ° The appropriation limit applies only to Unrestricted General Fund revenues.
- ° The BRF is separate from the State's General Fund.
- ° Appropriations for any given fiscal year are limited to 115 percent of the total appropriations made during the preceding calendar year (January-December).
- ° If revenue collections in any given fiscal year fall to a level below 95 percent of the total appropriations made during the preceding calendar year, funds are transferred from the BRF into the General Fund, to provide for appropriations for that fiscal year. The amount of funds transferred is the lesser of: (a) the amount necessary to bring appropriations up to the 95 percent level; or, (b) the maximum annual outlay from the BRF (25 percent of the BRF balance).

- ° The capacity (size limit) of the BRF for any given fiscal year is equal to the total amount of appropriations made during the preceding calendar year.
- ° If revenue collections in any given fiscal year exceed the 115 percent limit, the surplus (revenue collections above 115 percent of the previous calendar year appropriations) is transferred into the BRF. However, if transfer of the surplus would cause the BRF's capacity (size limit) for that fiscal year to be exceeded, only an amount of revenues sufficient to bring the BRF balance up to the fund's capacity is transferred into the BRF. Any excess surplus (surplus above the BRF's capacity) or spillover is distributed as follows: 25 percent remains in the General Fund and is available for appropriations for that fiscal year (effectively raising the 115 percent appropriation ceiling), and 75 percent is transferred into the Permanent Fund.
- ° The BRF retains its interest earnings.
- ° If the balance of the BRF at the close of a fiscal year exceeds the account's capacity for that fiscal year, the spillover (excess above capacity) is distributed as follows: 25 percent is transferred into the General Fund, and 75 percent is transferred into the Permanent Fund.
- ° The maximum outlay (disbursement for appropriations) from the BRF during any given fiscal year is 25 percent of the balance remaining in the account at the close of the preceding calendar year.
- ° All General Funds resulting from BRF spillover are available for appropriation without regard to the 115% limit and, once appropriated, become part of the succeeding fiscal year's base (total appropriations made in the preceding calendar year).

How the BRF and Appropriation Limit will Work

For each fiscal year's budget, the appropriation limit sets a 95 percent floor and a 115 percent ceiling for appropriations. These thresholds are based on the amount of total appropriations made during the preceding calendar year, so that they will be known with certainty by the start of legislative sessions.

If revenues for the fiscal year being budgeted are expected to fall below the 95 percent floor, legislators will make

appropriations on that basis. Because they will know the BRF balance and maximum possible outlay at the start of the session, legislators also will be able to estimate the amount of outlay likely to be forthcoming from the BRF, and incorporate that extra amount into their appropriations. If the shortfall materializes, the BRF outlay will be transferred into the General Fund at the close of the budgeted fiscal year. If revenue collections turn out not to fall below the 95 percent floor, no BRF money will be released.

Conversely, if revenues for the fiscal year being budgeted are expected to exceed the 115 percent ceiling, legislators will be able to make appropriations up to the ceiling. Knowing the BRF balance and capacity at the start of the session, as well as the expected surplus above the 115 percent ceiling, legislators also will be able to add to their appropriations an estimate of how much excess surplus is likely to be available for additional appropriations above the 115 percent ceiling level. The excess surplus for appropriations will then become available at the close of the budgeted fiscal year, if a revenue surplus materializes. If revenue collections turn out not to exceed the 115 percent ceiling, there will be no excess surplus for appropriations.

Under both sets of circumstances described above, legislators will retain their current flexibility in fine-tuning appropriations during the following legislative session, based on then-prevailing revenue forecasts.

Discussion: BRF

Regarding capitalization, it must be said that it would be possible to establish the BRF without any initial capitalization. Doing so would have the effect of activating the appropriation limit, and placing the BRF on the books. This would mean that the BRF would not be able to provide any budgetary assistance until such time as revenue surpluses might occur in the future.

If the BRF is to provide budgetary assistance during the coming years of expected revenue decline, however, it will need to be initially capitalized by the State.

The best level of initial capitalization for the BRF is ultimately a matter of judgement. Simulations conducted by the Office of Management and Budget (OMB), however, suggest that an initial capitalization of less than \$500 million could result in a steady draw-down of the account, particularly if current revenue forecasts prove accurate. The same simulations indicate that an initial capitalization of \$1 billion would go far towards avoiding that possibility, particularly if the BRF is allowed to retain its interest earnings.

The best size for the maximum annual outlay from the BRF is also a matter of judgement. The Office of Management and Budget simulations indicate, however, that (at a \$1 billion level of initial capitalization) restricting outlays to a maximum of 25 percent of the BRF's balance probably is sufficient to assure a continuing lifespan for the fund, yet still provide meaningful amounts of assistance in years when assistance is needed.

The BRF is not intended to serve as a State savings account, but rather as a kind of cash management account. Therefore, its capacity (maximum size) is limited in this proposal to a level equalling one calendar-year's appropriations. This is done to avoid the theoretical possibility of accumulating large cash balances in the BRF.

For the same reason, and to allow flexibility in making appropriations during periods of sudden or sustained revenue increases, this proposal also stipulates that a portion of large revenue surpluses be kept available for appropriations through the excess surplus (surplus above the BRF's capacity) provisions governing the BRF. Similar spillover provisions apply in cases where the BRF's interest earnings may cause the account's capacity to be exceeded. Both sets of provisions allow appropriations in excess of the 115 percent level.

Discussion: Appropriation Limit

Two general considerations need to be addressed regarding the proposed appropriation limit. One involves the scope of the appropriation limit; the other involves timing considerations underlying the limit's application.

The proposal restricts the scope of the appropriation limit to Unrestricted General Fund revenues. This restriction has been adopted in order to avoid situations where fiscal events beyond the State's control (e.g, fluctuations in federal funding) might affect the appropriation limit's floor and ceiling thresholds, or trigger BRF outlays. This allows the Legislature and the Governor to respond to such external fiscal events as they best see fit, rather than have their response dictated. In keeping with this purpose, the proposed appropriation limit also does not allocate or otherwise distinguish between operating and capital budget appropriations.

The proposal employs a calendar-year basis (i.e., the total appropriations made in the calendar year preceding any given fiscal year) to set the appropriation limit's floor and ceiling, as well as to set the capacity of the BRF. There are two reasons for adopting the calendar-year basis.

One reason is to provide clear budget planning guidelines: public officials will know by the start of a legislative session the relevant numbers and limits with which they will be working in setting the coming fiscal year's budget. If, for example, the appropriation limit's floor and ceiling for the fiscal year (FY) 1990 budget were based on fiscal year 1989 appropriations, instead of on calendar year 1989 appropriations, legislators convening in January 1989 would not know the appropriation ceiling or floor for the FY 1990 budget until after the 1989 session had ended (and the Governor had approved or vetoed FY 1989 supplemental and special appropriations made during the 1989 session). Nor, for the same reason, would legislators know the BRF's FY 1990 capacity, for purposes of estimating any excess surplus or spillover funds that might come available for appropriation.

The second reason for adopting the calendar-year basis is to preserve, without sacrificing certainty about budget floors and ceilings, the flexibility that public officials currently have in requesting and making supplemental and special appropriations during follow-up legislative sessions.

Attachments to the Proposal

To illustrate the operation of the BRF and its companion appropriation limit, three sets of figures and tables are attached to this proposal. All of the attachments assume that the BRF and the appropriation limit are first applied to the FY 1988 budget.

(For the sake of simplicity, all of the attachments also assume that all budget appropriations for a given fiscal year, including supplemental and special appropriations, occur during the same legislative session.)

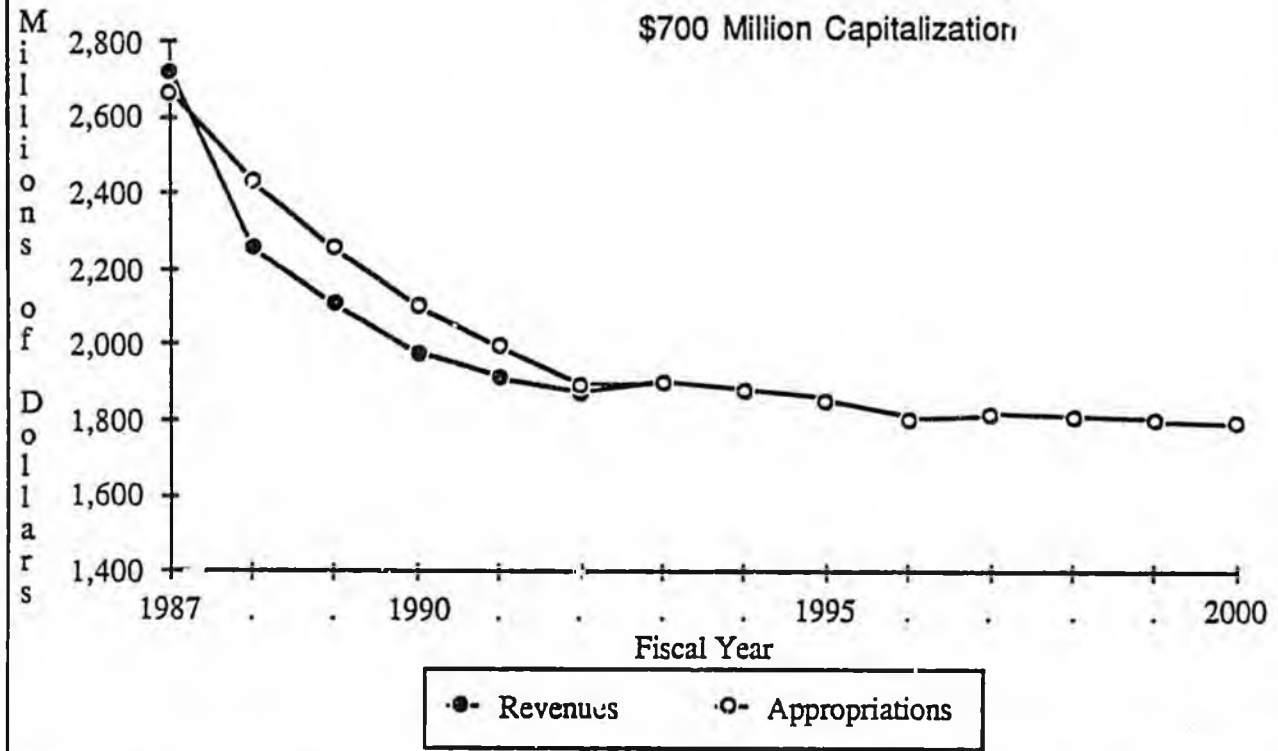
Note: In all of the attachments, the FY 1987 total appropriation amount of \$2.664 billion represents Governor Sheffield's preliminary FY 1987 Executive Budget proposal. Appropriation levels affected by the BRF and its appropriation limit begin in FY 1988.

Figure 1 is based on the Department of Revenue (DOR) December 1985 30th percentile forecast for Unrestricted General Fund revenues, for the period FY 1987-2000. The figure assumes an initial capitalization of \$700 million for the BRF, and indicates the appropriation levels that would result under the BRF proposal. As can be seen, the BRF would contribute a total of approximately \$550 million to the General Fund for appropriations between FY 1988 and FY 1992 in this scenario. Beyond FY 1992, the apparent flattening of revenues indicated by the forecast causes no triggering of BRF activity. (Table 1 is the accompanying spreadsheet, from which Figure 1 is generated.)

Figure 2 is based on DOR's December 1985 mean (mid-range) forecast for Unrestricted General Fund revenues, for the period FY 1987-2000. This figure also assumes an initial capitalization of \$700 million for the BRF account, and indicates the appropriation levels that would result under the BRF proposal. As can be seen, the BRF would be triggered only once in this scenario, contributing approximately \$27 million to the General Fund in FY 1988. The BRF would not be triggered again during the period of this forecast, as revenue collections remain above the 95% floor level through FY 2000. (Table 2 is the accompanying spreadsheet, from which Figure 1 is generated.)

Figure 3 represents a hypothetical version of Figure 1. Like Figure 1, Figure 3 is based on DOR's December 1985 30th percentile forecast for Unrestricted General Fund revenues, and assumes an initial capitalization of \$700 million for the BRF account. This hypothetical case assumes, however, that an unexpected \$600 million windfall occurs in FY 1992. As can be seen from Figure 3, the BRF functions the same way as it does in Figure 1 through FY 1991, but following FY 1992 spreads part of the surplus generated by the FY 1992 windfall across the period FY 1993-1994, contributing a total of approximately \$210 million to the General Fund during those two fiscal years. The relative stabilization of revenues beyond FY 1994 causes no triggering of BRF activity. (Table 3 is the accompanying spreadsheet.)

FIGURE 1 - BUDGET RESERVE FUND
30TH PERCENTILE REVENUES
\$700 Million Capitalization



Prepared by:
 Division of Strategic Planning, OMB

1/20/86

1/20/86

TABLE 1
BUDGET RESERVE FUND
\$700 MILLION CAPITALIZATION
30TH PERCENTILE UGF REVENUES, FY 1987 - 2000
DECEMBER 1985 FORECAST
(\$Millions)

CASE CONSTRAINTS:

Ceiling (+%):	15%	Capitalization:	700
Floor (-%):	5%	Maximum Outlay:	25%
Interest Rate:	8%	Spillover Spending:	25%

BRF Capacity = Previous Calendar Year's Appropriations

BRF Outlay Limit = 25% of FY Start Balance

BRF account retains its earnings.

Spending/PF Adjustment = year end adjustment to keep BRF balance under capacity limit; excess divided between spending and PF.

Model assumes that all fund transactions (deposits, outlays, and interest earnings) are recognized at close of fiscal year.

CONTRIBUTIONS TO PERMANENT FUND

FY	FY Start		PF		FY End	
	FY Balance	Earnings	Deposit	Balance	W	X
1987						
1988	0	0	0	0		
1989	0	0	0	0		
1990	0	0	0	0		
1991	0	0	0	0		
1992	0	0	0	0		
1993	0	0	0	0		
1994	0	0	0	0		
1995	0	0	0	0		
1996	0	0	0	0		
1997	0	0	0	0		
1998	0	0	0	0		
1999	0	0	0	0		
2000	0	0	0	0		
TOTAL:		0	0			

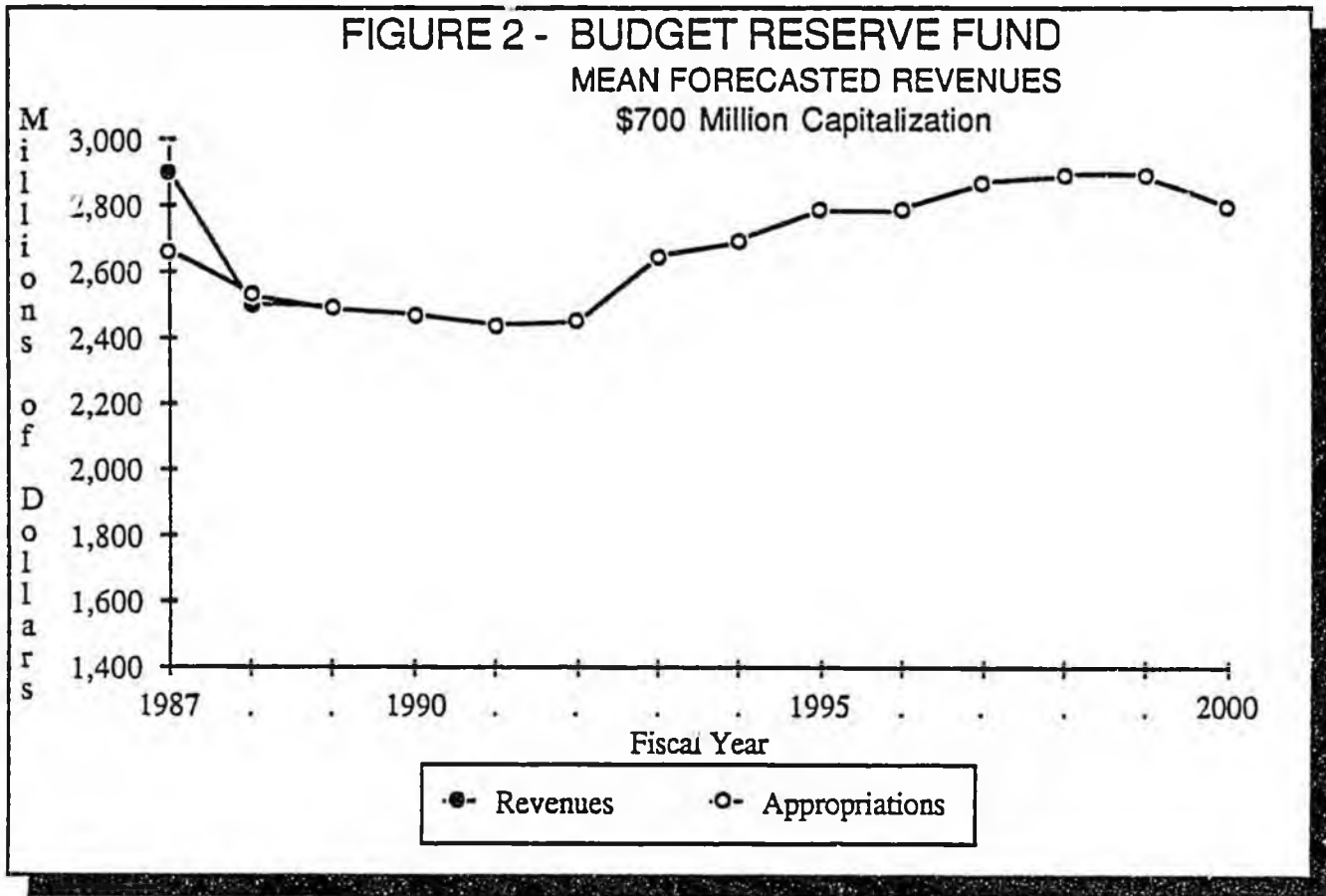
IF REVENUES ABOVE CEILING **IF REVENUES BELOW FLOOR**

FY	Revenues	Prev. CY Approp.'s	Ceiling (+%)	Floor (-%)	IF REVENUES ABOVE CEILING			Perm. Fund		IF REVENUES BELOW FLOOR		Total CV Approp.'s
					Surplus	BRF Deposit	Added Spending	Deposit	Shortfall	BRF Outlay		
	B	C	D	E	F	G	H	I	J	K	L	
1987	2,719				0	0	0	0	273	175	2,664	
1988	2,257	2,664	3,064	2,531	0	0	0	0	202	147	2,432	
1989	2,109	2,432	2,797	2,311	0	0	0	0	163	123	2,256	
1990	1,980	2,256	2,595	2,143	0	0	0	0	83	83	1,999	
1991	1,916	2,104	2,419	1,999	0	0	0	0	24	24	1,899	
1992	1,875	1,999	2,298	1,899	0	0	0	0	0	0	1,904	
1993	1,804	1,899	2,184	1,804	0	0	0	0	0	0	1,882	
1994	1,882	1,904	2,189	1,809	0	0	0	0	0	0	1,855	
1995	1,855	1,882	2,164	1,788	0	0	0	0	0	0	1,808	
1996	1,808	1,855	2,133	1,762	0	0	0	0	0	0	1,821	
1997	1,821	1,808	2,079	1,718	0	0	0	0	0	0	1,813	
1998	1,813	1,821	2,094	1,730	0	0	0	0	0	0	1,804	
1999	1,804	1,813	2,084	1,722	0	0	0	0	0	0	1,796	
2000	1,796	1,804	2,075	1,714	0	0	0	0	0	0		
TOTAL:	24,819				0	0	0	0	553	25,372		

BUDGET RESERVE FUND

FY	FY Start Balance	Fund Capacity	Maximum Outlay	IF REVENUES ABOVE CEILING			Perm. Fund		Spend/PF Adjustment	FY End Balance
				Deposit	Outlays	Earnings	Deposit	Shortfall		
	O	P	Q	R	S	T	U	V		
1987										
1988	700	2,664	175	0	175	63	0	580		
1989	588	2,432	147	0	147	53	0	494		
1990	404	2,256	123	0	123	44	0	415		
1991	415	2,104	104	0	83	37	0	369		
1992	369	1,999	82	0	24	33	0	378		
1993	378	1,899	85	0	0	34	0	412		
1994	412	1,904	103	0	0	37	0	449		
1995	449	1,882	112	0	0	40	0	490		
1996	490	1,855	122	0	0	44	0	534		
1997	534	1,808	133	0	0	48	0	582		
1998	582	1,821	145	0	0	52	0	634		
1999	634	1,813	159	0	0	57	0	691		
2000	691	1,804	173	0	0	62	0	753		
TOTAL:				0	553	606				

Source: Office of Management and Budget, Division of Strategic Planning



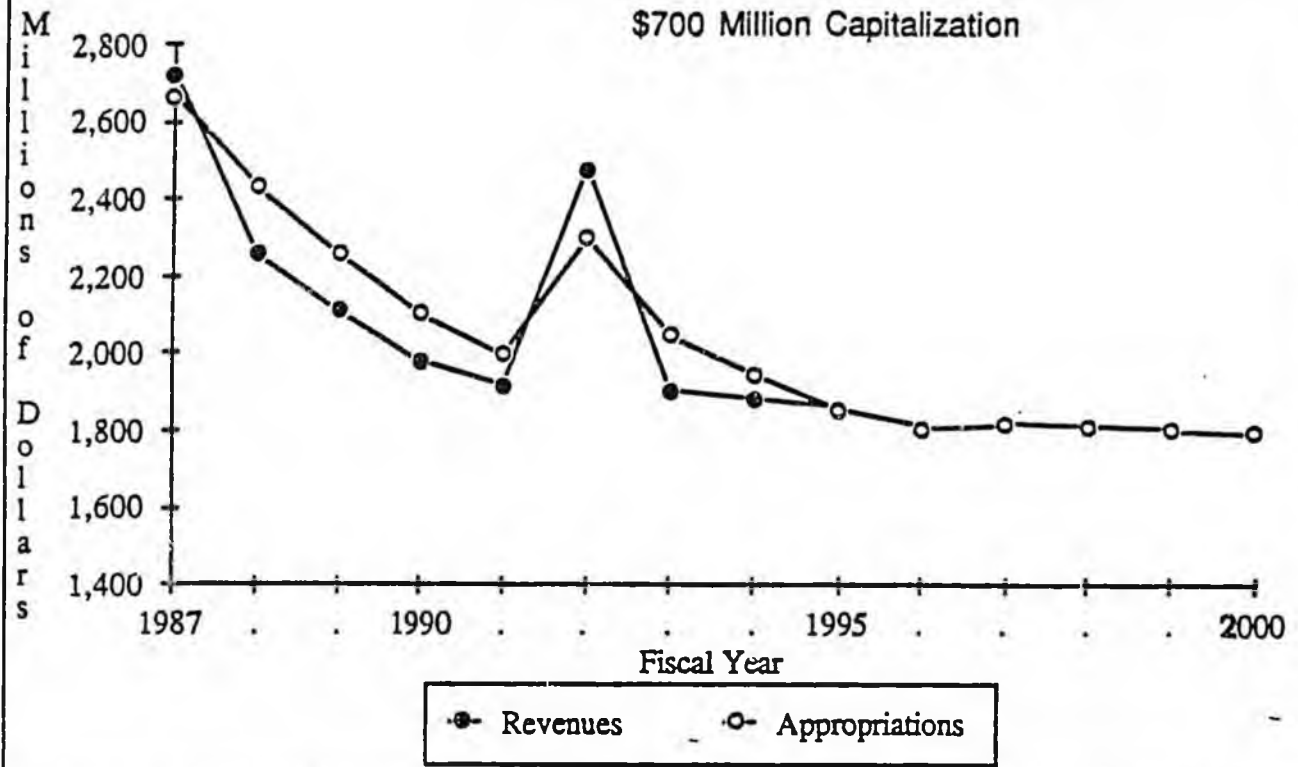
Prepared by:
Division of Strategic Planning, OMB

1/20/36

FIGURE 3 - BUDGET RESERVE FUND

30TH % - \$600 MILLION WINDFALL

\$700 Million Capitalization



Prepared by:
Division of Strategic Planning, OMB

1/20/86

1/20/86

TABLE 3
BUDGET RESERVE FUND
\$700 MILLION CAPITALIZATION
30TH PERCENTILE UGF REVENUES, FY 1987 - 2000
DECEMBER 1985 FORECAST
ASSUMES \$600 MILLION WINDFALL IN FY1992

(\$Millions)

CASE CONSTRAINTS:

Ceiling (+%):	15%	Capitalization:	700
Floor (-%):	5%	Maximum Outlay:	25%
Interest Rate:	8%	Spillover Spending:	25%

BRF Capacity = Previous Calendar Year's Appropriations

BRF Outlay Limit = 25% of FY Start Balance

BRF account retains its earnings.

Spending/PF Adjustment = year and adjustment to keep BRF balance under capacity limit; excess divided between spending and PF.

Model assumes that all fund transactions (deposits, outlays, and interest earnings) are recognized at close of fiscal year.

CONTRIBUTIONS TO PERMANENT FUND

FY	FY Start	Earnings	PF	FY End
	Balance		Deposit	Balance
	W	X	Y	Z
1987				
1988	-	-	0	0
1989	0	0	0	0
1990	0	0	0	0
1991	0	0	0	0
1992	0	0	0	0
1993	0	0	0	0
1994	0	0	0	0
1995	0	0	0	0
1996	0	0	0	0
1997	0	0	0	0
1998	0	0	0	0
1999	0	0	0	0
2000	0	0	0	0
TOTAL:		0	0	

-12-

FY	IF REVENUES ABOVE CEILING										IF REVENUES BELOW FLOOR		BUDGET RESERVE FUND							
	Revenues	Prev. CY Approp.'s	Ceiling (+%)	Floor (-%)	Surplus	BRF Deposit	Added Spending	Perm. Fund Deposit	Shortfall	BRF Outlay	Total CY Approp.'s	FY Balance	Fund Capacity	Maximum Outlay	Deposit	Outlays	Earnings	Spand/PF Adjustment	FY End Balance	
																				B
1987	2,719									2,664	1987									
1988	2,257	2,664	3,064	2,531	0	0	0	0	273	175	2,432	1988	700	2,664	175	0	175	63	0	588
1989	2,109	2,432	2,797	2,311	0	0	0	0	202	147	2,256	1989	588	2,432	147	0	147	53	0	494
1990	1,960	2,256	2,595	2,143	0	0	0	0	163	123	2,104	1990	494	2,256	123	0	123	44	0	415
1991	1,916	2,104	2,419	1,999	0	0	0	0	83	83	1,999	1991	415	2,104	104	0	83	37	0	369
1992	2,475	1,999	2,298	1,899	176	176	0	0	0	0	2,298	1992	369	1,999	92	176	0	33	0	578
1993	1,904	2,298	2,643	2,184	0	0	0	0	280	145	2,048	1993	578	2,298	145	0	145	52	0	485
1994	1,802	2,048	2,356	1,946	0	0	0	0	64	64	1,946	1994	486	2,048	121	0	64	44	0	465
1995	1,855	1,946	2,238	1,849	0	0	0	0	0	0	1,855	1995	465	1,946	118	0	0	42	0	507
1996	1,808	1,855	2,133	1,762	0	0	0	0	0	0	1,808	1996	507	1,855	127	0	0	46	0	653
1997	1,821	1,808	2,079	1,718	0	0	0	0	0	0	1,821	1997	653	1,808	138	0	0	50	0	603
1998	1,813	1,821	2,094	1,730	0	0	0	0	0	0	1,813	1998	603	1,821	151	0	0	54	0	657
1999	1,804	1,813	2,084	1,722	0	0	0	0	0	0	1,804	1999	657	1,813	164	0	0	59	0	716
2000	1,795	1,804	2,075	1,714	0	0	0	0	0	0	1,795	2000	716	1,804	179	0	0	64	0	781
TOTAL:	25,419				176	0	0	0	737	25,980				176	737	642				

Source: Office of Management and Budget, Division of Strategic Planning

REVENUE INFORMATION

		(unrestricted GF; \$ millions)
FY 87 Revenue Available for Appropriation (excluding TAPS settlement increments)	2,698.9	1)
Executive Budget Proposal	(2,665.1)	2)
Estimated FY 87 Year-End Balance	33.8	3)
Revenue Available for Appropriation to BRF Account		
Rainy Day Fund (Estimated FY 87 year-end balance)	280.0	
TAPS Settlement Increments		4)
FY 1982-85 Refunds and Legal Fees	120.0	
FY 86 Income from Settlement	59.2	
FY 87 Income from Settlement	156.9	
	336.1	
8g Settlement	56.0	5)
ARCO Severance Tax Settlement	243.0	
 Total	 915.1	

-
- 1) FY 87 Executive Budget Book, Table I-2., p. 8.
 - 2) FY 87 Executive Budget Book, Table I-1., p. 6.
 - 3) This amount is intended to cover FY 86 year-end accounting adjustments to the General Fund, and FY 86 and FY 87 supplemental appropriations.
 - 4) Department of Revenue, 30th percentile estimates 1/86. Unrestricted General Fund TAPS income received prior to March 1, 1986 will be deposited to the Rainy Day Fund according to Sec. 762, Ch. 105, SLA 1985.
 - 5) Whether efforts to achieve a Congressional settlement of this dispute will be successful remains to be seen. However, a distribution of the escrow account is possible in 1986. This would result in a payment to Alaska of about \$56 million.

THE BUDGET RESERVE FUND, FORWARD FUNDING,
AND CASH-BASED BUDGETING

A COMPARISON

The Budget Reserve Fund is not a forward funding proposal, or a cash-based budgeting proposal. It is instead very different from either of those two budget management approaches. How it differs, and how forward funding and cash-based budgeting themselves differ, are explained below.

Strictly speaking, forward funding and cash-based budgeting are not identical or even similar approaches to budgeting. Although the phrase "forward funding" is often applied to both, the two are in fact quite distinct.

"Forward funding" traditionally refers to a multi-year budgeting process, whereby all or some appropriations are made for several years at a time. This approach allows managers and program constituents to know ahead of time what their general level of program resources is likely to be in (e.g.) the coming two or three fiscal years, and thus plan accordingly. Although appropriations for future years are always subject to revenue availability and legislative change, forward funding nevertheless does provide a degree of certainty about future program operating levels. Usually, forward funding does not entail the build-up of any special fund or account, though such a mechanism may be used in some circumstances to forward-fund a particular program or group of programs.

"Cash-based budgeting", by contrast, does not entail multi-year appropriations and does not provide certainty about future program operating levels. What it does provide is certainty that annual appropriation levels will match available revenues. This is usually accomplished by establishing a cash fund or account whose starting balance roughly equals one fiscal year's worth of revenues. The amount of revenues in the fund then becomes the effective appropriation limit for setting the coming fiscal year's budget, and fund revenues are used to pay for budget expenditures incurred because of those appropriations. Revenues received during that coming fiscal year are used in turn to replenish the fund, with the fund's balance at the close of that fiscal year becoming the amount available for appropriation for the succeeding fiscal year. Same-year budget certainty under a cash-based budgeting system is thus assured, because annual appropriations are limited to the amount of cash on hand that is available to pay for them. (Conversely, cash-based budgeting provides no certainty about the level of appropriations in succeeding fiscal years, because annual appropriation levels simply track annual fluctuations in overall revenue receipts.)

The Budget Reserve Fund (BRF) represents yet a third approach to budgeting, and is different from forward funding and cash-based budgeting both in purpose and function. Where forward funding aims at multi-year certainty about funding levels, and cash-based budgeting aims at limiting appropriations to the amount of cash on hand, the BRF proposal aims at smoothing the fluctuations in annual budget levels. The goals of the BRF proposal are thus to eliminate the year-to-year budgetary and program disruptions caused by oscillating petroleum revenues; and, in doing so, to minimize the economic dislocations caused by widely varying annual State expenditure levels. The BRF and its accompanying appropriation limit, consequently, function to withhold surplus revenues when surpluses occur, and to use those withheld revenues to augment appropriations in other years when revenues fall. The end result is therefore not budgetary certainty of the kind provided by forward funding or by cash-based budgeting, but rather the providing of a hedge or "buffer" against future precipitous changes in State revenue flows.

In sum, where forward funded provides limited multi-year budgetary certainty (subject to revenue availability and legislative change), and where cash-based budgeting provides high same-year budgetary certainty (but no multi-year certainty, because of varying annual revenue flows), the BRF proposal serves to minimize the budgetary and economic disruptions caused by annual fluctuations in State revenues.

QUESTIONS AND ANSWERS ABOUT
THE BUDGET RESERVE FUND (BRF)

Why have a Budget Reserve Fund?

Alaskans face two fiscal management problems. The first is long-term decline in oil production and oil revenues. The second problem is that this decline may be marked by fluctuating revenues, higher in some years, with steep drops in others. The Budget Reserve Fund is designed to smooth out these variations in order to provide greater fiscal stability and, thereby, to lessen the economic and social consequences of revenue variability. This smoothing is, in part, accomplished by a spending limit which takes revenues from years of revenue increase in order to spend them during years of revenue decline.

What happens to the Rainy Day Fund (RDF)?

The proposed BRF enabling legislation calls for the repeal of the RDF and its replacement with the BRF. The central purpose of the RDF is to assure a flow of petroleum revenues when petroleum flow is interrupted. A special session is required to use RDF funds for that purpose. The BRF can augment petroleum revenues in those circumstance targeted by the RDF, as well as in a variety of other revenue shortfall situations. Unlike the RDF, no procedural difficulties will impede use of the BRF.

What happens to the Budget Reserve Fund if revenue forecasts change?

The Budget Reserve Fund is designed to function in a variety of revenue scenarios. The fund adapts to changes in Alaska's revenue stream. It can supplement declining revenues in order to cushion and smooth what might be too sharp and variable a revenue descent, or it can hold down budget growth in times of rising revenues.

What if we have a sustained revenue increase?

The Budget Reserve Fund is designed to function if Alaska experiences a dramatic, sustained upward change in petroleum revenues.

Several effects would be observed. Budgets would be prepared at the 115% level; thus spending would rise annually. Revenue amounts in excess of the 115% level would go into the BRF until its capacity was reached. Each year the capacity of the BRF would increase by the same amount as additionally appropriated in the preceding calendar year (capacity is based on appropriations made during the preceding calendar year). Each year, any "spillover" would be distributed to the Permanent Fund

(75%) and to the General Fund (25%), effectively increasing the 115% limit and, therefore, increasing the next year's 115% threshold calculation and BRF capacity calculation. At a point when revenues decline, the fund capacity would shrink, freeing as "excess" to capacity amounts that could be spent to moderate a downturn.

What do the "thresholds" mean?

The BRF attempts to keep appropriations from year to year within a range of variation. Thus, the BRF will supplement revenues to within 5% of the previous year's appropriations (if that supplementary amount is not more than 25% of fund balance) and will limit budget growth to no more than 15% greater than the previous year's appropriations (except as permitted by "spillover" provisions). This 20% spread, with most of the variance on the high side, should provide for a smoother and less disruptive spending pattern.

The 95% and the 115% are called "thresholds" or "triggers" because they signal either fund outlays or fund deposits.

How does the "spillover" provision work?

In times of rising revenues, the State may collect revenues in excess of the 115% appropriation limit. Any such excess funds would first go to the Budget Reserve Fund to replenish it to its capacity (previous calendar year's appropriations). Any revenues remaining after filling the BRF to capacity ("spillover"), would be distributed to the Permanent Fund (75%) and to the General Fund (25%). The 25% in the General Fund would be available for appropriation, even though in excess of the 115% limit. Any appropriations of General Fund "spillover" would be additional revenues calculated as part of the base for the next fiscal year.

What happens if we have a revenue windfall?

The effect of a revenue "spike" or "windfall" depends on its size. A spike may be small enough that it falls beneath the 115% ceiling and gets spent. In this case, the next year's spending ceiling is raised by the additional amount appropriated. Or the spike may be larger, exceeding the 115% ceiling. In this case, the additional windfall revenues would be placed in the fund, up to the capacity of the fund. Windfall revenues in excess of those replenishing the fund would be divided between the General Fund (25%) and the Permanent Fund (75%). Excess revenues transferred to the General Fund (the 25%) could be appropriated regardless of the 115% ceiling, and they would be included in the calculation of the next year's floor and ceiling thresholds.

How does the level of capitalization affect fund performance?

The ability of the fund to augment revenues during times of revenue decline is largely dependent on the level of capitalization of the fund: the larger the fund, the longer it will be able to significantly supplement declining revenues. Thus, capitalization of the fund, to the extent permitted by fund capacity (preceding calendar year's appropriations), influences both fund longevity and potential annual outlays.

Why does the Budget Reserve Fund retain its interest earnings?

The long-term ability of the fund to provide supplementary revenues in times of revenue decline depends on fund size. If drawn down, the initial capitalization of the fund can be replenished by interest earned on the fund balance and by deposits in times of rising revenues of sums over the 115% spending ceiling. The steady accumulation of interest earnings assures additional fund revenues, even in declining revenue times, and extends the effective "life" of the fund.

Why are federal and dedicated funds excluded?

The BRF proposal restricts, as does the current appropriations limit, the scope of the appropriation limit to Unrestricted General Fund revenues. This restriction has been adopted in order to avoid situations in which some fiscal events beyond the State's control (e.g., fluctuations in federal funding) might affect the appropriation limit's floor and ceiling thresholds, or trigger BRF outlays. Without an automatic response the Legislature and the Governor are free to respond to such external fiscal events as they best see fit.

Federal and dedicated funds are generally received for specific purposes, unlike Unrestricted General Funds which can be allocated by the Legislature and Governor to meet priority needs. The potentially chaotic effect of including federal funds is illustrated by a hypothetical case in which the State receives, for one year, a large increase in federal highway funds for a specific project. If the BRF included all revenues, including federal funds, then this federal expenditure would automatically raise the appropriation limit ceiling for the next fiscal year. If the federal government then failed to renew this highway grant, the BRF would be used to meet the inflated 95% floor created by the artificial raising of the 115% threshold.

Why is there a 25% annual outflow limit?

Without any outflow limitation, the BRF balance could be quickly expended during years of sharp revenue decline. Such rapid expenditure could too rapidly deplete the fund balance

and fail to provide for a smooth spending decline, since there would be a big drop in available revenues when the BRF fund balance is depleted.

The best size for the maximum annual outlay from the BRF can not be determined with accuracy. Office of Management and Budget (OMB) simulations indicate, however, that, at higher capitalization levels, restricting outlays to a maximum of 25 percent of the BRF's balance probably is sufficient to assure a continuing lifespan for the fund, yet still provide meaningful amounts of funding assistance in years when assistance is needed.

Why is fund size capped?

The BRF is intended to serve as a kind of cash management account. As such, it would be inappropriate for the BRF to accumulate large cash balances. Restricting fund size to a level equalling one calendar year's appropriations appears to provide a fund balance adequate to meet revenue demands when assistance is needed.

Why is a calendar year base used?

The BRF proposes that total appropriations made in the calendar year preceding any given fiscal year set the appropriation limit's floor and ceiling, as well as set the capacity of the BRF. There are two reasons for adopting the calendar-year basis.

One reason is to provide certainty, so that public officials know by the start of a legislative session the relevant numbers and limits with which they will be working in setting the coming fiscal year's budget. As a fiscal year is only half over when the Legislature convenes, full information about that fiscal year would only be possible after the session and the final tally of supplemental and special appropriations.

The second reason for adopting the calendar-year basis is related to the first--i.e., to preserve, without sacrificing certainty about budget floors and ceilings, the flexibility that public officials currently have in requesting and making supplemental and special appropriations during follow-up legislative sessions.

What happens to Permanent Fund Dividends?

The BRF excludes from the appropriation limit calculation all dedicated funds. The Dividend Fund from which per capita dividend payments are made is legally considered a dedicated fund. Therefore, Permanent Fund interest earnings that go into the Dividend Fund and payments made to individuals from the

Dividend Fund are excluded from calculation of the appropriation limit.

How is the Undistributed Income Account (UIA) treated?

The BRF bill includes the UIA under the appropriation limit, despite the UIA being an account within the Permanent Fund. It is considered important to include the UIA under the limit because UIA earnings will become an increasingly important revenue source which might be desired for the support of government functions. If not included now, later inclusion would radically alter thresholds. Inclusion in the appropriation limit also avoids the possibility of a large "off budget" budgeting process using PF earnings.

How are "Program Receipts" treated?

Money that is identified as "program receipts" purely for budgetary purposes (i.e., to show program income which is not dedicated) is included in the definition of "money from State sources" used in BRF legislation. This class of program receipts, consequently, is included in the BRF appropriation limit. Program receipts which are dedicated to a particular purpose (i.e., which are not deposited in the General Fund) are excluded from the BRF appropriation limit.

How are Supplemental Appropriations treated?

The process of making supplemental appropriations would not change under the BRF proposal. One of the supporting reasons for adopting a calendar-year basis for the BRF appropriation limit is, in fact, to preserve the flexibility which legislators currently have in making supplemental appropriations during follow-up legislative sessions. If, for example, the BRF appropriation limit for the FY 1988 budget were based on the level of appropriations made during the preceding fiscal year, i.e., FY 1987, legislators convening in January 1987 would first have to make supplemental appropriations for FY 1987 before they would know the level of the appropriation limit for the FY 1988 budget. Even that would be an estimate, as the Governor would likely not approve or veto supplemental appropriations until after the session had ended. Adoption of a calendar-year basis (discussed in another section) eliminates this problem.

How are Repeals and Reappropriations treated?

Repeals and reappropriations (R&R's) are treated in the BRF legislation as follows: reappropriation amounts that are explicitly coupled with specific statutory repeal citations in the same section of an appropriation bill are counted as reappropriations, and are excluded from the BRF appropriation

limit; all others are counted as new appropriations, and are not excluded from the limit.

Several reasons exist for adopting this approach. One reason is to avoid the double-counting that would be involved if all R&R's were treated as new appropriations. A second reason is to avoid the situation where, if R&R's are counted as new appropriations, the appropriation limit is reached or exceeded solely because of the existence of R&R's. A third reason is to avoid the accounting difficulties involved in attempting to track R&R dollar flows across fiscal years. Finally, a fourth reason is to avoid the incentive for increased R&R activity that would be created if all R&R's were considered to be appropriations already made in prior years and thus excluded from the 115 percent appropriation limit.

BILL SHEFFIELD
GOVERNOR



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

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE JOINT RESOLUTION NO.

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.
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1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the constitutional appropriation
7 limitation and budget reserve fund; and providing for
8 an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. AS 37.05 is amended by adding a new section to read:

11 Sec. 37.05.156. BUDGET RESERVE FUND; APPROPRIATION LIMIT. (a)

12 There is established as a separate fund in the state treasury the
13 budget reserve fund. The budget reserve fund consists of money ded-
14 icated to that fund by art. IX, sec. 17 of the Alaska Constitution.

15 (b) For the purposes of determining the appropriation limitation
16 amount under art. IX, sec. 16, of the Alaska Constitution, (1) an
17 appropriation is considered to be made in the calendar year in which
18 it is enacted, and (2) "appropriation" includes money received by the
19 state, described in art. IX, sec. 17(a), of the Alaska Constitution,
20 which exceeds the maximum balance of the fund and is subsequently
21 deposited in the general fund and appropriated. For the purposes of
22 art. IX, sec. 17, of the Alaska Constitution, the amount of money
23 received by the state includes any surplus carried forward from the
24 preceding fiscal year, or is reduced by any deficit from that preced-
25 ing fiscal year.

26 (c) A reappropriation of no more than the remaining balance of
27 the amount appropriated in a prior year is considered an appropriation
28 attributable to the calendar year in which the appropriation was first
29 enacted. Only if, within a single section of an appropriation bill,

1 there is an explicit repeal of an appropriation coupled with a new
2 appropriation is there a reappropriation for the purposes of this
3 subsection.

4 (d) If the governor determines that the money received by the
5 state from state sources in a fiscal year is less than 95 percent of
6 the amount appropriated from state sources during the preceding calen-
7 dar year, amounts may be transferred from the budget reserve fund to
8 the general fund, up to a limit of either 25 percent of the budget
9 reserve fund balance, or the difference between money received from
10 state sources in that fiscal year and 95 percent of appropriations
11 during the preceding calendar year, whichever is less. Determination
12 of the need for budget reserve fund expenditures for a fiscal year
13 must be made during the final quarter of that fiscal year.

14 (e) As authorized by art. IX, sec. 17(b), of the Alaska Consti-
15 tution, 75 percent of the money received by the state, described in
16 art. IX, sec. 17(a), of the Alaska Constitution, which exceeds the
17 maximum balance of the fund, must be deposited in the Alaska permanent
18 fund.

19 (f) In art. IX, sec. 17, of the Alaska Constitution, "emergency"
20 means the events set out in AS 26.23.220(1) or a reduction of the
21 revenue from nonstate sources which seriously impairs the ability of
22 the state to perform essential functions.

23 (g) In this section and art. IX, secs. 16 and 17, of the Alaska
24 Constitution, "state source" means (1) the undistributed income ac-
25 count in the permanent fund, and (2) all sources of money in the state
26 general fund except (A) federal sources, (B) bond proceeds, and (C)
27 sources from which money is received in trust for a specific purpose.

28 * Sec. 2. The lieutenant governor shall include on the ballot for the
29 1986 general election an explanation that an affirmative vote on the

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

5 * Sec. 3. AS 37.05.159, reserve for emergency operating expenses ac-
6 count (the "rainy day fund"), is repealed, and the balance in that account
7 is transferred to the budget reserve fund.

8 * Sec. 4. Sections 1 and 3 of this Act take effect on the effective
9 date of a constitutional amendment establishing the budget reserve fund and
10 revising the appropriation limit.

11 * Sec. 5. Section 2 of this Act takes effect immediately in accordance
12 with AS 01.10.070(c).

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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-

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tion of the State of Alaska relating to

7

the use and expenditure of state money.

8

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

9

* Section 1. Article IX, sec. 7, Constitution of the State of Alaska,

10 is amended to read:

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SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or

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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

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programs. This provision shall not prohibit the continuance of any

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dedication for special purposes existing upon the date of ratification

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of this section by the people of Alaska.

18

* Sec. 2. Article IX, sec. 16, Constitution of the State of Alaska, is

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repealed and readopted to read:

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SECTION 16. APPROPRIATION LIMIT. Appropriations of money from

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state sources for a fiscal year may not increase by more than 15

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percent of the amount appropriated from state sources during the

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preceding calendar year, except as authorized by sec. 17 of this

24

article.

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* Sec. 3. Article IX, Constitution of the State of Alaska, is amended

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by adding a new section to read:

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SECTION 17. BUDGET RESERVE FUND. (a) Money received by the

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state from state sources, which is not dedicated to the Alaska perman-

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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.

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.