

HB221

HOUSE COMMITTEE REPORT

(11)

Date Referred: March 15, 1991

FURTHER REFERRALS:

Date of Committee Action: 5-9-91

The FINANCE Committee considered:

HB 221

HOUSE BILL NO. 221

INVESTMENTS OF GENERAL FUND

"An Act authorizing the Department of Revenue to purchase either the guaranteed investment contracts held by the supplemental benefits system or the underlying securities; and providing for an effective date."

RECOMMENDATIONS:

be replaced with CS HB 221 (FINANCE) the same title
 a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(s): _____ (Dept)

APPROVES PREVIOUS: _____ (Dept/Date)

fiscal impact _____

fiscal note(s) _____

zero fiscal note HFC / REVENUE

zero fiscal note(s) _____

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
Eileen P. Machea	✓	RESPECTFULLY		✓	
Mike Yavonne	✓				
Jan Brown	✓				
Thomas	✓				
Bob Sharp	✓				
John	✓				
Greg Stachurski	X				
Mark Boyer	X				
Donald	X				
Tamara Beames	X				

Mike Yavonne E.P. Machea
 CHAIRMAN'S SIGNATURE

CS FOR HOUSE BILL NO. 221 (FINANCE)
IN THE LEGISLATURE OF THE STATE OF ALASKA
SEVENTEENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:

Referred:

Sponsor(s): HOUSE RULES/LEGISLATIVE BUDGET AND AUDIT COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act creating the investment loss trust fund; and providing for an effective date"

2 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

3 * **Section 1. LEGISLATIVE PURPOSE.** The purpose of AS 37.14.300, enacted by sec. 2 of this Act,
 4 is to provide financial security to participants in the state supplemental annuity plan established under
 5 AS 39.30.150 - 39.30.180 and other annuity holders who may be harmed by the possible insolvency of
 6 the Executive Life Insurance Company of California.

7 * **Sec. 2.** AS 37.14 is amended by adding a new section to read:

8 **ARTICLE 4. INVESTMENT LOSS TRUST FUND.**

9 **Sec. 37.14.300. INVESTMENT LOSS TRUST FUND.** (a) There is established as a
 10 separate fund in the state treasury the investment loss trust fund. The trust fund consists of
 11 money appropriated to it by the legislature. The Department of Revenue is the custodian of the
 12 trust fund and shall invest the trust fund in accordance with AS 37.10.071. Subject to
 13 appropriation, the amount earned on money in the trust fund shall be retained in the trust fund.
 14 The trust fund shall be held in trust for the benefit of participants in the supplemental annuity

1 plan established under AS 39.30.150 - 39.30.180 and for other purposes authorized by this
2 section, subject to the conditions set out in this section.

3 (b) The Department of Administration shall spend money from the trust fund as
4 necessary to

5 (1) hold participants in the plan and annuity holders harmless from a loss on
6 investments in guaranteed investment and annuity contracts issued by Executive Life Insurance
7 Company of California;

8 (2) pursue a right to recover amounts from persons who may have unlawfully
9 caused or contributed to the loss on investments; and

10 (3) protect the interest of participants in the plan and annuity holders during
11 proceedings to conserve or liquidate the assets of Executive Life Insurance Company of
12 California.

13 (c) If the plan or an annuity holder does not incur a loss on investments, or, if after
14 compensating the plan and annuity holders for the loss on investments, a balance remains in the
15 trust fund, the trust fund created in (a) of this section is terminated and the balance of the trust
16 fund lapses pro rata into the funds from which the appropriations to the trust fund were made.
17 The state is subrogated to a right of claim held by participants in the plan and annuity holders
18 to the extent of amounts spent from the trust fund.

19 (d) In this section,

20 (1) "annuity holder" means

21 (A) a plan participant who elects to receive an annuity contract acquired
22 by the Department of Administration and issued by Executive Life Insurance Company
23 of California; and

24 (B) members of the Unlicensed Vessel Personnel Annuity Retirement Plan
25 who receive a contract acquired by the Department of Administration and issued by
26 Executive Life Insurance Company of California;

27 (2) "loss on investments" means

28 (A) the difference between the principal amount plus accrued interest
29 earned through May 3, 1991, on the guaranteed investment contracts issued by Executive
30 Life Insurance Company of California, according to the terms of the contracts, and a
31 lesser amount received by the plan upon maturity, sale, or other termination of the

1 contracts; plus

2 (B) accrued earnings on the amount described in (A) of this subsection,
3 beginning May 4, 1991, and continuing until the earlier of a participant's benefit
4 commencement date or the maturity, sale, or other termination of the contracts, at a rate
5 equal to the rate, less one percent to be used for the purposes of (b)(2) - (3) of this
6 section, earned each month on the investment loss trust fund; or

7 (C) any unpaid annuity amounts due to annuity holders under an annuity
8 contract issued by Executive Life Insurance Company of California;

9 (3) "plan" means the supplemental annuity plan established under AS 39.30.150 -
10 39.30.180;

11 (4) "trust fund" means the investment loss trust fund established under this
12 section.

13 * Sec. 3. The Department of Revenue shall notify the lieutenant governor, the revisor of statutes, and
14 the commissioner of administration when the investment loss trust fund is terminated under
15 AS 37.14.300(c), enacted by sec. 2 of this Act.

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

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. CSHB 221(FIN)

Revision Date: _____ Department Affected: Revenue
 Title: Investment of General Fund BRU: _____
 _____ Component: _____
 Sponsor: House Finance Committee
 Requestor: House Finance Committee COMPONENT SERIAL NO.

--	--	--	--

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
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	0	0	0	0	0	0

POSITIONS:

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

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary.)

Prepared By: Representative Mike Navarre, Co-Chair Phone: 465-3706
Representative Eileen MacLean, Co-Chair
 Division: House Finance Committee Date: 5/10/91

Approved by Commissioner: _____
 Agency: _____ Date: _____

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

- adopted -

Attachment 2

4/8/91

HB 221

HOUSE AMENDMENT 1

TO: Senate Bill 204 & House Bill 221

BY: Representative Ron Larson

Page 1 Lines 1 and 6

Before the word "guaranteed" insert the words "Executive Life Insurance Company"

Submit original amendment to the Chief Clerk.
It will then be numbered and duplicated.

FISCAL NOTE

BILL NO. HB 221

STATE OF ALASKA
1991 LEGISLATIVE SESSION

Revision Date: _____
Title: An Act authorizing Department of Revenue to purchase GICs held by the Supplemental Benefits System

Department Affected: Administration
BRU: Retirement and Benefits

Sponsor: House Rules Committee for LB & A
Requestor: _____

Component: Retirement and Benefits

COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE	0	0	0	0	0	0
---------	---	---	---	---	---	---

FUNDING: (Thousands of dollars)

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

POSITIONS

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

Estimate of current year impact: _____

ANALYSIS: (attach a separate page if necessary.) The Supplemental Benefits System Annuity Plan holds "guaranteed investment contracts" (GIC's) with a present value of approximately \$450 million. Of the \$450 million, approximately \$132 million are from contracts issued by Executive Life Insurance Company (E.L.). An exchange of general fund cash for GIC's (or underlying securities) could result in a complete loss if the GIC's (or underlying securities) become worthless. The contract value of the E.L. GICs increase approximately \$1 million per month.

Prepared By: Garv Bader *Lamy M. Bader*
Division: Retirement and Benefits

Phone: 465-4460
Date: _____

Approved by Commissioner: Millett Keller *Millett Keller*
Agency: Department of Administration

Date: 4/24/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. HB 221

Revision Date: _____
 Title: An act authorizing the Department of Revenue to purchase either the guaranteed investment contracts held by SBS...
 Sponsor: House Rules Committee
 Requestor: Finance

Department Affected: Revenue
 BRU: Revenue Operations
 Component: Treasury Management

Component Serial No.

	1	2	1
--	---	---	---

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

CAPITAL						
----------------	--	--	--	--	--	--

REVENUE	(10,560.0)	(11,404.8)	(12,317.2)	(13,302.6)	(14,366.8)	(15,516.1)
----------------	------------	------------	------------	------------	------------	------------

FUNDING: (Thousands of Dollars)

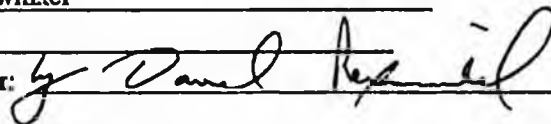
GENERAL FUND	(10,560.0)	(11,404.8)	(12,317.2)	(13,302.6)	(14,366.8)	(15,516.1)
FEDERAL FUNDS						
OTHER						
TOTAL	(10,560.0)	(11,404.8)	(12,317.2)	(13,302.6)	(14,366.8)	(15,516.1)

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: From \$0 to \$132 million reduction in unrestricted revenues.

ANALYSIS: Reduction is based on 8% interest compounded annually. Assumes the entire \$132 million is non-performing and no cash will be realized at GIC maturity or sale of underlying securities. This is a worst case scenario.

Prepared by: Darrel Rexwinkel Phone: 465-2300
 Division: Treasury Date: March 27, 1991
 Approved by Commissioner: 
 Agency: Revenue

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

MEMORANDUM

TO: The Honorable Ronald L. Larson, Chair
Legislative Budget and Audit Committee

FROM: Milt Barker
Legislative Aide

DATE: March 25, 1991

RE: General Fund Cash Flow and SBS GIC Purchases

Enclosed are the Department of Revenue's current projections of monthly general fund cash balances for FY 91-92, based on their Spring 1991 revenue projections.

Under the Spring 1991 low scenario revenue forecast, the general fund would run out of cash in January 1992. If the general fund purchases Executive Life Insurance Co. guaranteed investment contracts ("GIC's") from the supplemental benefits system ("SBS") for approximately \$130 million and has not recovered any cash from its liquidation, the general fund would run out of cash roughly two months earlier, around the end of November, 1991.

Under the mid-case scenario, general fund cash reaches a minimum at \$411 million in February 1992. This minimum would drop to \$281 million with the GIC purchase and no recovery.

The general fund cash balances discussed in this memo are not the amount of general funds available for appropriation. Most or all of the cash balances at any point in time are spoken for, under existing appropriations. This cash analysis serves to determine if the State will have enough cash to pay its bills at all points in time.

The potential loss of up to \$130 million by the general fund on the GIC needs to be addressed directly in terms of amounts available for appropriation.

ALASKA DEPARTMENT OF REVENUE FY 91-92 CASH FLOW PROJECTION GENERAL FUND ONLY
 BASED ON REVENUE RECEIVED THRU FEBRUARY 28, 1991
 MID CASE SCENARIO - SPRING 1991
 (IN THOUSANDS OF DOLLARS)
 (COLUMNS MAY NOT ADD DUE TO ROUNDING)

GF UNRESTRICTED REVENUE	MAR 1991	APR 1991	MAY 1991	JUN 1991	JUL 1991	AUG 1991	SEP 1991	OCT 1991	NOV 1991	DEC 1991	JAN 1992	FEB 1992
BEGINNING LIQUID CASH BALANCE	870764	884979	864618	830326	884385	776607	644074	649422	586281	553695	533964	507368
TAXES												
CORPORATE- PETROLEUM (1)	0	38450	0	38450	0	0	35000	0	0	35000	0	0
CORPORATE- GENERAL	3667	3667	3667	3667	3750	3750	3750	3750	3750	3750	3750	3750
GROSS RECEIPTS	13475	13475	3850	3080	131	131	131	131	131	131	1960	1960
OIL AND GAS PRODUCTION	70793	65552	63372	65418	67939	67939	67939	71726	71726	71726	72387	72387
PROPERTY (RECEIVED ON JUNE 30)	0	0	0	84700	0	0	0	0	0	0	0	0
SALES/USE	5583	5583	5583	5583	5633	5633	5633	5633	5633	5633	5633	5633
OTHER (ESTATE+INSUR PREM TAX)	20317	67	67	67	67	67	67	67	67	67	67	2317
TOTAL TAXES	113835	126794	76539	200965	77519	77519	112519	81307	81307	116307	83797	86047
INVESTMENT INCOME W/ RE-INVEST												
INTEREST EARNINGS	12722	10301	10380	6447	8662	4077	31136	10740	8915	9534	8889	2293
LOAN REPAYMENTS	40	40	40	40	30	30	30	30	30	30	30	30
TOTAL INVESTMENT INCOME	12762	10341	10420	6487	8692	4107	31166	10770	8945	9564	8919	2323
OTHER REVENUE												
LICENSES AND PERMITS	1887	3773	3773	3773	560	560	560	3173	3173	3173	1867	1867
FEDERAL SHARED REVENUE	3375	0	0	3375	0	0	3750	0	0	3750	0	0
OIL AND GAS ROYALTIES (2)	53809	48984	47420	49172	52242	52242	52242	55445	55445	55445	57217	57217
MISCELLANEOUS REVENUES	2975	2975	2975	2975	3133	3133	3133	3133	3133	3133	3133	3133
TOTAL OTHER REVENUE	62045	55733	54168	59295	55935	55935	59685	61752	61752	65502	62217	62217
TOTAL INCOME TO THE STATE	188642	192867	141128	266747	142146	137561	203370	153828	152004	191372	154934	150587
LESS: MENTAL HEALTH ACCT	-11318	-11572	-8468	-16005	-8529	-8254	-12202	-9230	-9120	-11482	-9296	-9035
NET TOTAL INCOME TO THE STATE	177323	181295	132660	250742	133617	129307	191168	144598	142884	179890	145638	141552
EXPENDITURES FY91 APPROPRIATION												
OPERATING BUDGET	151443	160292	154383	175065	187751	227581	167383	171703	147220	165943	151541	202084
DEBT SERVICE	7096	32987	6984	12099	29251	20967	4485	20243	20615	25255	10822	25896
CAPITAL BUDGET	4569	8377	5585	9519	24349	13293	13951	15794	7634	8423	9871	9213
OTHER	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENDITURES	163108	201656	166952	196683	241395	261841	185819	207740	175469	199621	172234	237193
ENDING LIQUID CASH BALANCE	884979	864618	830326	884385	776607	644074	649422	586281	553695	533964	507368	411727
NET MONTHLY CHANGE IN CASH	14215	-20361	-34292	54059	-107778	-132534	5349	-63142	-32585	-19731	-26596	-95641
ADD: INVEST MATURITIES W/ RE-INV	683385	289346	252032	201369	200503	161285	569388	627923	512559	316962	258175	150323
NET MONTHLY CASH INFLOW	697600	268985	217740	255429	92726	28751	574736	564781	479973	297231	231579	54682

BASED ON AVERAGE OIL PRICES OF \$20.57/BBL IN FY 1991 AND \$16.11/BBL IN FY 1992.

1. RECEIVED ON THE 15TH OF THE MONTH
2. NET OF PERMANENT FUND PAYMENTS

ALASKA DEPARTMENT OF REVENUE FY 91-92 CASH FLOW PROJECTION GENERAL FUND ONLY
 BASED ON REVENUE RECEIVED THRU FEBRUARY 28, 1991
 LOW CASE SCENARIO - SPRING 1991
 (IN THOUSANDS OF DOLLARS)
 (COLUMNS MAY NOT ADD DUE TO ROUNDING)

GF UNRESTRICTED REVENUE	MAR 1992	APR 1992	MAY 1992	JUN 1992
BEGINNING LIQUID CASH BALANCE	-152735	-191670	-235102	-290636
TAXES				
CORPORATE- PETROLEUM (1)	0	28750	0	28750
CORPORATE- GENERAL	2917	2917	2917	2917
GROSS RECIEPTS	5096	7709	7709	7709
OIL AND GAS PRODUCTION	46721	48455	48455	48455
PROPERTY (RECEIVED ON JUNE 30)	0	0	0	80700
SALES/USE	5633	5633	5633	5633
OTHER (ESTATE+INSUR PREM TAX)	20317	67	67	67
TOTAL TAXES	80684	93531	64781	174231
INVESTMENT INCOME W/ RE-INVEST				
INTEREST EARNINGS	6575	5043	5652	5869
LOAN REPAYMENTS	30	30	30	30
TOTAL INVESTMENT INCOME	6605	5073	5682	5899
OTHER REVENUE				
LICENSES AND PERMITS	1867	3733	3733	3733
FEDERAL SHARED REVENUE	3750	0	0	3750
OIL AND GAS ROYALTIES (2)	33006	34505	34505	34505
MISCELLANEOUS REVENUES	3133	3133	3133	3133
TOTAL OTHER REVENUE	41756	41372	41372	45122
TOTAL INCOME TO THE STATE	129045	139976	111835	225251
LESS: MENTAL HEALTH ACCT	-7743	-8399	-6710	-13515
NET TOTAL INCOME TO THE STATE	121302	131577	105125	211736
EXPENDITURES FY91 APPROPRIATION				
OPERATING BUDGET	148660	157436	151675	171838
DEBT SERVICE	6839	8886	3194	11469
CAPITAL BUDGET	4738	8687	5791	9871
OTHER	0	0	0	0
TOTAL EXPENDITURES	160237	175009	160660	193178
ENDING LIQUID CASH BALANCE	-191670	-235102	-290636	-272078
NET MONTHLY CHANGE IN CASH	-38935	-43432	-55535	18558
ADD: INVEST MATURITIES W/ RE-INV	100039	163831	218841	228344
NET MONTHLY CASH INFLOW	61104	120400	163306	246903

BASED ON AVERAGE OIL PRICES OF \$19.43/BBL IN FY 1991 AND \$11.84/BBL IN FY 1992.

1. RECEIVED ON THE 15TH OF THE MONTH
2. NET OF PERMANENT FUND PAYMENTS

FY 1991 - 1992 CASH FLOW PROJECTION

- GENERAL FUND -

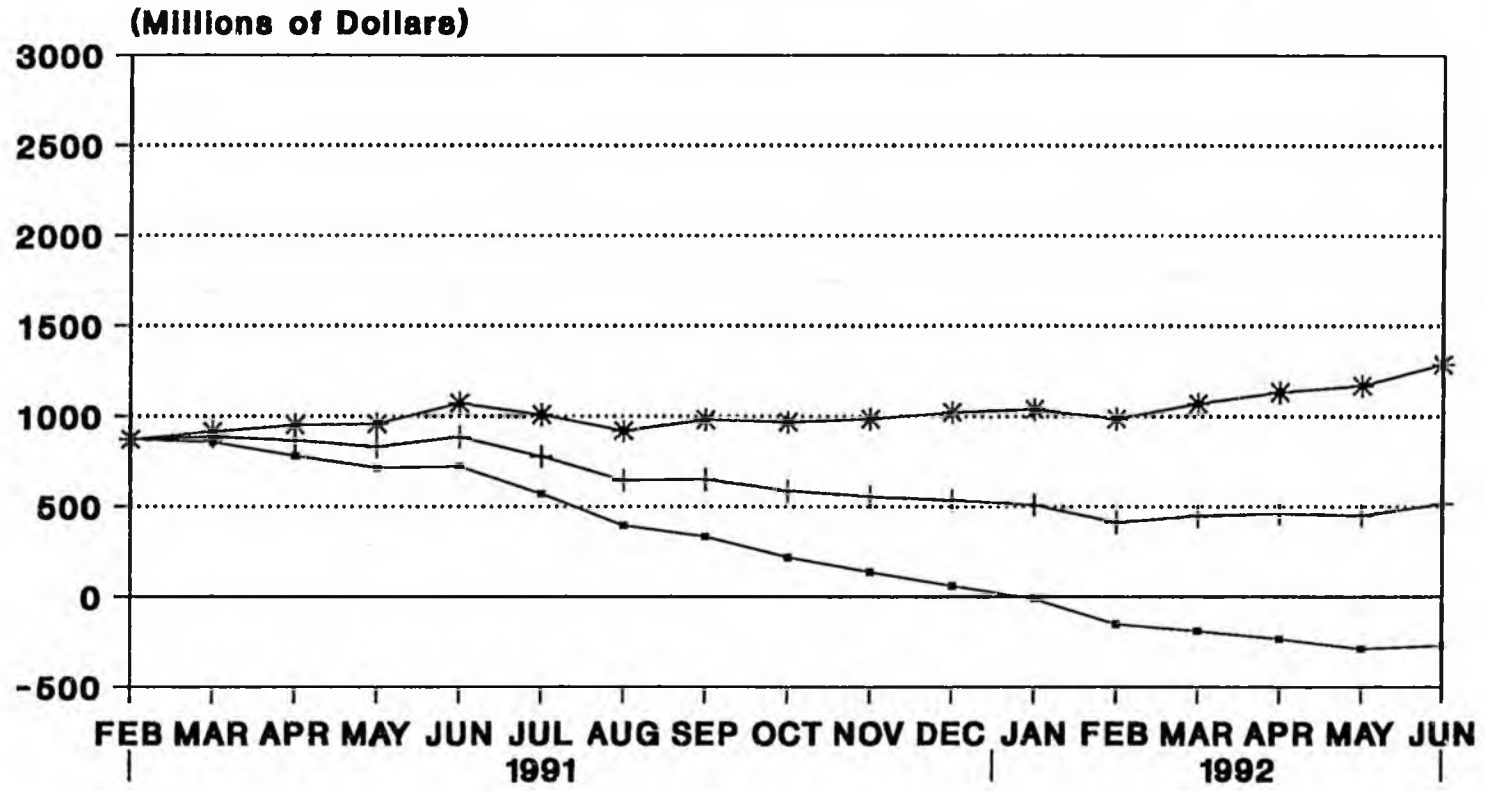
Based on Revenue Received thru February 28, 1991
and Spring 1991 Revenue Projections

Alaska Department of Revenue
March 15, 1991

ENDING LIQUID CASH BALANCE

- General Fund Cash Flow Projection -
(FY 1991 - 1992)

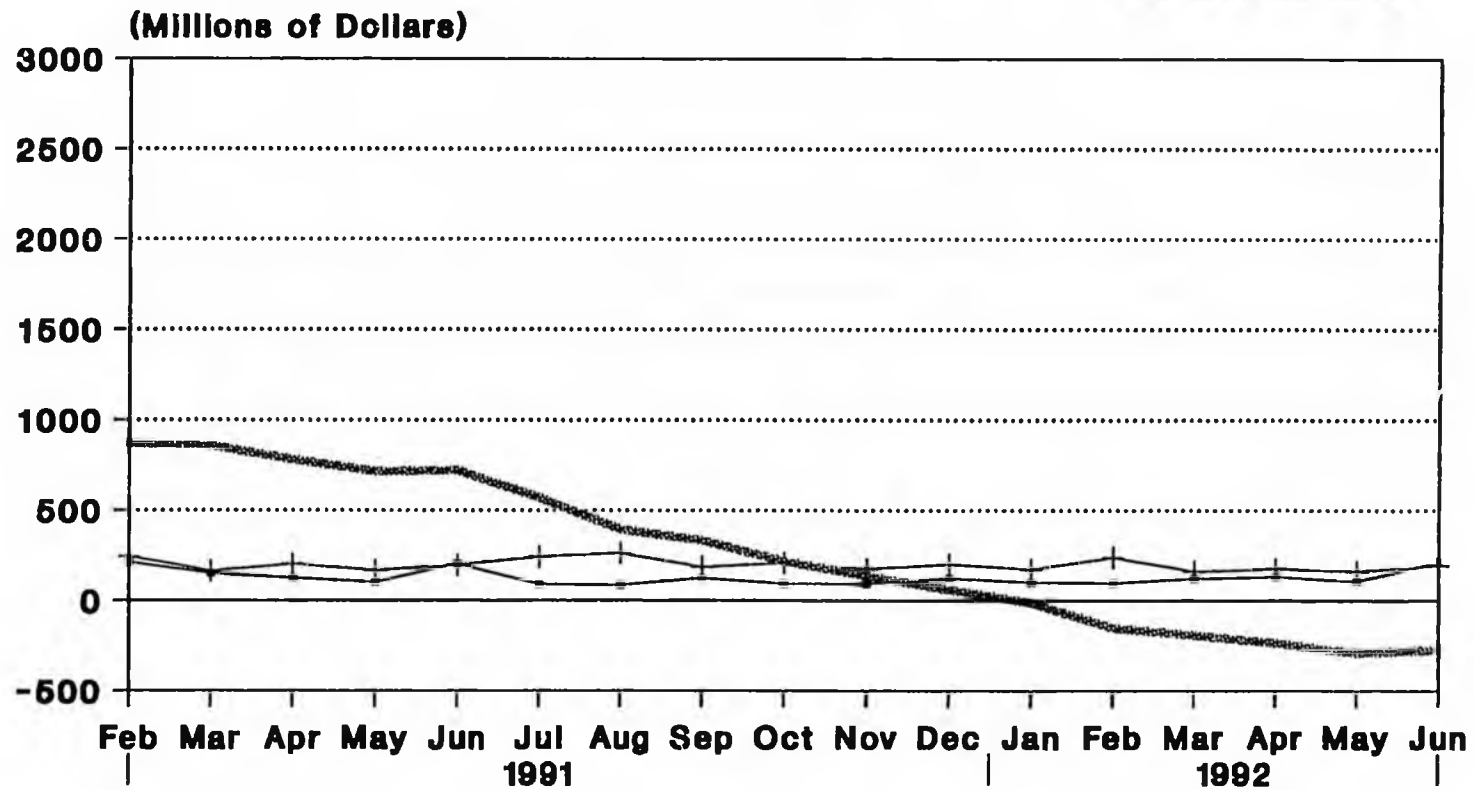
— LOW CASE
+ MID CASE
* HIGH CASE



(MARCH 1991)

LOW CASE SCENARIO
- General Fund Cash Flow Projection -
(FY 1991 - 1992)

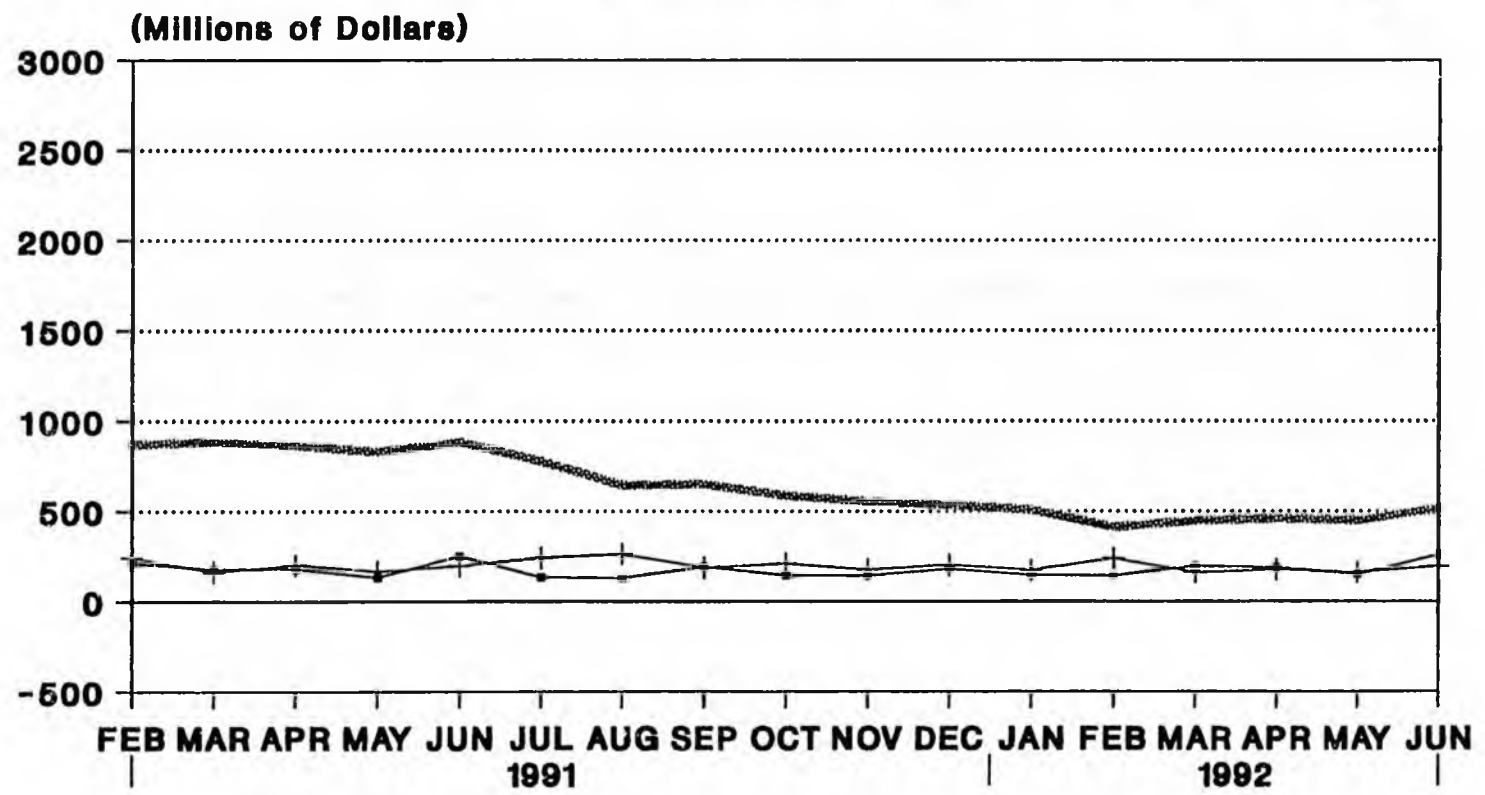
— INCOME
+ EXPENDITURES
- ENDING LIQUID ASSETS



(MARCH 1991)

MID CASE SCENARIO
- General Fund Cash Flow Projection -
(FY 1991 - 1992)

—●— INCOME
 —+— EXPENDITURES
 —▬— ENDING LIQUID CASH

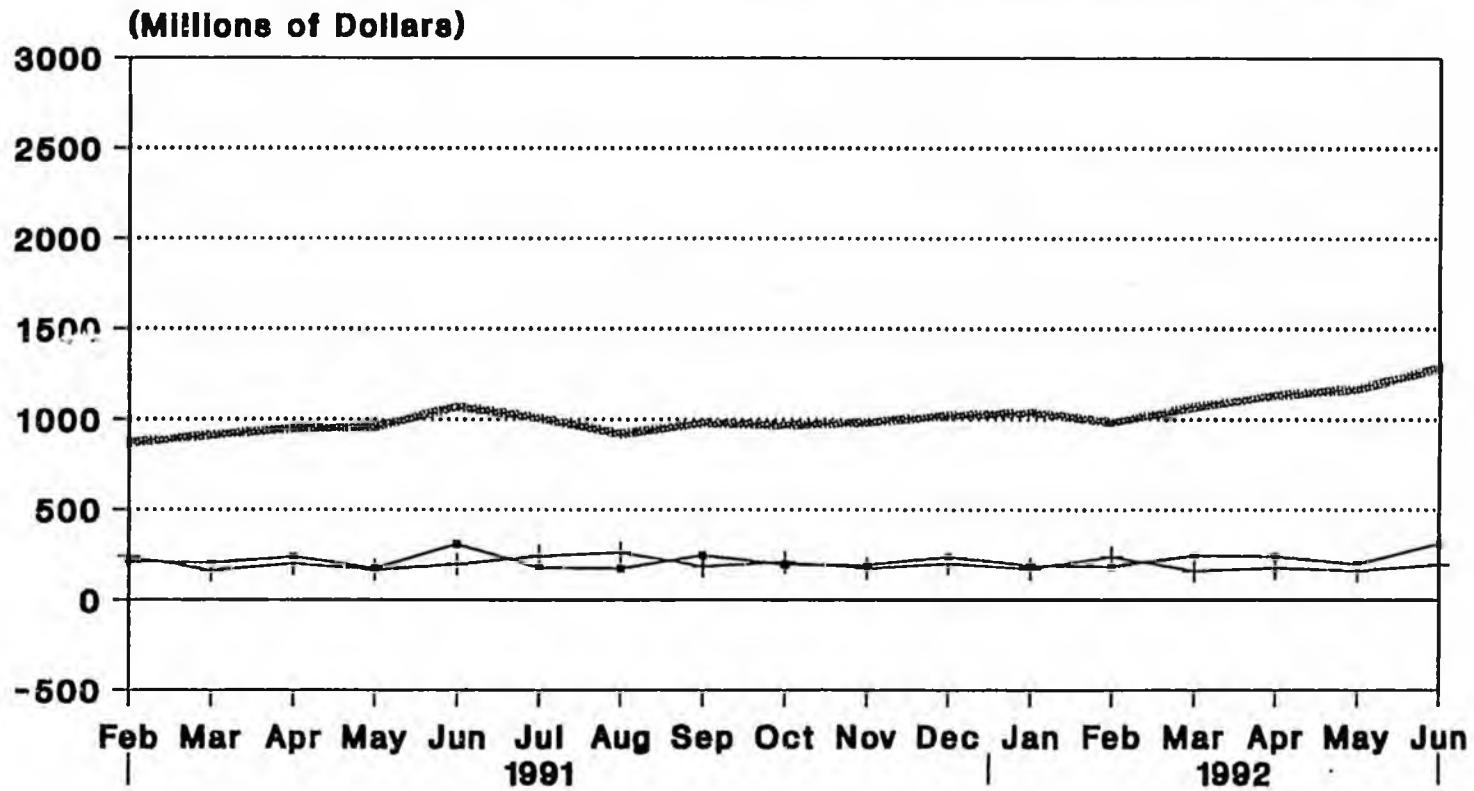


(March 1991)

HIGH CASE SCENARIO

- General Fund Cash Flow Projection - (FY 1991 - 1992)

— INCOME
+ EXPENDITURES
— ENDING LIQUID CASH



(March 1991)