

SB

303

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 3/8/96

FURTHER:

Date of 5-Day Notice: 3-14-96
(in accordance with Uniform Rule 23)

DATE TURNED
INTO OFFICE: 4-23-96

The Finance Committee considered SB 303

Relating to the management of the budget reserve fund.

and recommends:

- be replaced with _____ CS SB 303 (Fix)
- adopt previous _____ CS _____
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

- Senate Bill:**
- same title
 - new title
- House Bill:**
- same title
 - technical change
 - new: SCR# _____

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>John Phipps</i>	✓	<i>Paul E. Kelly</i>	✓		
<i>Paul E. Kelly</i>	✓				
<i>David Douglas</i>	✓				
<i>Bob May</i>	✓				
Co-Chair: <i>Don</i>	✓	Co-Chair: <i>Paul Halford</i>	✓		
Co-Chair:		Co-Chair: <i>Paul Halford</i>	✓		

NEW FISCAL NOTE(S):

Department Date Zero Fiscal

DOR	4/23/96	0	

PREVIOUS FISCAL NOTE(S):*

Department Date Zero Fiscal

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

Revision Date: April 23, 1996 Dept. Affected: Revenue
 Title: An Act relating to the management of the budget BRU: Revenue Operations
reserve fund Component: Treasury
 Sponsor: Senate Finance Committee
 Requestor: Senate Finance Committee COMPONENT SERIAL NO. 121

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1001 Constitutional Budget Reserve Fund						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY96) cost \$ _____

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Betty Martin, Comptroller *Betty Martin* Phone: 465-2350
 Division: Treasury *[Signature]* Date: April 23, 1996
 Approved by Commissioner: Ross A. Kinney, Deputy Commissioner Date: April 23, 1996
 Agency: Department of Revenue

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4/23/96
JK
moved
no
obj.
Adopted

9-LS1697F
Cook
4/19/96

CS FOR SENATE BILL NO. 303(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to management of the budget reserve fund; and providing for
2 an effective date."

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

4 * **Section 1.** AS 37.10 is amended by adding a new section to read:

5 Sec. 37.10.430. **MANAGEMENT OF THE BUDGET RESERVE FUND.** (a)
6 The Department of Revenue may transfer management responsibility over all or a
7 portion of the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska)
8 to the Alaska Permanent Fund Corporation.

9 (b) By March 15 of each year, the Department of Revenue shall, after
10 consulting with the Alaska Permanent Fund Corporation, prepare a report setting out
11 the balance in the budget reserve fund (art. IX, sec. 17, Constitution of the State of
12 Alaska) on January 1 and on December 31 of the previous calendar year. The report
13 shall state the nominal, real, and realized return on the budget reserve fund compared
14 to the nominal, real, and realized return on the permanent fund and the general fund

1 during the previous calendar year.

2 * Sec. 2. AS 44.25.020 is amended to read:

3 Sec. 44.25.020. DUTIES OF DEPARTMENT. The Department of Revenue
4 shall

5 (1) enforce the tax laws of the state;

6 (2) collect, account for, have custody of, invest, and manage all state
7 funds and all revenues of the state except revenues incidental to a program of licensing
8 and regulation carried on by another state department, [AND] funds managed and
9 invested by the Alaska State Pension Investment Board, and as otherwise provided
10 by law;

11 (3) register cattle brands;

12 (4) supply necessary clerical and administrative services for the
13 Alcoholic Beverage Control Board;

14 (5) invest and manage the balance of the power development fund in
15 accordance with AS 44.83.386;

16 (6) in accordance with the policies established by the board of trustees
17 of the Alaska State Pension Investment Board, collect, account for, have custody of,
18 invest, and manage the state funds for which the board is responsible;

19 (7) administer the surety bond program for licensure as a fish processor
20 or primary fish buyer.

21 * Sec. 3. This Act takes effect July 1, 1996.

3/19/96
JFC
Don Wanie
DOA

Division of Finance Comments Regarding SB303

1. Our comments regarding the bill concern its effect on cash flow.
2. Historically (the past 4-5 years) the front section of the budget has contained language appropriating money from the CBRF to the GF for the purpose of balancing revenues and expenditures.
3. During that same time, the state spending pattern has been such that during the first four to five months of each fiscal year expenditures have exceeded revenues by anywhere from \$250 million on the low end to well over \$350 million on the high end, creating cash flow problems.
4. To meet those cash shortfall conditions and to avoid shutting down state payments to vendors, school districts, municipalities, and the university, the division of finance has transferred cash from the CBRF to the General fund.
5. Our concern now is that if the custody of the CBRF is transferred to the Permanent Fund Corporation will the same opportunity exist to transfer cash from the CBRF for the purpose of balancing expenditures and revenues and for cash flow purposes?
6. If the opportunity is preserved through the use of front section language then our primary concern will be how quickly the funds can be made available when a cash crisis occurs?
7. If the opportunity is not preserved, then we are wondering what the mechanism will be for balancing revenues and expenditures and will it also apply to cash shortage situations.

SENATE FINANCE COMMITTEE

SB 303 PURPOSES

March 18, 1996

Having the Constitutional Budget Reserve Fund (CBRF) managed by the Permanent Fund Corporation is intended to:

1. maximize the investment return on the CBRF;
2. promote the CBRF as a long range income source for the operations of state government; and
3. allow the annual earnings to be used to reduce the budget gap.

RECEIVED 3/18/96
FROM DOR, TREASURY

BILL ANALYSIS - SB 303
ANALYSIS OF BILL/PROGRAM EFFECTS

■ Effect of the Bill

The bill transfers asset management of the Constitutional Budget Reserve Fund (CBRF) from the Department of Revenue to the Alaska Permanent Fund Corporation (APFC).

■ Current Constitutional Budget Reserve Fund Investment Management Approach

The Treasury Division believes that because of the need for liquidity, the CBRF has a moderate risk tolerance. The Treasury Division manages the Fund's risk exposure by investing in United States Treasury and high quality corporate fixed income (bonds) securities with maturities that will not exceed five years. Circumstances can require that money in the CBRF be used in the current or upcoming fiscal year. The Department of Revenue expects the legislature to make appropriations from this fund over the next few years, and projects that the fund will last at least four years. Therefore, the Treasury Division invests the money in the CBRF in a manner that entails some principal risk.

■ How the APFC Manages Their Portfolio

The APFC manages the assets of the Fund in a similar manner to the Public Employees' and Teachers' Retirement Systems. The APFC has a long-term investment time horizon. This allows the APFC to invest in a diversified portfolio of asset classes that have greater near-term volatility to achieve higher expected returns over the longer term. The APFC invests in domestic equities, international equities and real estate as well as fixed income securities.

■ Historical Returns

On July 1, 1994, the Treasury Division pooled fixed income assets from multiple portfolios. By pooling the funds, the Treasury Division can invest fewer assets in lower yielding short-term securities. This investment approach has increased revenue to the General Fund and the CBRF by an aggregate \$50 million per year.

While the CBRF earned 10.25% for calendar year 1995, the Treasury Division's approach to manage the risk of the CBRF is highlighted by the returns to the portfolio in FY 1993. In FY 1993, the bond market lost 1.45% for the year. By comparison, the CBRF earned 3.45% for the year.

■ Investment Considerations

Commingling the assets of the Constitutional Budget Reserve Fund in a portfolio that invests in domestic and international equities exposes the fund to short-term market volatility and ignores the probability of negative returns. This would not only expose the CBRF to potential losses, appropriations from the Fund could potentially have a negative impact on APFC dividend payouts.

■ Conclusion

Funds can be appropriated from the CBRF to the General Fund because of unanticipated revenue decrease or an increase in expenditures. While it is clear every attempt is being made towards fiscal discipline, neither revenues nor expenditures can be guaranteed for a prolonged period of time.

The Treasury Division manages multiple asset class portfolios. If the CBRF had a longer investment time horizon, the Treasury Division would employ more aggressive investment strategies.

STATE OF ALASKA

DETAIL RATES OF RETURN
DECEMBER 1995

MONTH	***** MONTH-END VALUES (\$000) *****				PORTFOLIO RATES OF RETURN (%)					INDEX RATES OF RETURN (%)			
	CASH EQUIV	EQUITIES	FIXED INCOME	RECV'S /PAY'S	TOTAL	CASH EQUIV	EQTY	FIXED	INVEST ASSETS	TOTAL	91 DAY T-BIL	S&P 500	LB GC COM
CUMULATIVE RETURN SINCE INCEPTION (03/91)					24.41	N/A	N/A	28.45	28.59	24.13	87.94	55.44	
CUMULATIVE RETURN CALENDAR YEAR 1995					6.31	N/A	10.42	10.25	10.25	6.12	37.45	19.24	
CUMULATIVE RETURN CALENDAR YEAR 1994					4.21	N/A	3.19	3.53	3.53	4.23	1.29	-3.51	
CUMULATIVE RETURN CALENDAR YEAR 1993					3.35	N/A	3.55	3.47	3.48	3.26	9.99	11.06	
CUMULATIVE RETURN CALENDAR YEAR 1992					4.32	N/A	N/A	4.30	4.33	3.91	7.68	7.58	
12-95	131,660		2,175,191		2,306,850	0.48	N/A	0.79	0.77	0.77	0.57	1.85	1.47
11-95	111,919		1,810,555		1,922,474	0.46	N/A	0.89	0.87	0.87	0.45	4.40	1.65
10-95	79,281		1,874,239		1,953,520	0.53	N/A	0.86	0.85	0.85	0.47	-0.35	1.47
09-95	55,648		1,858,221		1,913,869	0.48	N/A	0.54	0.54	0.54	0.45	4.20	1.02
08-95	151,944		1,848,173		2,000,116	0.50	N/A	0.64	0.63	0.63	0.50	0.27	1.28
07-95	210,223		1,836,388		2,046,611	0.49	N/A	0.29	0.31	0.31	0.49	3.33	-0.39
06-95	210,901		1,831,033		2,041,935	0.50	N/A	0.58	0.57	0.57	0.53	2.35	0.80
05-95	203,728		1,820,558		2,024,286	0.58	N/A	1.60	1.54	1.54	0.56	3.95	4.19
04-95	72,116		1,791,875		1,863,991	0.51	N/A	0.83	0.81	0.81	0.46	2.91	1.39
03-95	47,637		1,727,351		1,774,988	0.52	N/A	0.60	0.60	0.60	0.51	2.96	0.67
02-95	50,776		1,679,064		1,729,840	0.57	N/A	1.21	1.19	1.19	0.48	3.88	2.32
01-95	51,665		1,658,970		1,710,635	0.53	N/A	1.13	1.11	1.11	0.49	2.60	1.92
12-94	48,734		1,640,483		1,689,217	0.47	N/A	0.39	0.40	0.40	0.52	1.46	0.66
11-94	127,858		1,103,212		1,231,070	0.42	N/A	-0.02	0.04	0.04	0.37	-3.67	-0.18
10-94	125,631		833,347		958,977	0.41	N/A	0.33	0.35	0.35	0.42	2.29	-0.11
09-94	147,401		581,093		728,494	0.37	N/A	0.06	0.17	0.17	0.38	-2.41	-1.51
08-94	246,642		480,786		727,428	0.39	N/A	0.61	0.42	0.42	0.36	4.07	0.04
07-94	960,124				960,124	0.39	N/A	0.00	0.39	0.39	0.39	3.31	2.00
06-94	770,290		170,264		940,554	0.35	N/A	0.39	0.38	0.36	0.40	-2.47	-0.23
05-94	757,733		178,453		936,186	0.33	N/A	0.33	0.33	0.33	0.32	1.64	-0.18
04-94	693,641		239,478		933,118	0.26	N/A	0.30	0.27	0.27	0.26	1.30	-0.83
03-94	493,866		315,528		809,394	0.30	N/A	0.25	0.28	0.28	0.28	-4.35	-2.45
02-94	491,123		315,789		808,912	0.18	N/A	0.14	0.18	0.16	0.17	-2.70	-2.18
01-94	445,099		380,261		805,361	0.27	N/A	0.36	0.32	0.32	0.29	3.35	1.50
12-93	233,087		515,821	-10,176	738,732	0.31	N/A	0.32	0.32	0.32	0.30	1.23	0.44
11-93	199,318		507,127		706,445	0.25	N/A	0.26	0.26	0.26	0.28	-0.94	-1.13
10-93	94,397		609,952		704,349	0.26	N/A	0.23	0.23	0.23	0.25	2.03	0.41
09-93	91,330		607,167		698,497	0.27	N/A	0.29	0.29	0.29	0.27	-0.74	0.35

Note: Month-end values include accrued dividend and interest income.

RECEIVED 3/18/96
FROM DOB, TERNBURGH

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reserve fund Component: Treasury
 Sponsor: Senate Finance Committee
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	-50.0	-50.0	-50.0	-50.0	-50.0	-50.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-50.0	-50.0	-50.0	-50.0	-50.0	-50.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	398.5	398.5	398.5	398.5	398.5	398.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
1001 Constitutional Budget Reserve Fund	-448.5	-448.5	-448.5	-448.5	-448.5	-448.5
TOTAL	-50.0	-50.0	-50.0	-50.0	-50.0	-50.0

Estimate of any current year (FY96) cost \$ _____

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Currently the Treasury Division charges funds managed for direct costs, plus allocates personal services and overhead costs, generally based upon the fund's size relative to all funds managed. If the CBRF were to be moved out of Treasury, there would be some direct decrease in custodial services we are charged. However, the loss of these funds would not significantly impact the day-to-day overall operation of Treasury and would therefore not result in any actual reduction in personnel or overhead. Because there would not be any actual savings in these areas, Treasury would need to rely on an increase in general funds to fund these expenditures.

Prepared by: Betty Martin, Comptroller *Betty Martin* Phone: 465-2350
 Division: Treasury Date: March 18, 1996
 Approved by Commissioner: Wilson L. Condon *Wilson L. Condon* Date: March 18, 1996
 Agency: Department of Revenue

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4/23/96

Tom-

Will new CS (Fix)

for SB 303 change

the fiscal note?

Kathy

Tom said yes. It
should go to zero.

9-LS1697F
Cook
4/19/96

CS FOR SENATE BILL NO. 303(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

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2 an effective date."

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9 invested by the Alaska State Pension Investment Board, and as otherwise provided
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11 (3) register cattle brands;

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13 Alcoholic Beverage Control Board;

14 (5) invest and manage the balance of the power development fund in
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20 or primary fish buyer.

21 * Sec. 3. This Act takes effect July 1, 1996.

58303
3/20/96
Pete Bushra

ALASKA PERMANENT FUND
Rolling 12 month
Cashflow Forecast
(in Millions of Dollars)

	Fiscal 1996				Fiscal 1997							
	<u>Mar-96</u>	<u>Apr-96</u>	<u>May-96</u>	<u>Jun-96</u>	<u>Jul-96</u>	<u>Aug-96</u>	<u>Sep-96</u>	<u>Oct-96</u>	<u>Nov-96</u>	<u>Dec-96</u>	<u>Jan-97</u>	<u>Feb-97</u>
BEGINNING CASH	217.4	241.6	205.2	347.3	249.1	292.1	403.3	(101.0)	(137.1)	(25.8)	4.6	72.1
INFLOWS												
Interest	11.4	35.4	83.8	23.5	39.2	82.8	17.3	35.6	82.9	23.4	39.1	82.7
Principal	1.8	151.8	31.8	51.8	1.8	1.8	51.9	51.9	1.9	30.5	1.9	23.9
Real Estate Income	4.5	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
DNR Wires	<u>8.0</u>	<u>19.0</u>	<u>19.0</u>	<u>19.0</u>	<u>19.0</u>	<u>19.0</u>	<u>19.0</u>	<u>19.0</u>	<u>19.0</u>	<u>19.0</u>	<u>19.0</u>	<u>19.0</u>
Total Inflows	25.7	215.2	143.6	103.3	69.0	112.7	97.2	115.4	112.8	81.9	69.0	134.6
OUTFLOWS												
Dividend	0.0	0.0	0.0	0.0	(24.5)	0.0	(600.0)	0.0	0.0	0.0	0.0	0.0
Manager Funding	0.0	(250.0)	0.0	(200.0)	0.0	0.0	0.0	(150.0)	0.0	(50.0)	0.0	0.0
Real Estate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operations Expense	<u>(1.5)</u>	<u>(1.5)</u>	<u>(1.5)</u>	<u>(1.5)</u>	<u>(1.5)</u>	<u>(1.5)</u>	<u>(1.5)</u>	<u>(1.5)</u>	<u>(1.5)</u>	<u>(1.5)</u>	<u>(1.5)</u>	<u>(1.5)</u>
Total Outflows	(1.5)	(251.5)	(1.5)	(201.5)	(26.0)	(1.5)	(601.5)	(151.5)	(1.5)	(51.5)	(1.5)	(1.5)
SURPLUS *	<u>241.6</u>	<u>205.2</u>	<u>347.3</u>	<u>249.1</u>	<u>292.1</u>	<u>403.3</u>	<u>(101.0)</u>	<u>(137.1)</u>	<u>(25.8)</u>	<u>4.6</u>	<u>72.1</u>	<u>205.2</u>

NOTES:

1. Ignores dividend cashflow from the equity portfolio.
 2. Net investment/sales includes the transactional liquidity required by equity managers and fixed income. Minimum of \$40MM
- * Negative numbers requires staff to raise cash by selling securities in the fixed income portfolio.