

**HB**

**90**

TONY KNOWLES  
GOVERNOR



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STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

February 9, 1999

The Honorable Brian Porter  
Speaker of the House  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182

Dear Speaker <sup>Brian</sup> Porter:

The greatest threat to Alaska's continued economic good health and the prosperity of Alaska families is our state's \$1 billion general fund budget gap. Unattended, this gap between revenues and the cost of public services endangers our economy and the essential services on which Alaskans depend, from troopers and schools to roads and Pioneer Homes. Forecasts for continued low oil prices make it clear the budget gap is not a short-term situation.

Fortunately, there appears to be increasing agreement among Alaskans that this is the year to put into place a long-term balanced budget plan that would address this budget gap. While Alaska is well equipped with a large budget reserve to help us make a sensible transition, our window of opportunity will not remain open indefinitely.

That's why I've proposed an Alaska Balanced Budget Plan to balance Alaska's budget and put our state on stable, sustainable footing well into the next century. It's based on four simple principles I believe most Alaskans agree on:

- Balance Alaska's budget on a long-term, sustainable basis in 18 months,
- Protect and grow the state's savings accounts,
- Continue to generate a sizable, growing Permanent Fund dividend, and
- Make no changes to the Alaska Permanent Fund or dividends without a vote of Alaskans.

Together, my Administration and the Legislature have been working on the first essential steps toward a balanced budget: significant budget cuts. That work continues for both this year's budget and next. However, most Alaskans have come to realize that balancing the budget with cuts alone would lead to unacceptable levels of education, public safety, resource management and other vital services. The days of budgets fueled almost exclusively by oil are gone; our future budgets will have to include new sources of revenue.

The Honorable Brian Porter  
February 9, 1999  
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Today I am introducing legislation to accomplish the revenue side of my Alaska Balanced Budget Plan. This bill, and its companion bill requiring a statewide advisory vote, would take advantage of the booming investment market with a transfer of \$4 billion from the Earnings Reserve Account of the Permanent Fund to the Constitutional Budget Reserve Fund (CBR). The transfer would not touch the principal of the Permanent Fund.

By using the Earnings Reserve Account to increase the CBR principal, our budget reserve account can make an estimated 550 million more investment income dollars available annually to help balance the state budget. The other element of the balanced budget plan, an Alaska credit income tax, would provide the final \$350 million necessary for a sustainable balanced budget well into the next century.

Under this legislation, three things would have to happen before a \$4 billion transfer would take place:

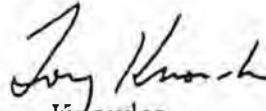
- A determination that there is a sufficient balance in the Earnings Reserve Account after paying for inflation-proofing and dividends;
- A written finding by the Permanent Fund Board Trustees that the principal of the fund would be fully protected as required by the constitution; and
- Approval of the public through a special statewide advisory ballot this June.

The mechanics of transferring the \$4 billion from the Earnings Reserve to the CBR would be determined by the Permanent Fund Trustees to ensure compliance with the Alaska Constitution state laws and General Accepted Accounting Principles, as well as to minimize transaction costs and disruption of Permanent Fund investment strategies and policies.

The three part plan I've outlined -- continued cuts, a \$4 billion transfer and Alaska credit income tax -- has been on the Internet for review and comment by the public for less than two weeks. Already the web site has been visited more than 3,000 times. I hope that interactive model and this package of legislation will continue to generate lively public discussion.

Uncertainty about our state's fiscal situation ill serves every Alaskan -- our citizens, our communities, Alaska businesses or potential business investors. I believe the public sees this is the right time for leadership and action on a balanced budget.

Sincerely,

  
Tony Knowles  
Governor

**FISCAL NOTE** Bill Version: HB 90

STATE OF ALASKA  
1999 LEGISLATIVE SESSION

(H) Publish Date: 2/10/99

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affects Revenue \_\_\_\_\_  
 Title Appropriation from the earnings reserve account BRU Revenue Operations \_\_\_\_\_  
 of the Alaska permanent fund to the constitutional budget reserve Component \_\_\_\_\_  
 Sponsor Senate Rules \_\_\_\_\_  
 Requester Governor Component Serial No. \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

| OPERATING EXPENDITURES | FY 2000          | FY 2001          | FY 2002          | FY 2003          | FY 2004          | FY 2005          |
|------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Personal Services      |                  |                  |                  |                  |                  |                  |
| Travel                 |                  |                  |                  |                  |                  |                  |
| Contractual            | (8,400.0)        | (6,918.4)        | (7,478.8)        | (8,084.6)        | (8,739.4)        | (9,447.3)        |
| Supplies               |                  |                  |                  |                  |                  |                  |
| Equipment              |                  |                  |                  |                  |                  |                  |
| Land & Structures      |                  |                  |                  |                  |                  |                  |
| Grants & Claims        |                  |                  |                  |                  |                  |                  |
| Miscellaneous          |                  |                  |                  |                  |                  |                  |
| <b>TOTAL OPERATING</b> | <b>(6,400.0)</b> | <b>(6,918.4)</b> | <b>(7,478.8)</b> | <b>(8,084.6)</b> | <b>(8,739.4)</b> | <b>(9,447.3)</b> |

|                             |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|
| <b>CAPITAL EXPENDITURES</b> |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|

|                               |                    |                    |                    |                    |                    |                    |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>CHANGE IN REVENUES ( )</b> | <b>(324,000.0)</b> | <b>(350,244.0)</b> | <b>(378,613.8)</b> | <b>(409,281.5)</b> | <b>(442,433.3)</b> | <b>(478,270.4)</b> |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|

**FUND SOURCE** (Thousands of Dollars)

|                                   |                  |                  |                  |                  |                  |                  |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| 1002 Federal Receipts             |                  |                  |                  |                  |                  |                  |
| 1003 GF Match                     |                  |                  |                  |                  |                  |                  |
| 1004 GF                           |                  |                  |                  |                  |                  |                  |
| 1005 GF/Program Receipts          |                  |                  |                  |                  |                  |                  |
| 1037 GF/Mental Health             |                  |                  |                  |                  |                  |                  |
| Permanent Fund Corporate Receipts | (6,400.0)        | (6,918.4)        | (7,478.8)        | (8,084.6)        | (8,739.4)        | (9,447.3)        |
| <b>TOTAL</b>                      | <b>(6,400.0)</b> | <b>(6,918.4)</b> | <b>(7,478.8)</b> | <b>(8,084.6)</b> | <b>(8,739.4)</b> | <b>(9,447.3)</b> |

Estimate of current year (FY99) cost: 0.0

**POSITIONS**

|           |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|
| Full-time |  |  |  |  |  |  |
| Part-time |  |  |  |  |  |  |
| Temporary |  |  |  |  |  |  |

**ANALYSIS:** *Manager fees reduced by 16 basis points per year (FY98 average operating expenses), adjusted for the reinvestment of earnings in future years. Annual permanent fund income reduced due to \$4,000,000.0 transfer of investment assets to the constitutional budget reserve fund.*

Prepared by Peter A. Bushre *Peter A. Bushre*  
 Division Alaska Permanent Fund Corporation  
 Approved by \_\_\_\_\_  
 Commissioner Wilson L. Condon *Wilson L. Condon*  
 Agency Department of Revenue

Phone 465-2301  
 Date/Time 2/8/99 4:49 PM  
 Date 2/8/99

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# FISCAL NOTE

Bill Version: HB 90

(H) Publish Date: 2/10/99

**STATE OF ALASKA  
1999 LEGISLATIVE SESSION**

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected Revenue  
 Title Special appropriation from the earnings reserve BRU Revenue Operations  
account of the APFC to the CBRF. Component Treasury Division  
 Sponsor \_\_\_\_\_  
 Requester \_\_\_\_\_ Component Serial No. 121

**Expenditures/Revenues (Thousands of Dollars)**

Note: Amounts do not include inflation unless otherwise noted below.

| OPERATING EXPENDITURES | FY 2000        | FY 2001        | FY 2002        | FY 2003        | FY 2004        | FY 2005        |
|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Personal Services      |                |                |                |                |                |                |
| Travel                 |                |                |                |                |                |                |
| Contractual            | 7,168.3        | 6,918.4        | 7,478.8        | 8,084.6        | 8,739.4        | 9,447.3        |
| Supplies               |                |                |                |                |                |                |
| Equipment              |                |                |                |                |                |                |
| Land & Structures      |                |                |                |                |                |                |
| Grants & Claims        |                |                |                |                |                |                |
| Miscellaneous          |                |                |                |                |                |                |
| <b>TOTAL OPERATING</b> | <b>7,168.3</b> | <b>6,918.4</b> | <b>7,478.8</b> | <b>8,084.6</b> | <b>8,739.4</b> | <b>9,447.3</b> |

|                             |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|
| <b>CAPITAL EXPENDITURES</b> |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|

|                               |                  |                  |                  |                  |                  |                  |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>CHANGE IN REVENUES ( )</b> | <b>396,800.0</b> | <b>428,940.8</b> | <b>463,685.0</b> | <b>501,243.5</b> | <b>541,844.2</b> | <b>585,733.6</b> |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|

**FUND SOURCE (Thousands of Dollars)**

|                          |                |                |                |                |                |                |
|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 1002 Federal Receipts    |                |                |                |                |                |                |
| 1003 GF Match            |                |                |                |                |                |                |
| 1004 GF                  |                |                |                |                |                |                |
| 1005 GF/Program Receipts |                |                |                |                |                |                |
| 1037 GF/Mental Health    |                |                |                |                |                |                |
| 1001 CBR Fund            | 7,168.3        | 6,918.4        | 7,478.8        | 8,084.6        | 8,739.4        | 9,447.3        |
| <b>TOTAL</b>             | <b>7,168.3</b> | <b>6,918.4</b> | <b>7,478.8</b> | <b>8,084.6</b> | <b>8,739.4</b> | <b>9,447.3</b> |

Estimate of current year (FY99) cost: 0.0

**POSITIONS**

|           |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|
| Full-time |  |  |  |  |  |  |
| Part-time |  |  |  |  |  |  |
| Temporary |  |  |  |  |  |  |

**ANALYSIS:** (Attach a separate page if necessary)

FY 2000 costs include incremental management costs at Treasury during year one as the assets are moved from APFC to Treasury (\$768.3). Treasury's asset allocation for the CBRF will include a greater exposure to the equities market than the APFC statutory limit allows.

Change in revenues reflects the increased investment income to the CBRF due to the \$4,000,000 transfer as well as due to the change in asset allocation.

Prepared by Betty Martin, Comptroller *Betty Martin*  
 Division Treasury Division  
 Approved by Wilson L. Condon *Wilson L. Condon*  
 Commissioner  
 Agency Department of Revenue

Phone 465-2352

Date/Time February 8, 1999

Date 2/8/99

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