

**HB**

**422**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

REPORTED OUT  
MAY 09 2004  
SENATE FINANCE  
COMMITTEE

DATE: 5/2/04

FURTHER:

DATE TURNED  
IN TO OFFICE: 9 May 2004

Finance Committee considered CS FOR HOUSE BILL NO. 422(STA)

## HB 422 BUDGET RESERVE FUND INVESTMENT

"An Act repealing the special subaccount established in the constitutional budget reserve fund; and providing for an effective date."

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

**Senate Bill:**  
 Same Title  
 New Title

**House Bill:**  
 Same Title  
 Technical Title Change  
 New Title w/ SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero.	FN#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#
REV	2/3/04	(125.0)			#1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>			✓	
<i>[Signature]</i>			✓	
<i>[Signature]</i>			✓	
<i>[Signature]</i>	✓			
<i>[Signature]</i>		X		
COCHAIR:				
COCHAIR: <i>[Signature]</i>	✓			

MAY 09 2004

SENATE FINANCE COMMITTEE

# FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: CSHB 422(STA)  
(H) Publish Date: 3/8/04

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title Budget Reserve Fund Investment BRU Revenue Programs & Services  
Component Treasury Management  
Sponsor House Finance  
Requester House State Affairs Component No. 121

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

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual	<125.0>	<125.0>	<125.0>	<125.0>	<125.0>	<125.0>
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>&lt;125.0&gt;</b>	<b>&lt;125.0&gt;</b>	<b>&lt;125.0&gt;</b>	<b>&lt;125.0&gt;</b>	<b>&lt;125.0&gt;</b>	<b>&lt;125.0&gt;</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Constitutional Budget Reserve Fund)	<125.0>	<125.0>	<125.0>	<125.0>	<125.0>	<125.0>
<b>TOTAL</b>	<b>&lt;125.0&gt;</b>	<b>&lt;125.0&gt;</b>	<b>&lt;125.0&gt;</b>	<b>&lt;125.0&gt;</b>	<b>&lt;125.0&gt;</b>	<b>&lt;125.0&gt;</b>

Estimate of any current year (FY2004) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

**POSITIONS**

Full-time	0	0	0	0	0	0
Part-time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

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

This legislation would eliminate the requirement to invest the CBRF subaccount in equity securities. Investing in equities requires contracting with investment managers. The current cost of the investment contracts is \$125.0 per year. These fees would no longer be required if this legislation passes.

The legislation would also require the CBRF to invest only in investment grade fixed income securities. Less diversification may result in lower investment returns if there is a substantial increase in equity prices. However, the decline in the CBRF fund balance creates a compelling need for a more conservative asset allocation to preserve the fund.

Prepared by: Gary Bader Phone 465-4399  
Division: Treasury Date/Time 2/9/04 9:45 AM  
Approved by: Tom Boutin Date 2/9/2004  
Agency: Department of Revenue

Alaska State Legislature  
House Finance Committee

REPRESENTATIVE  
BILL WILLIAMS

Co-Chair

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MEMORANDUM

To: Senator Gary Wilken  
Co-Chair, Senate Finance Committee

From: Representative Bill Williams, Co-Chair *GA to A BW*  
House Finance Committee

Re: Hearing Request for HB 422- relating to the existence and management of the sub account in the Constitutional Budget Reserve Fund

Date: May 3, 2004

We request that you schedule House Bill 422, an act relating to the existence and management of the sub account in the Constitutional Budget Reserve Fund (CBR), for a hearing in your committee.

House Bill 422 would repeal the CBR sub account and allow the entire CBR balance to be invested in fixed income securities along with the general fund and other non-segregated money.

In 2000, the legislature passed Senate Bill 312 that transferred \$400 million from the CBR into a separate sub account in an effort to obtain a higher yield by investing the funds with a long-term outlook. The legislation also directed the Commissioner of Revenue to assume that sub account funds will not be needed for at least five years.

However, current budget projections show the CBR being continually drawn down rather than being periodically increased to historically higher balances. While the CBR may extend beyond five years, a CBR balance of at least \$1 billion is needed to meet cash flow needs and prudent financial management given the state's dependence upon oil prices. HB 422 also repeals the five- year provision enacted by SB 312.

If you have any questions, please contact James Armstrong at 6875.

BW/jja

## Constitutional Budget Reserve

AY19 Constitutional Budget Reserve Fund As of 3/31/04	Actual Allocation	Target Allocation	Bands	3 Months	YTD	1 Year	3 Year	5 Year
Broad Market Fxd Income	20.19%	20%	+/- 8%					
Short Term Pool	23.11%	20%	+/- 8%					
Intermediate Term Fxd Income	56.71%	60%	+/- 8%					
Total	100%	100%		1.51	1.51	3.75	5.44	5.97
Benchmark				1.48	1.48	3.20	5.62	6.01
Market Value As of 3/31/04	\$1,553,853,060							

Provided by  
 Doe 5/7/04

## Constitutional Budget Reserve Subaccount

FY10 CBRF Subaccount As of 3/31/04	Actual Allocation	Target Allocation	Bands	3 Months	YTD	1 Year	3 Year	5 Year
Broad Market Fxd Income	39.77%	44%	+/- 7%					
Russell 3000 Index	42.70%	39%	+/- 7%					
Short Term Pool	0.01%	0%						
SOA International Equity	17.52%	17%	+/- 5%					
<b>Total</b>	<b>100%</b>	<b>100%</b>		<b>2.41</b>	<b>2.41</b>	<b>23.84</b>	<b>4.70</b>	
Benchmark				2.78	2.78	26.06	4.87	
Market Value As of 3/31/04	\$419,649,294							

SENATE FINANCE COMMITTEE

SIGN-IN

HB 422-BUDGET RESERVE FUND INVESTMENT

NAME: TOM Boutin Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: Revenue Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

SENATE FINANCE COMMITTEE

SIGN-IN

**HB 422-BUDGET RESERVE FUND INVESTMENT**

NAME: Tom Boudin Subject/Bill No: HB422

Co./Dept./Title: Dept Revenue Phone: 465-2301

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_

Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_

Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_

Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

SENATE FINANCE COMMITTEE

SIGN-IN

HB 422-BUDGET RESERVE FUND INVESTMENT

NAME: Tom Boutin\* Subject/Bill No: HB 422

Co./Dept./Title: Dept of Revenue Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

\* note: also have bill in HSC fin so will be looking in on that from time to time.

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_

Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_

Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_

Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions