

SJR

440

PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE ULMER

NAME: GUY STENBERG  
TITLE:  
ADDRESS: SR BOX 5222  
CITY: WASSILLA  
PHONE: 376-4308

ZIP: 99607

BILL NO:

SUBJECT: FUNDING? 40-30-30?

MESSAGE: I CAN ONLY THINK OF ONE REASON WHY THE SENATE IS AGAINST AN INCOME T,  
--THEY MUST BE SO RICH, THEY CAN NOT BE UNBIASED REGARDING THIS MATTER.

FORMID: 14084451  
DATE: 05/12/87  
TIME: 08:44:51  
LIONAME: MAT-SU LIO

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| DAVIDSON    | DAVIS       | DUNCAN       |
| DONLEY      | ELLIS       | ELIASON      |
| FRANK       | FURNACE     | FAHRENKAMP   |
| GOLL        | GRUENBERG   | FAIKS        |
| GRUSSENDORF | HANLEY      | FISCHER      |
| HERRHAIN    | HOFFMAN     | HALFORD      |
| HUDSON      | KOPONEN     | HENSLEY      |
| LARSON      | MARTIN      | JONES        |
| MEHARD      | MILLER      | JOSEPHSON    |
| NAVARRE     | PEARCE      | KELLY        |
| PETTYJOHN   | PHILLIPS    | KERTTULA     |
| POURCHOT    | RIEGER      | RODEY        |
| SCHULTZ     | SPRINGER    | STURGULEWSKI |
| SUND        | SWACKHAMMER | SZYMSKI      |
| TAYLOR      | WALLIS      | VENLING      |
| ZAWACKI     |             | ZHAROFF      |

40130/3  
5240

PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE ULMER

NAME: SIDYH R. REID

TITLE:

ADDRESS: 3100 SEA WIND DRIVE

CITY: ANCHORAGE

ZIP: 99516

PHONE: 345-7351

BILL NO: SJR 40

SUBJECT: BUDGET LIMIT/PERM. FUND/BUDGET RESERVE FD

MESSAGE: I WANT YOU TO THINK ABOUT THIS RESOLUTION. I DO NOT BELIEVE ANY MONEY FROM THE PERMANENT FUND EARNINGS SHOULD BE USED UNTIL THE STATE GOVERNMENT IS CUT BACK IN SIZE AND THE STATE SPENDING LESS THAN THE STATE INCOME.

POHID: 03081137

DATE: 04/28/87

TIME: 08:11:37

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JC  
file

QUALITY SERVICES

Date MAY 13 1987

Anchorage Daily News

Client No. 615

## Beware of wolves in sheep's clothing

Senate leaders say they've developed a plan to drive the wolf from the door of Alaska's treasury. It's called 40-30-30 because it would allocate 40 percent of the Alaska Permanent Fund Earnings to dividends, 30 percent to inflation proofing the permanent fund and 30 percent to a budget reserve fund.

No new taxes. No damage to the permanent fund, just inscribe 40-30-30 on the constitution — voter approval is required — and watch budget problems disappear.

This plan sends the wolf packing, all right, but he will still get fed — by families and people with low incomes. Under 40-30-30:

- A couple making \$10,000 a year would lose about \$400 in dividends next year. If enacted, Gov. Cowper's personal income tax would cost them less than \$200.

- A family of four making \$25,000 a year would lose roughly \$800 a year in lower dividends; Gov. Cowper's income tax plan would cost them only \$400.

- Meanwhile, a single person making \$50,000 a year would lose \$200 in lower dividends — and escape paying \$2,000 in taxes proposed by Gov. Cowper.

Sen. Jan Faiks must not have been kidding when she said, "The rich need representation, too," because this piece of legislation offered by the Senate leadership is classic protection for the wealthy. It balances the books on the backs of individuals and families with low and moderate incomes — particularly rural Alaskans — and permits Alaskans with higher incomes to make minimal sacrifices.

Instead of an income tax geared to what people can afford to pay, Alaskans get a head tax. Hundreds of Alaskans already are in such economic trouble they're selling their permanent fund checks for less than half the value.

The Senate plan is a short-sighted fix for Alaska's long-term problems. It belongs in the waste basket — not the Constitution.

# Senate plan would 'tax' fund dividends

By JOHN LINDBACK  
Daily News reporter

JUNEAU — Although the state Senate ran newspaper ads Monday claiming that it can balance the budget without new taxes, senators who support the plan concede it would effectively tax Alaskans by cutting their Alaska

Permanent fund dividends.

With just one week left in the legislative session, the Senate's so-called 40-30-30 plan faces an uncertain future because it is competing with a House plan that skips an income tax and leaves dividends untouched. But the House plan leaves practically

nothing in state reserves for budget emergencies, an omission that Gov. Steve Cowper warns is unacceptable.

The Senate plan's name stems from its allocation of investment earnings of the permanent fund. Under it, 40 percent of the annual earnings would go to the dividend

program, 30 percent to protect the fund's principal from inflation and 30 percent to a budget reserve fund.

If it becomes law, Alaskans will get about \$200 less in their dividend checks than they would have next year.

The plan also would base the annual dividends on the

fund's earnings for only the prior year, not the preceding five years as is now the case. Financial consultants to the fund have said such a change would make the earnings subject to wide swings from one year to the next.

It wouldn't matter to most members of the public, sena-

tors claimed, that trimming the dividends and using the money to pay for state government is the same as a head tax. The Senate plan would reduce the dividends of all Alaskans by the same amount — next year's check would

See Back Page, BUDGET

## BUDGET: Senate plan effectively would 'tax' dividends

Continued from Page A-1

drop from \$796 to about \$589, according to Alaska Permanent Fund Corporation projections — whether they are rich or poor, child or senior citizen, employed or unemployed.

State Sen. Tim Kelly, R-Anchorage, said he trusts a recent Senate poll that shows Alaskans would rather get a smaller dividend than pay an income tax. Most people, he asserted, won't bother to calculate whether paying a 3 percent income tax, as Cowper has proposed, would take more or less money out of their pockets than cutting the dividend.

The public will tolerate a whittling down of the annual dividend because it is "money they haven't earned themselves. That's the bottom line," Kelly said.

The plan, senators said, is politically more palatable for legislators than reimposing an income tax because it takes money away from Alaskans before they ever get it in their hands. And, they said, it guarantees Cowper a budget reserve fund next year of almost \$250 million.

"It's clear that the public will be more accepting of slower growth in their divi-

dends than an income tax that reaches directly into their pockets," said Sen. Joe Josephson, D-Anchorage.

Senate leaders, using \$7,000 in public funds, ran ads Monday in newspapers across the state that heralded the 40-30-30 plan as an "alternative to new taxes."

The Senate proposes to put the 40-30-30 allocation on the 1988 ballot as an amendment to the state constitution. But until then Senate leaders want to put the plan into effect for next year's budget.

The plan's most ardent backers, such as Sen. Rick Halford of Chugiak, contend that it is the best alternative for protecting the permanent fund earnings and dividend program from future raids by politicians, even though it reduces the size of the annual dividend.

It shields at least 70 percent of the earnings from appropriation, he said. And it makes the dividend program part of the state constitution where politicians can't touch it, he said.

Because the Senate won't pass new taxes, according to senators, other plans would force even bigger expenditures of permanent fund earnings for operating state government than the 40-30-30 plan. Any other plan would,

in effect, also reduce the size of future dividends because fewer investment earnings would be channeled into the principal of the permanent fund to boost its earning power, they argue.

But officials at the Alaska Permanent Fund Corporation are worried about another part of the Senate plan.

They fear a shortage of money to inflation-proof the fund. Next year, for example, the corporation would run \$82 million short of what it needs to protect it from a projected 4 percent inflation rate, according to permanent fund spokesman Jim Kelly.

The 40-30-30 plan for fiscal year 1988 would provide \$318 million for the dividend program, \$239 for inflation-proofing and \$239 million for the state's budget reserve fund, Kelly said.

Legislators are assembling a state budget for next year of \$1.9 billion to \$2 billion. State revenue forecasters say Alaska will take in about \$1.5 billion in revenues.

The House Finance Committee on Sunday approved a bill that would make all of the state's permanent fund earnings that remain after paying dividends and inflation-proofing available for balancing the state budget. For next year, according to

Kelly, about \$516 million would be available.

But because of the anticipated difference between next year's other income and next year's budget, the House plan leaves reserves of only about \$18 million. Cowper has warned legislators that he demands a \$250 million budget reserve fund to deal with emergencies.

Cowper has suggested that if legislators don't leave that reserve fund, he could use his line-item veto power on the state budget to make sure enough reserves are available.

Cowper has proposed using both permanent fund earnings and new taxes to balance the state budget. But new revenue raising measures, including the postponement of an tax-cut next year for the oil industry, have been rejected all session by the Senate.

The permanent fund is a savings account created by voter approval of a constitutional amendment in 1976. It automatically receives about 10 cents for every oil dollar the state gets. Its constitutionally protected principal, currently \$7.6 billion, is invested. The earnings from those investments are available for appropriation, although politically sensitive legislators have left them alone until this year.

Date MAY 13 1987

Peninsula Clarion

Client No. 615

# Opinion

**Y**esterday this space was devoted to criticizing the Alaska Senate's purpose in running an advertisement at the taxpayers' expense. Today this space is devoted to promoting the idea the Senate proposes, if not its advertising.

The so-called 40-30-30 plan is not perfect, but it is promising. It does include a new tax, as some have pointed out (and as the senators have tried to pretend is untrue), and its provision for Permanent Fund inflation proofing may be inadequate, yet it's as good of an idea as any presented this year. It offers the combination of a palatable tax bite, the naming of a budget reserve — if in name only — and the forestalling of a state income tax.

Let's  
try  
it out

If the Senate leadership says the plan means no new taxes, why does it say otherwise here? Because the "40" in 40-30-30 means that Permanent Fund dividends would be drawn in the future from 40% of the fund's annual earnings, rather than 50% as at present. In other words,

the size of an individual Alaskan's annual dividend check would decrease under the plan. That is a form of taxation, because it withholds money that Alaskans otherwise would receive.

That is, however, a very sufferable form of taxation. At 10% or so, it is likely to be preferred by most people to having to pay the government money from earned income.

The other catch in the Senate plan regarding dividends is that the proposal would switch the dividend pool from being based on five-year earning averages to being based only on the annual take. This could mean a bonanza in dividends one year and a drought the next. If the stock market is headed for a 4000 Dow Jones Average, as some analysts predict, then the dividend checks would probably remain handsome; if the stock market dipped, the checks likely would dip. It should be noted that the Permanent Fund trustees and staff have a remarkably strong record at managing the fund's principal for a maximum return.

Another concern is what is called inflation proofing. The 40-30-30 plan would nearly double the amount of earnings being added annually to the fund principal from what has been required in recent years of low inflation. But even at 30% of annual earnings, the growth of the fund could lag, if inflation returns to the high levels of the '70s.

The best feature of the Senate plan may be that it offers a test period. If the Senate and House agree to it this year as statutory law, and also agree to put it to a vote of the people in 1988, then the system would have undergone a test period through the next fiscal year to use as a basis for deciding in 1988 whether to make it a permanent deal for the Permanent Fund.

Given that possibility, given the state's immediate budget difficulties, and given the fact that the Permanent Fund's earnings are legally available for appropriation anyway, it is difficult to see why some so adamantly oppose the Senate's proposal. It seems to be worth a try.

Date APR 30 1987

Peninsula Clarion

Client No. 615

# Opinion

**A**laska's legislators are making a lot of fuss over a bill that is big on dollars but small on change, acting for all the world as though they were rummaging through the drawers in someone else's bedroom and were afraid they might get caught.

The room belongs to the citizens of Alaska and the drawers contain the Permanent Fund dividend and inflation-proofing programs. The idea before the Legislature is to split up the substantial annual earnings of the \$8 billion-plus Permanent Fund so that 40% a year goes to the dividend program, 30% to keeping the fund's principal in step with inflation's effects and 30% for the state (also known as "the Legislature") to spend.

This  
looks  
easy

Legislators are nervous about the proposal, because they don't want to get caught in the appearance of having manipulated the people's funds to their own advantage. Yet a close look at the proposal shows that it doesn't do much. First, the amount already set in law for the dividends is 50%. Second, the law already provides for inflation proofing, which has been running about 15%. Third, the Legislature already has the right, if not the courage, to use the remainder of the fund's annual earnings.

In other words, this new idea is only an adjustment: Take 10% off the dividends program (next year's dividend checks would still be larger than this year's), increase "inflation proofing" to 30% (the signs indicate a new cycle of inflation is just around the corner) and let the Legislature spend the rest on the budget.

The legislative debate seems like much ado about nothing. The Senate proposes putting the idea before the voters in 1988 as a constitutional amendment, while the House prefers the possibility of writing it only into state statutes where the Legislature would be free to amend it were that found to be necessary.

But the senators and representatives do not have to decide this year whether to put it on the 1988 ballot, so they can postpone that discussion and not worry about it today.

If the 40-30-30 split is a good idea, the Legislature ought to just adopt it and move on. It's not easy to see what the fuss is about.

Footnote: An idea offered by Sen. Jim Duncan of Juneau is a pointless distraction. He proposes that the voters amend the plan into the constitution, but with a proviso that if in any year state revenues fall to less than 80% of the previous year's state spending, then the amendment would be repealed.

One might be tempted to ask if he's serious. He wants the people to vote in an amendment that would give the legislators power they already have without also preventing them from exercising any power, because any time revenues dropped as they have this year, all bets would be off anyway.

Date MAY 04 1987

Anchorage Daily News

Client No. ~~██████████~~

# A plan with holes like Swiss cheese

The Senate's plan for carving up Alaska Permanent Fund earnings is a Trojan Horse.

It's being sold as a way to take most of the fund's earnings off the table, slap on a spending limit, and tuck away money for a budget reserve fund. In reality, the plan opens the floodgates for spending permanent fund earnings, reduces the size of dividends, and weakens inflation-proofing. And worst of all, the measure passed by the Senate this week would lock this whole mess into the Alaska Constitution for seven years.

The Senate's blueprint is known as the "40-30-30" plan. Forty percent of fund earnings would go to dividends, 30 percent would be reinvested to help offset inflation, and 30 percent would go to a budget reserve fund.

Many lawmakers hailed the measure because it takes 70 percent of the fund's earnings off the spending table. It does that all right, but it also does a whole lot more.

The 40-30-30 plan leaves the fund itself vulnerable to inflation. There's no guarantee 30 percent of earnings will be enough to offset the value lost to inflation.

The plan sets a new constitutional spending limit that's a limit in name only. Each year, spending may go up by 5 percent plus adjustments for inflation and population growth. Several big-ticket items, such as reimbursement for school bond debts, don't count against the limit.

And the plan's budget reserve fund doesn't promise to reserve much for very long. The problem is not that there won't be enough money. Since it will get 30 percent of the fund's earnings each year and half of any windfalls that exceed the spending limit, the reserve will have plenty of cash. The problem is that lawmakers can tap it too easily. Any time income falls short of the liberal spending limit, lawmakers can dig into the reserve for extra spending money.

Because the measure is a constitutional amendment, it does let people vote on how permanent fund earnings will be used. But the way it's written now, voters will be asked to make an all-or-nothing choice. Even if people like the 40-30-30 split, they're also stuck with the generous spending limit and bogus budget reserve.

Alaskans don't need a constitutional amendment to keep permanent fund earnings from being spent on boondoggles. They just need to elect legislators who will make inflation-proofing a priority, who will support the permanent fund dividend, and who will tap any leftover earnings only as a last resort.

# Senate passes bill to split up fund

by JOHN LINDBACK  
Daily News reporter

JUNEAU — The state Senate Tuesday passed the only major revenue bill its leaders support: a constitutional amendment that allows the legislature to spend at least 30 percent of permanent fund earnings and whittles down the size of its dividends.

The bill, which would put the proposed constitutional amendment before voters in November 1988, won't get a warm welcome in the state House.

Members of the House majority argue that it is unwise

to restrict the budget options of Alaska politicians by locking fiscal policy, including the annual distribution of dividend checks, into the state constitution.

Gov. Steve Cowper also opposes the Senate bill for the same reasons. He failed in a last-minute effort to convince senators to kill it.

So far this session the Senate's pro-oil Republican leadership has denounced two major revenue raisers supported by Cowper — reimposition of the state income tax and suspension of a tax break for the oil industry.

All session, senators have looked only to the investment earnings of the permanent fund, Alaska's \$7.8 billion savings account, to bail the state out.

The bill approved 15-4 Tuesday — sponsored by Senate President Jan Faiks and three other senators — represents the Senate's long-term prescription for improving Alaska's fiscal health with permanent fund earnings. But, senators said, they also want to put its provisions into effect for next year while they wait for the 1988 vote that would make it part of

the constitution.

The Senate's plan would  
• Reduce the amount of permanent fund earnings available for the dividend program and change the formula for determining the size of the dividend. If the plan, which would set 40 percent of the earnings aside each year for dividends, went into effect next year, each Alaskan's dividend check would be reduced from \$806 to \$603, according to projections. In 1989 the check would be \$597 instead of \$871.

See Page B-3, SENATE

## SENATE: Gov. Cowper tries to kill bill

Continued from Page B-1

• Guarantee that 30 percent of the annual investment earnings are set aside in a state budget reserve fund, a pot of money the legislature could dip into each year to balance the state budget. In 1988 it would provide for a budget reserve fund of about \$225 million.

• Guarantee that 30 percent of each year's investment earnings are put into the principal of the fund to shield it's buying power from erosion by inflation. Current law provides for inflation-proofing the fund. But it does not include a guarantee that a set amount of earnings would be put aside each year for that purpose.

• Establish a new state spending limit. It would limit budget increases to no more than 5 percent of the previous year's appropriation with additional increases allowed for inflation and a rise in population.

Should voters approve the amendment, its provisions would "sunset" on July 1, 1995. Another vote would be required to keep them in the constitution.

Some defenders of the permanent fund, such as Majority Leader Rick Halford, argue

that the bill is good because it guarantees that 70 percent of the permanent fund earnings each year will be protected from legislative spending.

Also, according to Halford and other advocates, it guarantees an income stream for a budget reserve fund and it protects the dividend program from legislative raids.

Republican senators such as Rick Uehling of Anchorage said the bill's components represent a strong compromise for the competing interests that often battle over permanent fund legislation. During floor debate he pointed out that former Gov. Jay Hammond, a staunch defender of the permanent fund, supported the Senate proposal in his newspaper column.

But others, such as Sen. Tim Kelly, R-Anchorage, agree with Cowper that it's unwise in volatile financial times to cut off legislative budget options.

If the dividend program is locked into the state constitution, legislators could be forced to look for another way to raise revenue — such as the income tax.

"Pretty soon, we could get into a situation where we're locked into taxes because the dividends are cemented in concrete," he said.

Such a move would be unpopular, Kelly said, pointing to a recent poll commissioned by the Senate that suggests most Alaskans would prefer a reduction in their dividend to reimposition of the income tax.

Cowper, meanwhile, launched a last-minute effort to kill the Senate bill. He encouraged several Democrats in the Senate to try to stop it. But he got only a floor amendment that says a two-thirds vote of the legislature could suspend the constitutional provisions if the state faced a financial crisis.

According to the amendment, the legislature by a two-thirds vote could suspend the constitutional provisions if the state's total revenues, including the amount set aside in the budget reserve fund, were less than 80 percent of the money appropriated for that fiscal year.

Cowper wasn't satisfied with the amendment. His office released a written statement Tuesday afternoon that said he would be willing to draft a proposal for a new state spending limit.

Both Cowper and the House also want to use permanent fund earnings to help balance this year's and next year's budget.

# Senate debates dividing fund earnings

## Constitutional amendment would split earnings among dividends, reserve, principal

By SUE CROSS  
The Associated Press

JUNEAU — A plan to divide Alaska Permanent Fund earnings by constitutional amendment sparked a three-hour debate in the Senate on Monday, only to be held for further argument.

The so-called "40-30-30" plan would put a proposed constitutional amendment on the 1988 general election ballot.

If passed by public vote,

the amendment would dedicate 40 percent of permanent fund earnings to dividends, 30 percent to a budget reserve account, and roll another 30 percent back into the permanent fund's interest-earning principal.

It also would limit increases in state spending to no more than 5 percent of the previous year's appropriations.

The split would take effect in July 1989, and last six years. The amendment would

expire in 1995, returning the constitution to its current form.

It would free more permanent fund earnings for spending in case of another oil downturn, while decreasing dividends and the inflation-proofing amount that's rolled back into the fund.

Dividends, expected to be \$723 this year, would be \$895 per person in 1990 under current law. The proposed amendment would reduce dividends to \$683 in 1990, accord-

ing to the Permanent Fund Corp.

The 40-30-30 split seems to prompt more interest in the Capitol than any other long-range proposal for dealing with reduced oil revenues.

The hitch in its passage is disagreement about whether the idea should be put in the constitution.

Most of the Senate favors that approach.

But the House Democratic majority — and Gov. Steve Cowper — say the constitu-

tion is no place for a budget issue.

In an unusual course of action Monday, the Senate spent hours trying to strike a balance, then put the issue on hold overnight in a bid to find a compromise.

Senate backers want the split set in the constitution so it cannot be changed no matter what happens to state revenues.

"If we can't guarantee that, I'm not interested," said Sen. Dick Ellason, R-Sitka.

Fourteen senators co-sponsored the resolution (SJR40). It was drafted by Senate President Jan Falks, R-Anchorage, and Sen. Rick Halford, R-Chugiak.

Any loss of those 14 votes could scuttle the resolution, which requires a two-thirds vote to pass.

A minority of the Senate members say they'll back the constitutional approach, but

See Page B-3, FUND

## FUND: Senate considers dividing permanent fund earnings

Continued from Page B-1

only with a safety valve built into it.

They want to add a clause saying the governor, with the approval of the legislature,

could get the 40-30-30 amendment repealed before 1995 if revenues fell dramatically.

The clause proposed Monday would allow repeal if revenues fell to less than 80 percent of the previous year's

spending level.

"If that should happen, we need some way out. We need a safety valve," said Sen. Jim Duncan, D-Juneau.

Without that escape option, future lawmakers might be forced to raise taxes, cut education and basic service, or take other painful steps to balance the budget while dividends continued to flow, Duncan said.

Duncan and Sens. Joe Josephson, D-Anchorage, and Fred Zharoff, D-Kodiak, sponsored the safety valve clause, setting off the debate.

One senator, Anchorage Republican Rick Uehling, said he might support the clause if the trigger was reduced, perhaps to 80 percent.

And Sen. Jay Kerttula, D-

Palmer, came up with another idea to increase the number of votes needed for a repeal.

At that point, Falks took the resolution off the floor so sponsors could work on compromise options.

Duncan later said he was not concerned with passing a measure that would draw favor in the House, but lawmakers at that end of the Capitol were watching closely.

House Speaker Ben Grusendorf, D-Sitka, said the House majority caucus would withhold its judgment on the proposal until it saw what version passed the Senate.

In general, caucus members like the idea, but don't want it in the constitution, Grusendorf said.

# Budget decisions stymie legislature

By James D. Wasserman  
Times Juneau Bureau

JUNEAU — Debate on the state's immediate budget problems — and a long-term solution to them — resumed here today after neither the House nor Senate could agree on them Monday.

The House's 24-member Democratic majority met in closed caucus to grapple with choices that range between spending earnings from the Alaska Permanent Fund to making deeper cuts in the state operating budget.

The Senate, meanwhile, was set to resume debate on its pro-

posal to restructure the use of permanent fund earnings by channeling less money into dividends and more into a budget reserve fund for state government.

Debate on both proposals stalled Monday.

The Senate opted not to vote on its so-called "40-30-30" long-term budget plan after debating an amendment to the plan for more than two hours.

The Senate's budget plan, proposed by Senate President Jan Falks, R-Anchorage, would funnel 40 percent of annual permanent fund earnings into dividends, 30 percent to a budget re-

serve fund and 30 percent back to the permanent fund principal.

About 44 percent now goes to dividends, with a calculated amount plowed back into the fund to offset inflation. The rest stays in the state's general fund, where the legislature can either spend it for state operations or put it back in the fund. Until now, it has always put the money back into the fund.

If approved by a two-thirds vote in the House and Senate, the Senate plan will go to Alaska voters at the November 1988 election.

The proposal also sets a

spending limit to keep the budget from going up more than 5 percent a year.

Debate stalled on it, though, when three senators — two of them finance committee members — offered an amendment to keep the state's options open in case of a dramatic new fall in oil prices.

Sen. Jim Duncan, D-Juneau, suggested if revenue fell by more than 20 percent in one year, the governor should be able, with a three-fourths vote of the legislature, to funnel more than 30 percent of the fund's earnings to

See Budget, page A-10

## Budget: No decision

Continued from page A-1

state government. Signing onto the change were Democratic Sens. Joe Josephson of Anchorage and Fred Zharoff of Kodiak.

"If there is a real crisis here with \$7 oil . . . I would very much want to have latitude," Josephson argued. "I'd hate to have been put in a box by the legislature that was here in 1987."

Meanwhile, the House, which opened its morning caucus Monday to talk about funding levels for debt reimbursement, municipal assistance and revenue sharing, closed it later to talk about

budget strategy.

Rep. Dave Donley, D-Anchorage, said later that several Democrats don't support using hundreds of millions of dollars in permanent fund earnings to balance the budget.

House members are talking about a \$2 billion to \$2.1 billion budget, while revenue is projected between \$1.5 billion and \$1.7 billion.

He said much of the discussion revolved around budget philosophy — whether to build a budget more geared to available revenue or one which finds the revenue to meet the desires.

Alaska State Legislature



PRESIDENT  
907-465-3755

JAN FAIKS  
POST OFFICE BOX V  
JUNEAU, ALASKA 99811

Senate

April 30, 1987

MEMORANDUM

TO: Representative Fran Ulmer, Chairman  
House State Affairs Committee

FROM: Senator Jan Faiks  
President of the Senate *Jan Faiks*

SUBJECT: Senate Joint Resolution 40  
Proposing amendments to the Constitution of the State of Alaska amending provisions relating to the Alaska Permanent Fund; establishing temporary provisions relating to dedicated funds, the Alaska Permanent Fund, the appropriation limit, and the Budget Reserve Fund; and suspending the operation of provisions relating to dedicated funds, the Alaska Permanent Fund, and the appropriation limit

CS Senate Joint Resolution 40 (Finance) am has been referred to your committee for consideration. I am taking the liberty of providing the committee with the following information about the resolution.

The resolution places three main issues before the voters in the 1988 general election:

1. Distribution of the earnings of the Permanent Fund;
2. A new appropriation limit; and
3. Creation of the Budget Reserve Fund in the Constitution.

Should the voters approve the constitutional amendment, its provisions would sunset on July 1, 1995. As a result, the resolution is written so that these new sections, where

OUT OF SESSION

6060 YUKON DRIVE ANCHORAGE, ALASKA 99516 907-274-6611

applicable, replace current sections of the Constitution by suspending them from July 1, 1989 to June 30, 1995.

The following is a sectional analysis of SJR 40.

Section 1.

Amends the Alaska Permanent Fund section of the Constitution by adding:

"The fund is established as a trust on behalf of all the residents of the State and its principal shall be invested in accordance with the prudent investor rule"

This is the current philosophy of the Fund's investments as established in statute. By amending the Constitution, it ensures that the Fund's investment policies will always be guided by this more conservative approach.

Section 2.

Amends the Constitution by adding the following new sections:

Section 29. DEDICATED FUNDS.

(b) Allows dedication of funds to the Permanent Fund, dedication of its earnings, and dedication to the Budget Reserve Fund.

Section 30. ALASKA PERMANENT FUND.

(b) This section is the same as the current constitutional provision regarding 25% of royalties going into the Permanent Fund except that it deletes the following sentence: "All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law". It also adds the new language regarding prudent investor rule as specified in Section 1.

(c) Provides that at the end of each fiscal year, an amount equal to the capital gains that exceed capital losses from the sale of Permanent Fund investments shall be added back into the principal.

Also provides that the income from the Permanent Fund shall be distributed as follows:

(1) 40% to be used for dividends;

(2) 30% to be added back into the principal for inflation-proofing;

(3) 30% to the Budget Reserve Fund.

Section 31. APPROPRIATION LIMIT.

(b) Establishes a new appropriation limit which says that appropriations shall not exceed the appropriations made the preceding fiscal year by more than 5% plus the change in population and inflation. Excluded from calculating the limit are appropriations to the Permanent Fund or for dividends, appropriations to the Budget Reserve Fund, appropriations of revenue bond proceeds, appropriations for debt obligations.

The limit can be exceeded if an appropriation bill is placed before and approved by the voters. If such a bill is for capital projects, it shall be confined to similar projects and voters shall be informed of the cost of operations and maintenance of the projects.

(c) For revenues which exceed the appropriation limit, 50% shall be deposited in the Budget Reserve Fund and 50% into the Permanent Fund.

Section 32. BUDGET RESERVE FUND.

(b) Provides for deposit of Permanent Fund earnings into the Budget Reserve Fund. In addition, 50% of the money received by the state which exceeds the amount which can be spent under the Appropriation Limit shall be deposited in the Budget Reserve Fund. Additional appropriations may also be made to the Budget Reserve Fund.

(c) The Fund shall be invested and its earnings retained.

(d) If the state does not receive sufficient revenues to meet the Appropriation Limit, funds may be appropriated from the Budget Reserve Fund to the General Fund.

(e) Additional funds can be appropriated to meet a state disaster declared by the Governor. Such an appropriation is not subject to the Appropriation Limit.

Section 33. SUSPENSION.

Provides that if by January 1st, the Governor finds that anticipated revenues for the current fiscal year plus the balance in the budget reserve fund are less than 80% of the money appropriated for the current fiscal year, the Governor shall notify the Legislature that the state is in a fiscal

crisis. Upon adoption of a resolution by 2/3 of the members of each house, the operation of Section 29 (Dedicated Funds), Section 30 (Alaska Permanent Fund) and Section 32 (Budget Reserve Fund) can be suspended.

Section 34. REPEAL.

Repeals all but Section 1 on July 1, 1995.

Section 3.

Provides that these amendments shall be placed before the voters at the next general election.

Attached is the following additional information:

Attachment I: How the appropriation limit would work if it was in place for FY 89 starting with a \$2 billion base.

Attachment II: The distribution of Permanent Fund earnings under current law.

Attachment III: The distribution of Permanent Fund earnings under SJR 40.

Attachment IV: A background memorandum prepared for the Senate Finance Committee discussing how the Appropriation Limit would work.

I would appreciate the committee's scheduling of the bill at your earliest convenience. Should you or your staff have any questions or need additional information, please let me know.

Thank you.

Spending Limit  
(\$ Million)

| FY     | Base<br>(1) | Base<br>+ 5%<br>(2) | Pop'n<br>Growth<br>(3) | Inflation<br>(4) | Spending<br>Limit<br>(5) | Except<br>Approp<br>(6) | Total<br>Approp<br>(7) | GF<br>REVENUES<br>(8) | Surplus/<br>Deficit<br>(9) | Budget Reserve Fund  |                          | Net<br>From<br>BRF<br>(10) | Surplus/<br>Deficit<br>(11) |
|--------|-------------|---------------------|------------------------|------------------|--------------------------|-------------------------|------------------------|-----------------------|----------------------------|----------------------|--------------------------|----------------------------|-----------------------------|
|        |             |                     |                        |                  |                          |                         |                        |                       |                            | BRF<br>Income<br>(9) | Income<br>From PF<br>(9) |                            |                             |
| 89     | 2,000       | 2100                | 1.93%                  | 4.90%            | 2,243                    | 217                     | 2461                   | 1913                  | -548                       | 22                   | 236                      | 258                        | -290                        |
| 90     | 2,243       | 2356                | 2.37%                  | 5.90%            | 2,650                    | 200                     | 2750                   | 2026                  | -724                       | 22                   | 240                      | 270                        | -454                        |
| 91     | 2,550       | 2578                | 2.79%                  | 5.90%            | 2,911                    | 172                     | 3083                   | 1957                  | -1,126                     | 23                   | 261                      | 284                        | -841                        |
| Return |             | 9.00%               |                        |                  |                          |                         |                        |                       |                            |                      |                          |                            |                             |

- 1) FY 90 and FY 91 numbers are from prior year's spending limit
- 2) Base plus 5%
- 3) From Alaska Department of Labor
- 4) From Anchorage CPI-U
- 5) Column 2 X (Column 3 + Column 4); Additive
- 6) Appropriations not subject to spending limit e.g. Debt Services, PF deposits, school debt
- 7) Column 5 + Column 6
- 8) Unrestricted GF Revenues, from Revenue Sources, March 87
- 9) Allocate 30% of Permanent Fund to Budget Reserve Fund
- 10) Allocate full amount of Budget Reserve Fund to General Fund

(sp:llr: /LFD  
4/22/1987

Attachment I



## Alaska Permanent Fund Corporation

### FINANCIAL PROJECTIONS (in millions)

as of March 20, 1987

PRINCIPAL

INCOME

| FY                 | FY Begin Balance | Appropriations | Dedicated       |                    | FY End Balance | Inflation Proofing Shortfall | Distributions |           |                        |                    | Reserves     |              |                |
|--------------------|------------------|----------------|-----------------|--------------------|----------------|------------------------------|---------------|-----------|------------------------|--------------------|--------------|--------------|----------------|
|                    |                  |                | State Revenues* | Inflation Proofing |                |                              | Net Income    | Dividends | Per Capita Dividends** | Inflation Proofing | General Fund | Add (Delete) | FY End Balance |
| 78                 |                  |                | 54              |                    | 54             |                              | 2             |           |                        |                    | 1            |              |                |
| 79                 | 54               |                | 84              |                    | 139            |                              | 8             |           |                        |                    | 7            |              |                |
| 80                 | 139              |                | 344             |                    | 483            |                              | 32            | 12        |                        |                    | 12           |              |                |
| 81                 | 483              | 900            | 385             |                    | 1,769          |                              | 150           | 28        |                        |                    | 28           | 59           | 59             |
| 82                 | 1,769            | 800            | 401             |                    | 2,969          |                              | 368           | 71        | \$1,000.00             |                    | 71           | 185          | 244            |
| 83                 | 2,969            | 400            | 421             | 231                | 4,021          |                              | 471           | 108       | \$386.15               | 231                | 110          | 110          | 354            |
| 84                 | 4,021            | 300            | 356             | 151                | 4,838          |                              | 530           | 175       | \$331.29               | 151                |              | 204          | 557            |
| 85                 | 4,838            | 300            | 368             | 235                | 5,741          |                              | 658           | 217       | \$404.00               | 235                |              | 206          | 763            |
| 86                 | 5,741            |                | 323             | 216                | 6,281          |                              | 1,021         | 303       | \$556.26               | 216                |              | 501          | 1,254          |
| <hr/>              |                  |                |                 |                    |                |                              |               |           |                        |                    |              |              |                |
| 87                 | 6,281            | 1,264          | 150             | 148                | 7,843          |                              | 1,047         | 389       | \$723.21               | 148                |              | 510          | 510            |
| <hr/>              |                  |                |                 |                    |                |                              |               |           |                        |                    |              |              |                |
| 88                 | 7,843            |                | 165             | 320                | 8,329          |                              | 795           | 423       | \$789.05               | 320                |              | 51           | 561            |
| 89                 | 8,329            |                | 187             | 511                | 9,026          |                              | 847           | 457       | \$848.03               | 511                |              | ( 121)       | 440            |
| 90                 | 9,026            |                | 206             | 554                | 9,787          |                              | 902           | 483       | \$892.96               | 554                |              | ( 135)       | 305            |
| 91                 | 9,787            |                | 194             | 599                | 10,580         |                              | 960           | 477       | \$878.35               | 599                |              | ( 116)       | 190            |
| 92                 | 10,580           |                | 211             | 647                | 11,438         |                              | 1,025         | 476       | \$870.63               | 647                |              | ( 98)        | 92             |
| 93                 | 11,438           |                | 225             | 682                | 12,345         | 18                           | 1,097         | 507       | \$925.18               | 682                |              | ( 92)        |                |
| 94                 | 12,345           |                | 230             | 633                | 13,208         | 122                          | 1,174         | 542       | \$984.27               | 633                |              |              |                |
| 95                 | 13,208           |                | 230             | 677                | 14,114         | 130                          | 1,256         | 579       | \$1,047.94             | 677                |              |              |                |
| <hr/>              |                  |                |                 |                    |                |                              |               |           |                        |                    |              |              |                |
| 96                 | 14,114           |                | 229             | 722                | 15,065         | 138                          | 1,341         | 619       | \$1,116.03             | 722                |              |              |                |
| 97                 | 15,065           |                | 231             | 769                | 16,066         | 149                          | 1,431         | 661       | \$1,183.59             | 769                |              |              |                |
| 98                 | 16,066           |                | 231             | 819                | 17,115         | 159                          | 1,525         | 706       | \$1,264.46             | 819                |              |              |                |
| 99                 | 17,115           |                | 228             | 870                | 18,213         | 170                          | 1,624         | 753       | \$1,343.66             | 870                |              |              |                |
| 0                  | 18,213           |                | 223             | 924                | 19,360         | 182                          | 1,727         | 803       | \$1,426.43             | 924                |              |              |                |
| 1                  | 19,360           |                | 217             | 980                | 20,557         | 195                          | 1,835         | 855       | \$1,512.75             | 980                |              |              |                |
| 2                  | 20,557           |                | 215             | 1,038              | 21,811         | 208                          | 1,947         | 909       | \$1,602.37             | 1,038              |              |              |                |
| 3                  | 21,811           |                | 210             | 1,100              | 23,120         | 222                          | 2,065         | 966       | \$1,695.65             | 1,100              |              |              |                |
| 4                  | 23,120           |                | 208             | 1,164              | 24,491         | 236                          | 2,189         | 1,025     | \$1,792.68             | 1,164              |              |              |                |
| 5                  | 24,491           |                | 205             | 1,231              | 25,927         | 251                          | 2,318         | 1,087     | \$1,893.77             | 1,231              |              |              |                |
| <hr/>              |                  |                |                 |                    |                |                              |               |           |                        |                    |              |              |                |
| Cumulative Totals: |                  | 3,964          | 6,742           | 15,220             | 25,927         | 2,160                        | 30,343        | 13,631    | \$25,474.11            | 15,220             | 229          | 1,264        |                |

ASSUMPTIONS: 1.92% Inflation Rate FY 87  
13.94% Rate of Return FY 87

4.00% Inflation Rate FY 88  
9.00% Rate of Return FY 88

\* SOURCE: Alaska Department of Revenue  
30% Case Forecast - March 1987

6.00% Inflation Rate FY 89-95  
9.00% Rate of Return FY 89-95

\*\* SOURCE: Population Projections From  
DGR Revenue Source Book - Page 44

STATUS QUO



Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS  
(in millions)

as of March 20, 1987

PRINCIPAL

INCOME

| FY               | FY Begin Balance | Appro- priations | Dedicated       |                    |               | FY End Balance | Inflation          |            | Distributions |           |                        |                    | Reserves     |              |                |
|------------------|------------------|------------------|-----------------|--------------------|---------------|----------------|--------------------|------------|---------------|-----------|------------------------|--------------------|--------------|--------------|----------------|
|                  |                  |                  | State Revenues* | Inflation Proofing | Capital Gains |                | Proofing Shortfall | Net Income | Capital Gains | Dividends | Per Capita Dividends** | Inflation Proofing | General Fund | Add (Delete) | FY End Balance |
| 78               |                  |                  | 54              |                    |               | 54             |                    |            | 2             |           |                        |                    |              | 1            |                |
| 79               | 54               |                  | 84              |                    |               | 139            |                    |            | 8             |           |                        |                    |              | 7            |                |
| 80               | 139              |                  | 344             |                    |               | 483            |                    |            | 32            |           | 12                     |                    |              | 12           |                |
| 81               | 483              | 900              | 385             |                    |               | 1,769          |                    |            | 150           |           | 28                     |                    |              | 28           | 59             |
| 82               | 1,769            | 800              | 401             |                    |               | 2,969          |                    |            | 368           |           | 71                     | \$1,000.00         |              | 71           | 185            |
| 83               | 2,969            | 400              | 421             | 231                |               | 4,021          |                    |            | 471           |           | 108                    | \$386.15           | 231          | 110          | 110            |
| 84               | 4,021            | 300              | 366             | 151                |               | 4,838          |                    |            | 530           |           | 175                    | \$331.29           | 151          |              | 204            |
| 85               | 4,838            | 300              | 368             | 235                |               | 5,741          |                    |            | 658           |           | 217                    | \$404.00           | 235          |              | 206            |
| 86               | 5,741            |                  | 323             | 216                |               | 6,281          |                    |            | 1,021         |           | 303                    | \$556.26           | 216          |              | 501            |
| 87               | 6,281            | 1,264            | 150             | 214                | 335           | 8,244          |                    |            | 1,047         | 335       | 285                    | \$524.98           | 214          | 214          |                |
| 88               | 8,244            |                  | 165             | 235                |               | 8,645          | 101                |            | 785           |           | 314                    | \$580.99           | 235          | 235          |                |
| 89               | 8,645            |                  | 187             | 247                |               | 9,078          | 283                |            | 824           |           | 329                    | \$607.14           | 247          | 247          |                |
| 90               | 9,078            |                  | 206             | 260                |               | 9,544          | 298                |            | 865           |           | 346                    | \$635.35           | 260          | 260          |                |
| 91               | 9,544            |                  | 194             | 273                |               | 10,011         | 312                |            | 909           |           | 363                    | \$664.44           | 273          | 273          |                |
| 92               | 10,011           |                  | 211             | 286                |               | 10,508         | 327                |            | 953           |           | 381                    | \$694.61           | 286          | 286          |                |
| 93               | 10,508           |                  | 225             | 300                |               | 11,034         | 344                |            | 1,001         |           | 400                    | \$726.21           | 300          | 300          |                |
| 94               | 11,034           |                  | 230             | 315                |               | 11,579         | 361                |            | 1,051         |           | 420                    | \$759.19           | 315          | 315          |                |
| 95               | 11,579           |                  | 230             | 331                |               | 12,139         | 378                |            | 1,102         |           | 441                    | \$792.91           | 331          | 331          |                |
| 96               | 12,139           |                  | 229             | 346                |               | 12,715         | 396                |            | 1,155         |           | 462                    | \$827.43           | 346          | 346          |                |
| 97               | 12,715           |                  | 231             | 363                |               | 13,308         | 414                |            | 1,209         |           | 484                    | \$862.67           | 363          | 363          |                |
| 98               | 13,308           |                  | 231             | 380                |               | 13,919         | 433                |            | 1,265         |           | 506                    | \$898.79           | 380          | 380          |                |
| 99               | 13,919           |                  | 228             | 397                |               | 14,543         | 452                |            | 1,323         |           | 529                    | \$935.63           | 397          | 397          |                |
| 0                | 14,543           |                  | 223             | 414                |               | 15,180         | 472                |            | 1,381         |           | 552                    | \$972.80           | 414          | 414          |                |
| 1                | 15,180           |                  | 217             | 432                |               | 15,829         | 492                |            | 1,441         |           | 576                    | \$1,010.46         | 432          | 432          |                |
| 2                | 15,829           |                  | 215             | 451                |               | 16,495         | 512                |            | 1,502         |           | 601                    | \$1,048.78         | 451          | 451          |                |
| 3                | 16,495           |                  | 210             | 469                |               | 17,174         | 533                |            | 1,564         |           | 626                    | \$1,087.62         | 469          | 469          |                |
| 4                | 17,174           |                  | 208             | 489                |               | 17,871         | 554                |            | 1,628         |           | 651                    | \$1,126.91         | 489          | 489          |                |
| 5                | 17,871           |                  | 205             | 508                |               | 18,584         | 576                |            | 1,694         |           | 678                    | \$1,167.16         | 508          | 508          |                |
| Cumulative Total |                  | 3,964            | 6,742           | 7,543              |               | 18,584         | 7,236              |            | 25,938        | 335       | 9,859                  | \$18,601.79        | 7,543        | 6,938        | 1,255          |

ASSUMPTIONS: 1.92% Inflation Rate FY 87  
13.94% Rate of Return FY 87

4.00% Inflation Rate FY 88  
9.00% Rate of Return FY 88

SOURCE: Alaska Department of Revenue  
30% Case Forecast - March 1987

AFTER FY 86, CAPITAL GAINS TO PRINCIPAL,  
REMAINING INCOME DISTRIBUTED 40/30/30

6.00% Inflation Rate FY 89-95  
9.00% Rate of Return FY 89-95

\*\* SOURCE: Population Projections From  
DOR Revenue Source Book - Page 44



# Alaska State Legislature

SENATE

Office of the President

P.O. Box V  
State Capitol  
Juneau, Alaska 99811

Attachment IV

April 21, 1987

MEMORANDUM

TO: Senator John Binkley, Co-Chairman  
Senate Finance Committee

FROM: Senator Jan Faiks *JF*  
President of the Senate

SUBJECT: Proposed Finance Committee Substitute to  
SJR 40

Attached is a proposed Finance Committee Substitute for the committee's review. The only change proposed is to tighten the title. Otherwise, all other provisions are the same as that proposed in the original legislation.

If the Appropriation Limit were to be approved by voters in 1988 and therefore take effect for FY 89, the limit would be calculated as follows. For discussion purposes, I have used a base of 2000.0 (for the operating, capital and loans budgets):

For FY 89, the base of 2000.0 for FY 88 is increased by 5% which equals 2100.8. Added to the 2100.0 is any increase in population (based on Department of Labor estimates and inflation (based on the Anchorage CPI-U from the Department of Labor)). This equals:

$$2100.0 \times (1 + \overset{\text{population}}{.0193} + \overset{\text{inflation}}{.0490}) \text{ or}$$

$$2100.0 \times (1 + .0683) \text{ or}$$

$$2100.0 \times 1.0683 = 2243.4$$

Therefore the Appropriation Limit for appropriations subject to the Limit in FY 89 is 2243.4.

MISSOURI STATE GOVERNMENT

The Appropriation Limit can be exceeded for appropriations for G. O. bond debt service, Permanent Fund deposits and school debt retirement. For FY 89, this is estimated to be 217.0.

Therefore,

|         |  |
|---------|--|
| 2243.4  | Amount subject to Limit                    |
| + 217.0 | Appropriations not subject to Limit        |
| <hr/>   |  |
| 2460.4  | The amount which be appropriated for FY 89 |

The revenues estimated for FY 89 are 1913.0 which gives us a shortfall of - 547.4 (1913.0 less 2460.4) when compared to the amount which can be appropriated under the Appropriation Limit. This means we can then go into the Budget Reserve Fund to help with the shortfall.

By FY 89, 258.0 is estimated to be in the Budget Reserve Fund. This reflects the deposit of 30% of the earnings, or 236.0, from the Permanent Fund into the Budget Reserve Fund. Added to this is the 22.0 in interest income (estimated 9% rate of return) generated by the Budget Reserve Fund's balance during FY 88. Under this proposal, all of the 258.0 could be available to supplant the shortfall from the Limit. If the full amount was taken from the Budget Reserve Fund, we could expect a shortfall of - 289.4 from the maximum amount of appropriations permitted under the spending limit.

#### Distribution of Permanent Fund Earnings

SJR 40 also provides that the Permanent Fund interest earnings be distributed as follows:

- 40% for payment of dividends
- 30% back into the Fund's principle
- 30% to the Budget Reserve Fund

For the period in which SJR 40 would be in effect, the following distribution of earnings would be:

|                      | <u>Dividend</u>   | <u>Inflation</u><br><u>Proofing</u> | <u>BRF</u> |
|----------------------|-------------------|-------------------------------------|------------|
| FY 89<br>Per Capita: | 314.4<br>\$597.90 | 235.8                               | 235.8      |
| FY 90<br>Per Capita: | 330.8<br>626.40   | 248.1                               | 248.1      |
| FY 91<br>Per Capita: | 347.7<br>655.70   | 655.7                               | 260.8      |
| FY 92<br>Per Capita: | 365.2<br>686.00   | 273.9                               | 273.9      |
| FY 93<br>Per Capita: | 383.8<br>718.00   | 287.9                               | 287.9      |
| FY 94<br>Per Capita: | 403.3<br>751.40   | 302.5                               | 302.5      |

Also attached is a more clear and readable copy of the estimated distribution of Permanent Fund earnings prepared by Legislative Finance Division. One chart reflects distribution under current law and the second reflects distribution under SJR 40. I think you'll find these copies more easy to read than those included in my original background memorandum.

# SJR 40: the light at the end of the fiscal tunnel

The most popular issue on the November 1986 state general election ballot was the constitutional spending limit ratification. Alaska's voters, by an almost 2-to-1 majority, overwhelmingly approved maintaining a constitutional spending limit. Gov. Steve Cowper's dismissal of spending reform as a "minority issue" does not square with the facts.

Unfortunately, the constitutional language must still be modified in order to make it a truly effective limit on state spending. A recent bill introduced in the state Senate, SJR 40, proposes to not only correct the deficiencies in the spending limit language, but even more importantly to establish a comprehensive fiscal policy framework for the state.

The governor apparently believes that fiscal discipline should be imposed by punishing the citizens of Alaska with an income tax. The sponsors of SJR 40, on the other hand, believe that the necessary fiscal discipline should be imposed by strengthening the Constitution.

SJR 40 has three major



## **millett keller**

pillars that will provide the backbone for our elected officials in dealing with state fiscal policy. These three pillars involve (1) a policy on using Alaska Permanent Fund earnings; (2) a meaningful and realistic spending limit; (3) the creation of a constitutionally controlled Budget Reserve Fund.

When the citizens of Alaska approved the permanent fund in 1976, the price of oil was about \$12 per barrel. It was never anticipated that the permanent fund would grow to the extent that it has grown. Therefore, it is not surprising that the original constitutional language left the legislature with complete

discretion on how to spend the earnings. SJR 40 would correct that oversight by mandating that 40 percent of the earnings be used for dividends, 30 percent be plowed back into the permanent fund and the final 30 percent directed to the new Budget Reserve Fund.

The second pillar of SJR 40 would create a limit that would effectively control the size of increases in state spending. The current spending limit will never become effective unless the price of oil climbs back to the \$40 per barrel range and spending skyrockets to match revenues. The proposed changes would tie the spending limit to a more realistic baseline. Furthermore, voter approval would be required before the spending limit could be exceeded.

Finally, the third pillar of SJR 40 is the establishment of a Budget Reserve Fund in the Constitution that would act as the surge tank for 40 percent of the permanent fund earnings and all windfalls that the state may receive in the future. The Budget Reserve Fund would retain reve-

nues that exceed the spending limit thus keeping them out of reach of the spending zealots that gather around our elected officials at budget time.

SJR 40 is the long sought light at the end of the fiscal policy tunnel. Since constitutional resolutions must be approved by a two-thirds vote of each house of the legislature, the prospects for the public getting a chance to vote on SJR 40 are problematic at best. Currently, however, there are 14 Senate sponsors on SJR 40, which is more than the two-thirds necessary for approval by the Senate. In order to pass the House, 27 "yes" votes will be necessary. Hopefully, the House leadership will recognize the need for correcting the fiscal policy defects in our state Constitution. Their actions could result in a ballot issue that will give the public a meaningful way to express its desire regarding the taxation, dividend and spending issues.

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□ Millett Keller is an Anchorage business and public affairs consultant.

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Anchorage Daily News 4/26/87

# Senate proposal less dangerous than other plans

LAKE CLARK — In the wake of my expressed opposition to legislative invasion of Alaska Permanent Fund earnings absent public approval, someone resurrected past comments indicating that from the start I intended that most earnings be spent at will. Close, but no cigar.

I quote one such exhumed comment from the cover letter accompanying my May 4, 1977, submission of legislation creating a dividend program: *Let me emphasize that (dividends) involve only a small portion of total oil income, the remainder of which will be available for general government appropriation.* That "remainder," of course, included all income from oil wealth not going into the fund. Since only about 10 percent is deposited, my reference related primarily to the 90 percent which is not.

Though in another comment I acknowledged that earnings of the fund not required for dividends could be spent at legislative discretion, that's a far cry from saying they should be.

A 1977 Juneau Empire editorial throws additional light on my then prevailing attitude: *(By) returning about 1/10th of (oil income) to Alaskans... (Hammond) hopes these dividend checks will more than offset tax hikes needed to keep the state in the black.*

Now that I've raised a defense against charges that I'm on record supporting legislative expenditure of fund earnings (above those required for dividends), let me pull it back



**Jay Hammond** bushrat'lings

down by admitting that I fully expected and had no objection to using such recurrent income to offset recurrent expenses under the circumstances confronting us at that time.

Now, however, we are looking at entirely different circumstances.

There is no income tax; the price of oil has plummeted; prospective oil taxes have been further reduced by hundreds of millions through elimination of separate accounting and introduction of ELF — and instead of about 1/10th of our oil wealth earnings being distributed as I proposed, only about 1/24th goes out in dividends. Today's circumstances therefore greatly increase pressure to spend fund earnings compared to 10 years ago.

So, where do we go from here? The Senate leadership is to be commended for drafting a road map that warrants serious consideration. Though it does not follow the course I'd prefer, it may well wind up at the same destination — or at least a lot closer to it than

otherwise might be the case.

In avoiding dangerous potholes and skirting the sea of red ink, it is a far less hazardous detour than many seemed destined to take. Moreover, it charts a course that, most legislators can better read and be inclined to set foot on than the one I proposed that could deny them a chance of spending any fund earnings at all without public approval.

Their proposal is to permit the public to vote on a constitutional amendment allocating 40 percent of fund earnings for dividends, 30 percent for inflation proofing, and 30 percent for a budget reserve account for conditional appropriation. Since about 60 percent of those earnings could be spent unconditionally now, this obviously would provide far greater protection than now prevails. Moreover, those 40 percent dividend checks would still wing your way unless you, the public, decide to shoot them down by your vote. Certainly I would prefer that "bird" reside in the hands of the public than in the sparse brush of statute in which it now perches. A simple act of the legislature could blow it to bits.

At present little more than 40 percent of fund earnings go not only to dividends, but also, I am told, for salaries of some 7½ state employees and other operational costs. Should the Senate proposal be adapted, these costs should come from the 30 percent assigned to funding state programs not from the people's pocket.

Some maintain the Senate proposal permits

the public to determine how fund earnings are spent. Well, yes and no. Actually it permits but two choices from a list of several: 1. Vote for the proposal, and 70 percent of the fund's earnings are removed from the legislative smorgasbord. 2. Vote against it and most of those funds remain on the table, well within grasp of salivating solons.

So what to do? While I'd prefer the public to have a third choice requiring legislators to seek the public's permission before they could spend even 1 percent of the fund's earnings. That's so elusive a target it's doubtful most legislators would bother raising their sights to that level.

However, to their great credit they've perched along side of their 40-30-30 proposal a new species of spending limit which certainly could go a long way to prevent the otherwise almost certain premature consumption of fund earnings. By doing so, some object that they intend to fly up a brace of mismatched birds and would obligate us to bag both with one shot.

Were one a turkey and the other an eagle I'd counsel against pulling the trigger. However, I believe both provide far better fare than we'll find likely served us should this proposal not pass and we then be denied the chance to select from even that short two-course menu. Therefore, I have to say: "Go for it!"

□ Jay Hammond was governor of Alaska from 1978 to 1982.

No. 290

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

Bill Version: CS SJR 40 (FIN)  
Publish Date: \_\_\_\_\_

REQUEST: \_\_\_\_\_

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

Title: Propose amendments to AK

Constitution re state money

Sponsor: \_\_\_\_\_

Requestor: \_\_\_\_\_

Agency Affected: All

BRU: \_\_\_\_\_

Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING         | FY 87 | FY 88 | FY 89 | FY 90 | FY 91 | FY 92 |
|-------------------|-------|-------|-------|-------|-------|-------|
| PERSONAL SERVICES |       |       |       |       |       |       |
| TRAVEL            |       |       |       |       |       |       |
| CONTRACTUAL       |       |       |       |       |       |       |
| SUPPLIES          |       |       |       |       |       |       |
| EQUIPMENT         |       |       |       |       |       |       |
| LAND & STRUCTURES |       |       |       |       |       |       |
| GRANTS, CLAIMS    |       |       |       |       |       |       |
| MISCELLANEOUS     |       |       |       |       |       |       |
| TOTAL OPERATING   | 0     | 0     | 0     | 0     | 0     | 0     |

|         |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|
| CAPITAL |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|

|         |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|
| REVENUE |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|

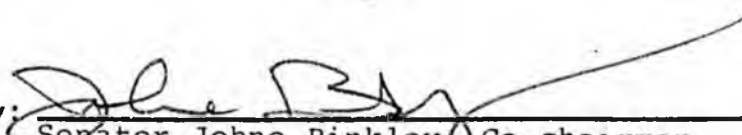
FUNDING: (Thousands of Dollars)

|               |   |   |   |   |   |   |
|---------------|---|---|---|---|---|---|
| GENERAL FUND  | 0 | 0 | 0 | 0 | 0 | 0 |
| FEDERAL FUNDS |   |   |   |   |   |   |
| OTHER         |   |   |   |   |   |   |
| TOTAL         |   |   |   |   |   |   |

POSITIONS:

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

ANALYSIS

Prepared by:   
Division: Senator John Binkley, Co-chairman  
Senate Finance Committee

Phone: 465-4985

Date: 4/16/87

Approved by Commissioner: \_\_\_\_\_

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

Agency: \_\_\_\_\_

Distribution (by preparer):

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

No. 290

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

Bill Version: CS SJR 40 (Fin)  
Publish Date: \_\_\_\_\_

REQUEST: \_\_\_\_\_

Revision Date: \_\_\_\_\_  
Title: Propose amendments to AK  
Constitution re state money  
Sponsor: \_\_\_\_\_  
Requestor: \_\_\_\_\_

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

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING         | FY 87 | FY 88 | FY 89 | FY 90 | FY 91 | FY 92 |
|-------------------|-------|-------|-------|-------|-------|-------|
| PERSONAL SERVICES |       |       |       |       |       |       |
| TRAVEL            |       |       |       |       |       |       |
| CONTRACTUAL       |       |       |       |       |       |       |
| SUPPLIES          |       |       |       |       |       |       |
| EQUIPMENT         |       |       |       |       |       |       |
| LAND & STRUCTURES |       |       |       |       |       |       |
| GRANTS, CLAIMS    |       |       |       |       |       |       |
| MISCELLANEOUS     |       |       |       |       |       |       |
| TOTAL OPERATING   | 0     | 0     | 0     | 0     | 0     | 0     |

|         |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|
| CAPITAL |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|

|         |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|
| REVENUE |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|


FUNDING: (Thousands of Dollars)

|               |   |   |   |   |   |   |
|---------------|---|---|---|---|---|---|
| GENERAL FUND  | 0 | 0 | 0 | 0 | 0 | 0 |
| FEDERAL FUNDS |   |   |   |   |   |   |
| OTHER         |   |   |   |   |   |   |
| TOTAL         |   |   |   |   |   |   |

POSITIONS:

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

ANALYSIS

Prepared by:   
Division: Senator John Binkley, Co-chairman  
Senate Finance Committee

Phone: 465-4985  
Date: 4/16/87

Approved by Commissioner: \_\_\_\_\_  
Agency: \_\_\_\_\_

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

- Distribution (by preparer):
- Legislative Finance
  - Legislative Sponsor
  - Requestor
  - Office of Management and Budget
  - Impacted Agency(ies)
  - Senate Secretary



Official Business

# Alaska State Legislature

## House

P.O. BOX V  
State Capitol  
Juneau, Alaska 99811

SJR 40

### FILE CONTENTS

1. CS SJR 40 (FIN) AM: PROPOSING AMENDMENTS TO THE CONSTITUTION OF THE STATE OF ALASKA AMENDING PROVISIONS RELATING TO THE ALASKA PERMANENT FUND; ESTABLISHING TEMPORARY PROVISIONS RELATING TO DEDICATED FUNDS, THE ALASKA PERMANENT FUND, THE APPROPRIATION LIMIT, AND THE BUDGET RESERVE FUND; AND SUSPENDING THE OPERATION OF PROVISIONS RELATING TO DEDICATED FUNDS, THE ALASKA PERMANENT FUND, AND THE APPROPRIATION LIMIT
2. PUBLIC OPINION
3. MEMORANDUM FROM SENATOR FAIKS TO REPRESENTATIVE ULNER, DATED APRIL 30, 1987
4. NEWS CLIPPINGS

### FISCAL NOTE

- A. ALL AGENCIES: -0-

PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE ULMER

NAME: CLEMENS & PATRICIA RAWERT  
TITLE:  
ADDRESS: BOX 222  
CITY: FAIRBANKS ZIP: 99707  
PHONE: 456-6314  
BILL NO: SJR 40  
SUBJECT: BUDGET LIMIT/PERM. FUND/BUDGET RESERVE FD  
MESSAGE: PLEASE KEEP PERMANENT FUND EARNINGS INTACT FOR 5 MORE YEARS TO ALLOW  
ITSELF PERPETUATION. ALLOW THOSE WHO WISH TO CREDIT DIVIDEND CHECKS TOWARD  
PAYMENT OF INCOME TAX IF NECESSARY. THANK YOU.

POHID: 07094539  
DATE: 05/05/87  
TIME: 09:45:39  
LIONAME: FAIRBANKS LIO

COPIES: REPRESENTATIVES RPRESENTATIVES

|         |             |
|---------|-------------|
| BOUCHER | DAVIDSON    |
| DONLEY  | HOFFMAN     |
| MARTIN  | MENARD      |
| ADAMS   | BOYER       |
| BROWN   | DAVIS       |
| FRANK   | GOLL        |
| LARSON  | POURCHOT    |
| RIEGER  | SWACKHAMMER |
| HALLIS  | BARNES      |
| COTTEN  | GRUENBERG   |
| NAVARRE | SUND        |
| TAYLOR  | BARNES      |

*J.C. [unclear]*

PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE ULMER

NAME: SHIRLEY WEIDNER  
TITLE:  
ADDRESS: 5479 C.H.S.R.  
CITY: FAIRBANKS ZIP: 99712  
PHONE: 488-6366  
BILL NO: SJR 40  
SUBJECT: BUDGET LIMIT/PERM. FUND/BUDGET RESERVE FD  
MESSAGE: I OPPOSE SJR 40 AND URGE DEFEAT OF THIS RESOLUTION. THE BILL I  
SUPPORT IS THE ONE THAT USES 50% OF THE PERMANENT FUND EARNINGS FOR INFLATION  
PROOFING, AND 50% FOR PAYING DIVIDENDS.

EOM-FZ

POIID: 07115629  
DATE: 04/29/87  
TIME: 11:56:29  
LIONAME: FAIRBANKS LIO

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BOUCHER  
DAVIDSON  
DONLEY  
HOFFMAN  
MARTIN  
MENARD

PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE ULMER

NAME: MARIE MASSEY  
TITLE:  
ADDRESS: 1015 SHIRLEY TURNAROUND  
CITY: NORTH POLE ZIP: 99705  
PHONE: 488-3334  
BILL NO: SJR 40  
SUBJECT: BUDGET LIMIT/PERM. FUND/BUDGET RESERVE FD  
MESSAGE: I OPPOSE SJR 40, AND URGE DEFEAT OF THIS RESOLUTION. I WANT YOU TO  
MAKE STATE AND SCHOOL EMPLOYEES WAGES COMPATIBLE TO THE PRIVATE SECTOR. I DO  
NOT WANT YOU TO TOUCH THE PERMANENT FUND TO PAY FOR YOUR HIGH WAGES.

EOM-FZ

POIID: 07100657  
DATE: 04/29/87  
TIME: 10:06:57  
LIONAME: FAIRBANKS LIO

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BOUCHER  
DAVIDSON  
DONLEY  
HOFFMAN  
MARTIN  
MENARD

*54 for  
SAC's files*

