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**79**

SENATE STATE AFFAIRS COMMITTEE

BILL NUMBER SB 79

SPONSOR Faiks

BILL TITLE Reductions in state budget levels

DATE REFERRED 1-9-89

HEARING SCHEDULED 3-3-89

FISCAL NOTE PREPARED req 3/1

SPONSOR CONTACTED Cheryl 4523

INTERESTED PARTIES CONTACTED

✓ Shari Kochman, Gov 3500

See SJR 5

OTHER

see also SJR 5 file

## SB 79, REDUCTIONS IN STATE BUDGET LEVELS

NOTIFIED

SENATOR FAIKS, SPONSOR (CHEKYL)

MARY HALLORAN, O.M.B.

F.Y.I.

CALLS FOR 6.5% REDUCTION FROM FY 89 TO FY 90, APPROXIMATELY \$145 MILLION. REMEMBER THAT THE BUDGET SUMMIT TALK IS \$150 MILLION FROM THE GOVERNOR'S FY 90 PROPOSED, NOT FROM FY 89....

FY 89	2228.1	
FY 90	2083.3	[144.8]
FY 91	1947.9	[135.4]

THE BILL HAS A SERIES OF FINDINGS -- I'M NOT SURE WHERE THE FIGURES USED CAME FROM. IT SAYS FY 79 SPENDING WAS 1236.1 MILLION; OMB'S BUDGET GROWTH CHART SHOWS FY 79 GF SPENDING OF 1096.5. IT SAYS SPENDING PEAKED IN FY 81 AT 4498.6 MILLION; OMB SHOWS FY 81 GF SPENDING OF 2587.0 MILLION WITH A PEAK IN FY 85 AT 3871.9 MILLION.

BILL DOES NOT ADDRESS WHERE OR HOW BUDGET CUTS SHOULD OCCUR.

March 3, 1989  
Page 2

It would constitutionally establish a 1996 appropriation limit of \$1.4 billion. Limits for the preceding years would be established by law. Revenues in excess of the limit would be deposited as follows:

- 50% permanent fund
- 50% budget stabilization fund

Up to 25% of the budget stabilization fund could be spent in any year in which revenues were less than the expenditure limit.

The constitutional provisions would be repealed July 1, 1996.

SB 79, An Act relating to reductions in state budget levels for certain fiscal years

SB 79 is a companion bill to SSSJR 5 which calls for a 1996 appropriation limit of \$1.4 billion. SB 79 heads the state in that direction by calling for a 6.5% reduction in the state's budget in FY 90 and again in FY 91. It is assumed that this scheme will be continued once the appropriation limit is approved by the voters in November 1990.

A 6.5% reduction in FY 90 would be a reduction of \$144.8 million (from \$2228.1 million to \$2083.3 million).

SJR 18, Proposing an amendment to the Constitution of the State of Alaska relating to income from the permanent fund

SJR 18 would amend the Constitution to specify that income of the permanent fund be appropriated for dividends, to the fund principal, for administrative costs of the fund, and for other purposes that the voters approve.

SB 69, An Act providing for an advisory vote on the use of the earnings reserve account

SB 69 would provide for an advisory vote on distributing the balance in the earnings reserve account of the permanent fund as follows:

- 50% to the general fund
- 25% to the principal of the permanent fund
- 25% for a special dividend

# Alaska State Legislature

Sen. Pat Pourchot, Chairman

Sen. Jan Faiks, Vice Chairman

Sen. Al Adams

Sen. Tim Kelly

Sen. Rick Uehling



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

907-465-3712

## Senate State Affairs Committee

### MEMORANDUM

TO: Senate State Affairs Committee Members

FROM: Senator Pat Pourchot, Chairman

RE: March 3 Committee Meeting

DATE: March 2, 1989

On Friday, March 3 at 2:00 p.m. in the Beltz Room the Senate State Affairs Committee will hear the following bills:

SJR 30, Relating to location of a job corps center within the Matanuska-Susitna Borough

SJR 30 calls for the establishment of a Job Corps center within the Mat-Su Borough. Congress has appropriated funds for the development of six new centers throughout the country and the U.S. Department of Labor is accepting applications from the states. Alaska's application, submitted in December 1988, proposes use of the Goose Bay Correctional Center in Wasilla or Colony High School in Palmer.

The Job Corps program was established by the federal government in 1964 to provide intensive educational and vocational training to economically disadvantaged youth. Alaska does not have a Job Corps center and Alaskans who participate must go out of state.

THE FOLLOWING BILLS PROPOSE VARIOUS USES OF THE PERMANENT FUND EARNINGS RESERVE AND ADDRESS THE SIZE OF THE STATE'S BUDGET. IT IS NOT MY INTENT TO MOVE THESE BILLS TODAY.

SSSJR 5, 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 expenditure limit, and the budget stabilization fund; and suspending the operation of provisions relating to dedicated funds, the Alaska permanent fund, and the appropriation limit

SSSJR 5 would constitutionally dedicate permanent fund earnings:

- 50% dividends
- 30% inflation proofing
- 20% budget stabilization fund

Begin budget reduction. Specifies:  
FY 1990 budget 6.5% less than FY 89  
FY 91 budget 6.5% less than FY 90

1 IN THE SENATE (Non-binding, right?) BY FAIKS, JONES, ELIASON  
AND FISCHER

2 SENATE BILL NO. 79

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

FY 89 2228.1  
FY 90 2083.3  
FY 91 1947.9  
144.8  
135.4

6 For an Act entitled: "An Act relating to reductions in state budget levels  
7 for certain fiscal years; and providing for an effective date."  
8

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

10 \* Section 1. FINDINGS AND PURPOSE. (a) As a result of our state's  
11 rich natural resources, Alaska has enjoyed tremendous wealth. While this  
12 has enabled the state to make great strides in developing its potential, it  
13 has also fueled an economy based on the volatile price of a world commodity.  
14 As a result, Alaska has experienced wide fluctuations in revenue from  
15 year to year. The legislature finds that the resulting peaks and valleys  
16 in state spending must be stabilized and a spending level established that  
17 can be supported by projected state revenue.

18 (b) The legislature finds that Alaska's revenue projections show a  
19 dramatic decline in future years. By fiscal year 1996, projected revenue  
20 shows a 43.9 percent decrease when compared to those received in fiscal  
21 year 1988. Long range revenue projections show a continued decline.

22 (c) Since the first influx of oil dollars in fiscal year 1979, state  
23 spending has increased from \$1,236,000,000 to the current year's  
24 \$2,228,100,000 for an 80 percent increase. Spending peaked in fiscal year  
25 1981 at \$4,498,600,000, reflecting a 264 percent increase from fiscal year  
26 1979. Given the dramatic decreases in projected revenue, it is clear the  
27 state will be unable to afford the same level of state services it has  
28 provided in previous years. For this reason, the legislature finds that  
29 the state must implement an expenditure reduction plan.

1 (d) To implement an expenditure reduction plan, the legislature finds  
2 that it is necessary to establish a spending level that can reasonably be  
3 sustained and that will adequately provide traditional basic services of  
4 state government. Based on per capita spending in the United States  
5 adjusted for cost-of-living in Alaska, a basic services budget for Alaska  
6 would be approximately \$1,360,000,000. This compares to the current fiscal  
7 year 1989 operating and capital budgets of \$2,228,100,000.

8 (e) The legislature finds that it is necessary to mandate the imple-  
9 mentation of an expenditure reduction plan to achieve the basic services  
10 budget level by fiscal year 1996 through annual expenditure reductions.

11 (f) It is the purpose of this Act to begin the process of gradually  
12 reducing levels of state expenditure by establishing feasible state budget  
13 limits for the next two fiscal years.

14 \* Sec. 2. Notwithstanding the appropriation limit under AS 37.05.540,  
15 the legislature shall revise the state budget and general appropriation  
16 bills prepared under AS 37.07.020 so that the operating and capital budget  
17 for fiscal year 1990 is at least 6.5 percent less than the state operating  
18 and capital budget for fiscal year 1989.

19 \* Sec. 3. Notwithstanding the appropriation limit under AS 37.05.540,  
20 the proposed state operating and capital budget and general appropriation  
21 bills for fiscal year 1991 submitted to the legislature by the governor  
22 under AS 37.07.020 and enacted by the legislature must be at least 6.5  
23 percent less than the state operating and capital budget for fiscal year  
24 1990.

25 \* Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

# Alaska State Legislature

JUDICIARY  
CHAIRMAN  
907-465-4523

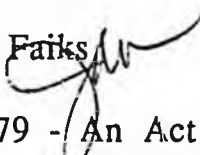
JAN FAIKS  
POST OFFICE BOX V  
JUNEAU, ALASKA 99811

## Senate

March 1, 1989

### MEMORANDUM

TO: Senator Pat Pourchot, Chairman  
Senate State Affairs Committee

FROM: Senator Jan Faiks 

SUBJECT: Senate Bill 79 - An Act relating to reductions in state budget levels for certain fiscal years; and providing for an effective date

SB 79 requires the Legislature to implement an Expenditure Reduction Plan ("ERP") by reducing state spending by 6.5% in Fiscal Year 90 and 91.

SB 79 works in conjunction with SSSJR 5 ("50-30-20" and ERP). Because the soonest SJR 5's provisions can be put before the voters is November 1990, SB 79 provides a mechanism by which spending reductions can begin now instead of waiting until Fiscal Year 92's budget. If SB 79 is enacted and voters approve SJR 5, a 6.5% reduction each of the seven years will enable the state to achieve the \$1.4 billion Basic Services budget level by FY 96. If SB 79 is not enacted, the current level of spending maintained and SJR 5 approved by the voters, an average 8.9% reduction each year would be necessary.

OUT OF SESSION

3111 C STREET ANCHORAGE, ALASKA 99503 907-561-7610

STATE OF ALASKA  
STATE APPROPRIATION SUMMARY  
(Stated in \$ Millions)

	GENERAL FUNDS											FY 90
	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89	GOVERNOR
Operating	851.7	959.6	1,364.3	1,706.2	1,897.8	1,958.0	2,110.5	2,116.5	1,844.1	1,911.3	2,028.6	2,072.7
Debt Service	59.8	75.2	97.4	102.4	143.6	178.6	169.5	163.3	155.0	148.0	147.4	132.5
Loans	14.0	33.5	560.1	471.8	337.0	171.9	350.0	80.4	61.0	22.6	16.7	4.9 (net)
Capital	171.0	92.0	565.2	1,164.9	470.1	778.4	1,241.9	471.4	337.6	173.4	118.4	98.9
Total	1,096.5	1,160.3	2,587.0	3,445.3	2,848.5	3,086.9	3,871.9	2,831.6	2,397.7	2,255.3	2,311.1	2,309.0

	TOTAL FUNDS											FY 90
	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89	GOVERNOR
Operating	1,149.0	1,309.0	1,757.8	2,183.0	2,437.7	2,437.4	2,685.7	2,788.5	2,510.9	2,564.9	2,740.4	2,819.7
Debt Service	61.7	77.1	100.0	104.2	145.6	180.6	175.1	168.9	165.2	156.4	156.2	141.2
Loans	14.0	33.5	560.8	472.8	338.0	192.3	350.4	80.4	67.5	41.5	25.7	4.9 (net)
Capital	509.4	173.7	979.8	1,237.3	709.8	1,176.9	1,434.0	903.1	775.9	289.2	343.6	304.4
Total	1,734.1	1,593.3	3,398.4	3,997.3	3,631.1	3,987.2	4,645.2	3,940.9	3,519.5	3,052.0	3,265.9	3,270.2

NOTES

1. This summary does not include certain extraordinary items, including transfers from the General Fund to the Permanent Fund and the Budget Reserve Fund.
2. General Fund/Program Receipts are included in the General Fund operating budget totals for FY 88 and FY 89. In previous years, they are counted only in the Total Funds column.
3. FY 89 appropriation total includes \$47.9 million in anticipated supplementals.

Source: State of Alaska, Division of Budget Review

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1/12/89

FY 90 v. FY 92 Effective Date for "ERP"

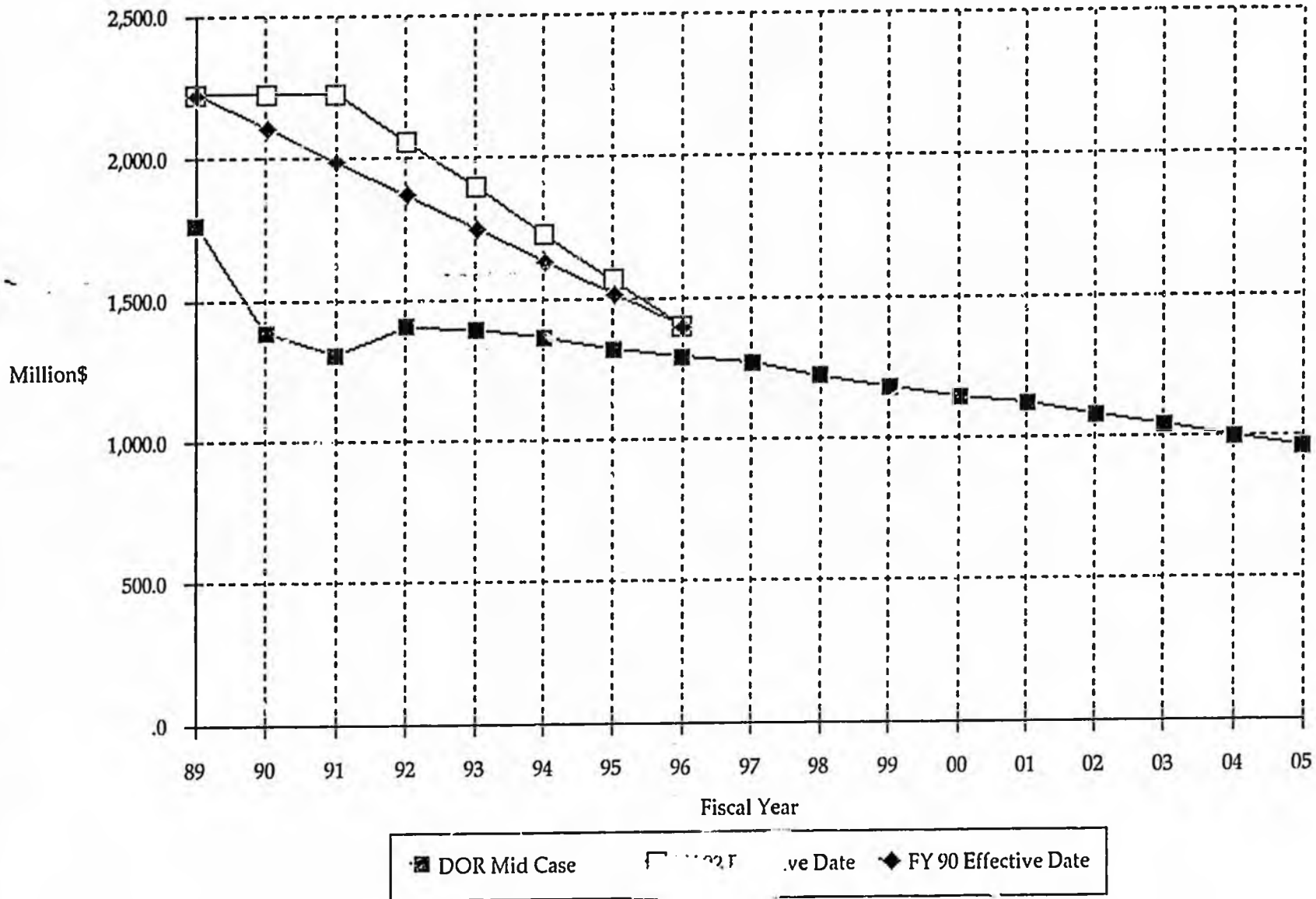
FY	Effective FY 90	Reduction Each Year	Percent of Reduction
89	2,228.1		
90	2,083.3	-144.8	-6.50%
91	1,947.9	-135.4	-6.50%
92	1,821.2	-126.6	-6.50%
93	1,702.9	-118.4	-6.50%
94	1,592.2	-110.7	-6.50%
95	1,488.7	-103.5	-6.50%
96	1,391.9	-96.8	-6.50%

FY	Effective FY 92	Reduction Each Year	Percent of Reduction
89	2228.1		
90			
91			
92	2062.5		
93	1896.9	-165.6	-8.03%
94	1731.3	-165.6	-8.73%
95	1565.7	-165.6	-9.57%
96	1400.1	-165.6	-10.58%

Senate Bill 79 - Senator Jan Faiks

FY 90 v. FY 92. Effective Date

### Impact of Effective Date of Spending Limit Reductions



on Date Reflects Voter Approved Constitutional Amendment; FY 90 Effective Date Assumes Statutory Implementation in FY 90 and 91 and then Constitutio

## BASIC SERVICES BUDGET FOR ALASKA

If the State of Alaska spent the U.S. per capita amount of \$1,550.08, plus 16% for cost-of-living differences between the "lower forty-eight" and Alaska, the states 1986 expenditures would have been \$944,485,920.

If the State of Alaska had spent the U.S. per capita average of state and local governments combined, our total 1986 expenditure would have been \$1,553,338,500. Add 16% cost-of-living adjustment and we would have spent \$1,801,872,660.

Although state government in Alaska accounts for a higher proportion of total combined state and local government spending than any other state it does not carry the entire state-local expenditure burden. In 1986 the state was responsible for 68.5%.

Adjusting the figure in paragraph #2 by 68.5% we get a total "Basic Services Budget" for Alaska of \$1,234,282,772. for 1986.

In today's dollars, assuming a 10% increase in the costs of government since 1986 we arrive at an 1989 "Basic Services Budget" of \$1,357,711,049. or \$1.36 billion.

1.4 Basic Services Budget Calculation

1986 Per Capita General Expenditure

	ALL STATES AVG.	ALASKA STATE	
TOTAL	\$1,550.88	\$7,406.64	4.78x
EDUCATION	577.44	1,766.19	3.06x
PUBLIC WELFARE	298.85	493.99	1.65x
HIGHWAYS	151.01	831.63	5.51x
HOSPITALS	70.85	40.31	0.57x
NATURAL RESOURCES	30.12	311.87	10.35x
HEALTH	53.46	157.50	2.95x
CORRECTIONS	44.36	205.64	4.64x
FINANCIAL ADMINISTRATION	24.12	161.68	8.31x
EMPLOYMENT SECURITY ADMIN.	11.11	36.05	3.24x
POLICE	<u>15.30</u>	<u>71.48</u>	4.67x

SOURCE: Book of States, 1988 pp. 244-45

U.S. Population 242,778,000  
Alaska Population 525,000

*Per Capita Expenditures*