

HJR

28



Representative Ralph Samuels

House District 29

Date: March 21, 2008

To: Senator Hollis French
Senate Judiciary Committee

From: Representative Ralph Samuels
House Majority Leader

RE: Hearing Request for HJR 28

We respectfully request a hearing in the Senate Judiciary Committee for CSHJR 28 (FIN) Constitutional Amendment: Budget Reserve Fund at your earliest convenience.

Attached please find:

- CSHJR28 (FIN)
- Bill History
- Revised Sponsor Statement
- Sectional Analysis
- Fiscal Notes
- Minutes
- Back Up Material

Please contact Linda Hay of my office with any questions at x 6791.

Thank You.



Representative Ralph Samuels

House District 29

Revised Sponsor Statement

CSHJR 28 (FIN) Constitutional Amendment: Budget Reserve Fund

Proposing an amendment to the Constitution of the State of Alaska relating to the budget reserve fund, and to appropriations to and transfers from the fund; and dedicating a portion of the petroleum production tax to the fund

Saving the surplus cash that Alaska is receiving at high oil prices is the most important thing we can do this session.

CSHouse Joint Resolution 28 (FIN) would put before the voters of Alaska, the opportunity to save a large portion of that money while still having the ability to provide for essential government services such as education, transportation and public safety.

The voters of Alaska would have the chance to convert the Constitutional Budget Reserve into an endowment that would be invested to spin off a steady stream of revenue year after year while preserving the principal and keeping up with inflation.

If the idea passes with a majority vote of Alaskans, all of the "windfall profits" revenue gained as a result of the progressive surcharge portion of the oil production tax (AS43.55.011(g)), would be deposited into the CBR which would be managed and invested as an endowment. Instead of allowing the Legislature access to the whole account with a super majority vote, lawmakers could spend no more than 5% of the fund's value each year.

This endowment concept is widely accepted as the methodology for numerous large scale endowments ranging from the Ford Foundation to Yale University.

It is of the utmost importance to the economic health of Alaskans that the State think LONG-TERM. The passage of CSHJR 28 (FIN) would put the issue of this constitutional amendment before the people of Alaska. The cash flow it will provide will help Alaskans for generations. It will constitutionally protect the seed corn.

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MEMORANDUM

March 5, 2008

SUBJECT: Budget Reserve Fund (CSHJR 28(FIN))
(Work Order No. 25-LS12170)

TO: Representative Ralph Samuels
Majority Leader
Attn: Linda Hay

FROM: Tamara Brandt Cook
Director *TBC*

Section 1. Subsection (a) of the provision of the state constitution establishing the budget reserve fund is amended so that, until January 1, 2015, money received by the State from the progressivity provision of an oil and gas production tax is deposited into the fund. The existing dedication of money received by the state as a result of an administrative proceeding or of litigation involving certain mineral sources is deleted. Money may no longer be appropriated from the fund.

Section 2. A new subsection authorizes appropriations of money to the budget reserve fund, with the money to be treated the same as money dedicated to the fund. Under another new subsection, money is to be transferred from the budget reserve fund to the general fund on July 1 of each year. The amount transferred each year equals five percent of the average of the fiscal year-end market values of the fund for the first five of the preceding six fiscal years.

Section 3. Money in the budget reserve fund on the effective date of these proposed amendments is retained in the fund.

Section 4. Subsection (b), providing for appropriations from the budget reserve fund by majority vote when revenues decrease, is repealed. Subsection (c), permitting appropriations by 3/4 vote, is repealed. Subsection (d), requiring repayment of money appropriated from the budget reserve fund (the "sweep"), is repealed.

Section 5. These proposed amendments are to be voted on at the next general election.

TBC:med
08-154.med

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Representative Ralph Samuels District 29

FOR IMMEDIATE RELEASE: March 18, 2008 CONTACT: Rep. Ralph Samuels, 465-2095

House Approves Constitutional Amendment on CBR for Fall Ballot **Samuels's HJR 28 Asks Alaskans to Weigh-In on Budget Reserve Fund, Create Endowment to Provide Spending Cushion During Lean Years**

(Juneau) – The Alaska House of Representatives today passed House Joint Resolution (HJR) 28, a resolution putting a constitutional amendment before voters in this fall's statewide election asking them to amend the voter-created Constitutional Budget Reserve, or CBR, into an endowment to help fund state services. The resolution, sponsored by Representative Ralph Samuels, R-Anchorage, would send earnings from the windfall profits portion of the oil and gas tax into the budget reserve endowment, and spin off roughly five percent of the market value into the general fund annually.

"We are asking the people of Alaska to think long term" said Rep. Samuels. "This is not some reaction to a potential doom and gloom scenario; this is a sound public and private financial policy. Institutions from Yale University to the locally-operated Rasmussen Foundation follow this model and have realized returns to live within their means and grow their reserves.

"Right now it takes a three-quarters vote of both houses to tap into the CBR, which is a significant political football and pushes partisanship. The future most see on the horizon for Alaska is declining oil production, volatile petroleum markets and a long lead time for a gas pipeline project. Giving ourselves a cushion that can pay for essential state services during the lean years ahead is a win-win for Alaskans."

If passed by voters, the progressive surcharge portion of the oil and gas tax increase passed last year would be deposited into the CBR, which would then be managed and invested as an endowment. Legislators, year-to-year, would only be able to spend the five-percent of the average of the fiscal year-end market value of the fund, instead of using the super-majority vote to potentially tap all of the funds, as under the current construction of the CBR.

Notice of reconsideration was served on the resolution, meaning HJR 28 could be back on the House floor for a vote as early as tomorrow, Wednesday, March 19. HJR 28 would next move to the Alaska State Senate for its consideration, and if the Senate approves it, would then be transmitted to the Governor for signature. After it's signed, the Lieutenant Governor's office would prepare it and place it on the ballot for a vote of the people during the fall election cycle.

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KETCHIKAN DAILY NEWS

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Our Opinion

Time for our say

The Alaska House Tuesday passed a bill that would require a vote of the people eventually - and it's long past due for a sound idea. [Read more...](#)

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Lyle Addison Home Sr. of Metlakatla, BO, died Tuesday, March 11, 2008, in Ketchikan.



3/20/2008

Time for our say

The Alaska House Tuesday passed a bill that would require a vote of the people eventually and it's long past due for a sound idea.

House Joint Resolution 28 would put a constitutional amendment on the ballot asking whether to amend the Constitutional Budget Reserve, making it into an endowment to help fund state services.

But wait - this isn't a raid on money that will rapidly disappear in the hands of desperate politicians (always a possibility, as the situation stands now, as soon as the Legislature gets a three-quarters vote).

Under the resolution, if it survives the session and gets the governor's nod, earnings from the windfall profits of the oil and gas tax would go into the reserve. Rather than "raid" the CBR with a three-quarters vote, about 5 percent of the market value of the endowment would go into the general fund each year, according to resolution sponsor Rep. Ralph Samuels, R-Anchorage.

The joint resolution is by no means a done deal - one representative already has called for reconsideration - but it would be a good deal for Alaskans to have a say on it. If passed by both chambers and signed by the governor, the lieutenant governor would put it on the ballot for the coming fall election.

It's a good idea that has worked well for others - Samuels cited Alaska's Reasmuson Foundation as well as Yale University as examples of institutions that "follow this model and have realized returns to live within their means and grow their reserves."

The Reasmuson foundation says the approach enables it to enhance its endowment's value "in perpetuity," taking care of inflation-proofing along with current needs at the same time.

If voters approved the idea, the endowment would put an end to annual fears that the budget reserve could be raided by money-hungry pols. Even a super-majority vote couldn't accomplish that, as it could now.

Meanwhile, the Permanent Fund and the state could continue to grow even despite declining oil production, lfy markets and a gas pipeline project that hasn't gotten off the ground yet, according to Samuels.

At this point, Alaskans don't need to make up their minds as to whether they like the idea. All they need to do is urge their legislators to give them a say on the ballot next fall.

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Right idea, wrong fund***Endowment concept is good but not for budget reserve account***

(03/18/08 23:40:01)

Tuesday, the state House voted 30-7 to divert a large stream of oil tax money into an endowment that could help support future state budgets.

Give the measure's supporters credit for trying to be fiscally responsible. They found a creative, politically feasible, bipartisan way to tie up a good chunk of the state's surplus oil income. Passing this proposed constitutional amendment would be the closest thing the state has come to a long-term fiscal plan in years.

Only one problem: It's the right idea applied to the wrong fund.

The fund in question is the state's constitutional budget reserve. It was created to be a savings account for fiscal emergencies, such as when the price of oil collapses and state oil money dries up. The budget reserve is a financial shock-absorber.

With the House-passed proposal, though, the budget reserve would no longer be much help in a financial emergency. It would become an endowment that supports ongoing state government.

For seven and half years, the windfall profits portion of the state's new oil production tax would go into the new fund. Every year, 5 percent of the fund's five-year average value would automatically go into the pool of money for state spending.

No longer could the reserve supply \$1 billion or \$2 billion to balance the budget if oil prices suddenly crashed or the pipeline shut down for months. In the mid-1980s, an oil price crash blew a \$1 billion hole in the state budget and devastated the state's economy. Since then, Alaska's budget has grown a lot bigger, and oil production has dropped by almost two-thirds. We're as vulnerable to a big price drop as ever.

With only 5 percent of the money available each year, the House-passed "reserve" fund could maybe supply \$250 million to deal with a budget crisis. That amount might double over time, but the revamped "reserve" could not supply enough to fill a serious budget gap.

Facing a huge financial crisis, lawmakers would have to look to the earnings reserve of the Permanent Fund. That account holds the earnings of the fund left over after it pays for annual dividends and inflation-proofing.

The earnings reserve carries the label "Permanent Fund," so it has been politically untouchable. Perhaps House lawmakers believe the earnings reserve won't be untouchable if there is a financial catastrophe.

What's ironic here is that the Permanent Fund is the more appropriate candidate for converting into an endowment. Many civic groups and financial experts have recommended using the 5 percent rule to manage Permanent Fund payouts. Doing so would automatically inflation-proof the fund,

since it has consistently earned much more than 5 percent. Alaskans would no longer have to rely on the Legislature to inflation-proof the fund each year.

Because Alaska relies on a single, volatile commodity to fund most of its yearly budget, we need a multi-billion-dollar reserve ready at hand. The Legislature should keep the budget reserve in its current form.

BOTTOM LINE: The state's budget reserve should remain a budget reserve.



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Good Idea 3/17/08

141

Should state tap CBR earnings to fund government?

WE MUST CONFESS to having misgivings when we first heard about the move in the Legislature to make it easier to tap the Constitutional Budget Reserve.

A bill sponsored by House Majority Leader Ralph Samuels, an Anchorage Republican, would authorize a public vote on amending the constitution to eliminate the requirement for a 75 percent vote of the Legislature to tap the CBR.

Samuels wants the reserve fund to be set up as an endowment that could be tapped, but only for 5 percent a year, which would generally be less than the fund earns. If the money weren't needed to balance the budget in any year, it could be plowed back into the fund.

That conjures the image of routinely . . .

(cont'd from front page) tapping the fund for 5 percent a year when none of it is spent right now. That seems a bad idea on its face, but a closer look suggests it might, in fact, be a good way to go.

Samuels makes the case that the existing system gives the minority far too much control over the fund. If the majority (usually Republican) wants to take any money from the CBR, that is only possible by doing the bidding of the minority in order to make the 75 percent requirement. And when the minority can, in effect, control the purse strings, the tail wags the dog and the sky's the limit.

Samuels concedes that once the 5 percent a year begins to flow, it will become a constant cash cow for the Legislature, one expected and factored into annual spending. But, he adds, that won't start until the budget can only be balanced by tapping the fund earnings.

Our thinking was that the Permanent Fund earnings should be used in much the same manner, with half of the earnings going toward government needs and half for individual dividend checks.

But that would be politically difficult right now since the Permanent Fund and every dime of its earnings are still sacrosanct. Their only purpose, despite the fact that the fund was established to meet future government needs, is to generate those juicy dividend checks. Never mind that the checks bring many problems, like fueling increased immigration to the state, especially by large, low-income families. And, by extension, they exacerbate gang problems in Anchorage.

But the CBR can be used to accustom the Alaska public to endowments and how they can fund government and are a better option than meeting public needs by imposing taxes.

So when the time comes, as it will, that the public is faced with the alternatives of imposing individual taxes or tapping the Permanent Fund, establishing an endowment with a portion of fund earnings will hopefully be seen as a better option.

The CBR endowment plan is a good idea.

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Comments (1)

Good Idea

written by Will Gay, March 17, 2008

It's a good idea which means it is doomed in Juneau

adn.com

Anchorage Daily News

Abolishing budget reserve is a bad idea

GREGG ERICKSON

COMMENT

(03/15/08 23:14:52)

A constitutional amendment that would radically transform the state's finances has been quietly moving through the state House of Representatives. The measure is the bipartisan brainchild of Republican Ralph Samuels and Democrat Mike Doogan, both of Anchorage. It could come to a vote in the House as soon as Monday. If approved, it would abolish the Constitutional Budget Reserve in all but name, and replace it with an endowment. The sole purpose of the new endowment would be to provide long-term support for state spending.

In 1990 voters established the CBR to be a fiscal safety net for the state, seeding it with money from tax and royalty settlements. It was a farsighted move. Oil prices rise and fall unpredictably, and in 1993, when prices fell to \$15 per barrel, the state was able to draw \$1.4 billion from the account to temporarily support government services and the state economy. Prices later rose, but in 1998 they dropped again, this time to an unbelievable \$12 per barrel. The CBR was again the state's lifeline. In 18 years the state has drawn a total of \$4.8 billion.

Today there is still \$3.1 billion left in the CBR, and the state Senate has voted to add money from the current surplus. That, together with earnings on fund investments will bring the total in the reserve to a comfortable \$5.6 billion. Should oil prices fall to \$50 per barrel, it's enough to sustain state services and the economy for almost two years until oil prices again cycle upward. The CBR wasn't designed to protect the state from long-term revenue declines, but the fiscal cushion nevertheless gives policymakers the time needed to adopt adjustment measures that could make the difference between a soft landing and a crash.

The Samuels-Doogan constitutional amendment has a host of problems, but the most obvious is that under their plan the CBR would cease to provide this protection. Money now in the reserve would be used to capitalize the new endowment. Income from the new fund would be dedicated to supporting future state spending. Money in the principal of the new fund would be constitutionally protected -- off limits to appropriation no matter how dire the state's fiscal need.

Assuming no further deposits, revenue being spun off from the endowment would remain very modest for a very long time; it would not rise above \$200 million per year until 2012, and remain less than \$500 million through 2023.

That's not the scenario promoters of the amendment are imagining. Their vision of the future has oil prices staying high, and the Legislature stuffing all the resulting surpluses in the endowment.

"One more good year, and you are close to \$10 billion in the endowment," Samuels enthused in an interview on Wednesday.

Even under that optimistic scenario revenue from the fund doesn't reach \$500 million until 2015.

Doogan, interviewed separately on Wednesday, said he doesn't think oil prices are likely to come

down anytime soon. If they do crash, however, he says the state could always amend the constitution again to allow emergency appropriations from the endowment principal.

But others think it is more likely the Legislature would dip into the earnings reserve of the Permanent Fund, the pot of money from which the Permanent Fund dividend is paid.

"With the CBR money off the table, the Permanent Fund earnings reserve moves to the front of the line anytime you have shortfall," said a Palin administration economist.

I asked Samuels what happens if the price of oil drops to \$50 a barrel and stays there for a couple of years.

"You would end up having to go to the earnings of the Permanent (Fund)" Samuels agreed. But he said that would happen in any event, even if the current CBR were retained. "You'd bum through it, and you're going to end up at the same place."

Another top Palin administration official, noting that the amendment removes billions from the reach of bondholders, suggested that it could have an adverse impact on the state's bond rating.

Despite the constitutional amendment's many problems, Samuels, who serves as the House majority leader, seems convinced he has lined up the two-thirds majority needed to pass the measure in the House. On Wednesday he said he was planning to bring it to a vote on Monday. If he does that, and it passes, let's give a silent prayer of thanks for our bicameral Legislature. And let's hope senators give the scheme a more thorough analysis than it has thus far received in the House.

Economist Gregg Erickson is the owner of a Juneau consulting firm (www.EricksonEconomics.com). He can be reached at gerickso@alaska.com.

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Anchorage Daily News

Barrier for budget reserve builds support**CONSTITUTIONAL AMENDMENT: Lawmakers increasingly favor a 5 percent annual spending limit.**By WESLEY LOY
wloy@adn.com

(03/12/08 00:26:29)

JUNEAU -- Legislation to allow Alaska voters to decide whether to make a massive state piggy bank much harder to tap seems to be gaining favor among state lawmakers.

The prime sponsor, House Majority Leader Ralph Samuels, R-Anchorage, said the resolution could come up for a House vote as soon as Monday, and he's confident of enough votes to pass it.

House Joint Resolution 28 would allow voters as soon as this fall to amend the state constitution to prevent lawmakers from dipping deeply into a savings account known as the Constitutional Budget Reserve. Instead, lawmakers could spend no more than about 5 percent of the fund's value each year.

The reserve -- which lawmakers have tapped during lean years to cover the state budget -- contains \$3.2 billion now. Lawmakers expect to put an additional \$2.5 billion or more into the account this year as the state rakes in huge surplus revenue thanks to high oil prices.

Samuels said his resolution aims to control spending from the reserve and also create a steady cash flow for future years when oil production or prices crash and the state government is in a jam for money.

The challenge for lawmakers, he said, is surrendering their power to spend much or all of the reserve with a three-quarters vote of the Legislature.

"They lose the ability for the government to get their hands on that cash," Samuels said. "They can only spend 5 percent."

The resolution effectively would convert the reserve into an endowment that would be invested and would spin off a steady stream of money year after year while preserving the principal and keeping up with inflation, Samuels said.

A similar concept has been proposed for a better-known public savings account -- the \$37 billion Alaska Permanent Fund.

HJR 28 already has passed the powerful House Finance Committee and has bipartisan support. Samuels has been visiting his colleagues in the Capitol one by one to tout the resolution.

Samuels said his resolution, with continued high oil prices, could grow the reserve to \$10 billion, which at a 5 percent withdrawal rate would spin off \$500 million a year to run the state government.

That wouldn't be nearly enough to cover the state budget if oil revenue tumbles, but the cash flow

could ease Alaskans into the day they must start talking about other revenue sources such as a state sales tax, Samuels said.

House Speaker John Harris, R-Valdez, supports the resolution, as does the leader of the House Democrats, Rep. Beth Kerttula of Juneau.

"I'm fascinated with the idea. I just need to spend more time with it," said Rep. Lindsey Holmes, D-Anchorage. She noted she works with a foundation supporting the Anchorage Concert Association that uses a 5 percent annual spending limit.

The going could be tougher in the Senate.

Sitka Republican Sen. Bert Stedman, co-chairman of the Senate Finance Committee, said he's concerned about what the state would do in a crisis if the budget reserve is constitutionally locked down.

"If you put in \$10 and can only spend 50 cents, we don't want to put ourselves in a bind where we have to go somewhere for money that we don't want to go," such as the Permanent Fund, Stedman said.

Sen. Cori Bunde, R-Anchorage, said the resolution could bring a welcome halt to the hard bargaining lawmakers have gone through at the end of some sessions to muster enough votes to spend from the budget reserve.

"I like it better than the minority blackmail we've had in the past," he said.

Find Wesley Loy online at adn.com/contact/wloy or call him in Juneau at 1-907-586-1531.



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Budget surplus should be put in special reserve account

COMPASS: Other points of view

By REP. RALPH SAMUELS and REP. BETH KERTTULA

(03/06/08 00:43:56)

"SAVE THE MONEY!"

All 60 legislators, the governor and an almost unanimous public chorus have made this statement as we in the Legislature stare at anywhere from a \$2 billion to \$5 billion budget surplus.

With high oil prices and a new tax system on oil, the government in Alaska is flush with cash, and will be for at least the next couple of years. Our long-term problem with declining oil production still exists and was hotly debated in the Capitol halls last autumn.

We will get to our proposal shortly, but first it's important to understand just where the surplus is coming from. And that comes from a tax increase passed last year on oil.

Alaska's severance tax on oil is split into two parts. The first is the "base," the second is the "progressivity surcharge." The surcharge only applies when oil prices are high, like today when the price per barrel is above \$90. At today's price and production levels, the surcharge by itself generates about \$1 billion per year. In all, we could see anywhere from a \$2 billion to \$5 billion budget surplus over the next two years.

For now, the biggest question facing Alaskans is what to do with the excess cash.

There are several ideas floating around: Put the money into the Constitutional Budget Reserve; invest in infrastructure such as roads, docks and airports; find a fair and equitable solution to the emerging statewide energy crisis or simply give cash to residents.

Every idea will have some pros and cons associated with it and, politics being what they are, nobody will be completely happy with the end result.

Our proposal is based on common sense and experience with Alaska's unpredictable economy. In its simplest form, the idea is this: Think long term.

Depositing the money into the CBR, without changing how the fund functions would only prolong the day when the Legislature spends the money. Have no illusions, they would eventually spend it. Although it is better than spending it now, it does not guarantee sustainability.

The new proposal would take all of the windfall profits tax we collect from the surcharge and deposit it into the CBR, then change the way we allow the state to spend it. Instead of allowing the Legislature access to the whole account (with a three-quarters super majority vote), we would limit the draw to 5 percent of the total.

The change takes the political gamesmanship out of tapping the budget reserve in lean years. It would also provide for a "true" endowment style savings, while still allowing long-term cash flow to pay for education, transportation and public safety. The fund would be constitutionally protected

and would require a vote of the people to change.

This percent-of-market-value method is used to fund more than 80 percent of the large endowments in this country. Organizations ranging from the Ford Foundation to Yale University and the local Rasmuson Foundation use it to ensure long-term cash flow.

While these groups use the money for various purposes, the state would use its income stream for state services, to be determined year to year by the Legislature. Legislators would never be able to spend more than the percentage allowed by the constitution. Generally that number is between 4.5 percent and 5 percent of the total endowment. The cash flow would be slightly up in good market years, and slightly down in bear markets, but would not dramatically vary.

To summarize, the proposed new idea would:

- Place oil tax revenue earned from the severance tax passed last year in a reconstituted CBR.
- Allow only 5 percent of the earnings to be spent annually.
- Generate a sustainable source of money to fund government as oil production declines.

This idea (HJR 28) is sound long-term economic policy for Alaska.

Rep. Ralph Samuels, R-Anchorage, is the House Majority Leader. Rep. Beth Kerttula, D-Juneau, is the House Minority Leader.

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From: John Dittrich [mailto: johndittrich@arcticstructures.com]
Sent: Monday, March 10, 2008 7:49 AM
To: Rep. Ralph Samuels; Rep. Kevin Meyer; Rep. Mike Hawker; Rep. John Harris;
senator_john_cowdery@legis.state.ak; Sen. Lyda Green
Subject: HJR28

Representatives and Senators,

I am in full support of HJR28. This is the exact type of legislation we need to keep the State's fiscal house in order and balanced. My only hope is that you will find the strength in your conviction to do the same with the Permanent Fund. I believe we ought to take HJR28 a step further and allocate a portion of PF earnings to the fund as well while at the same time capping the dividend.

Establishing controlled state spending is critical. I harken back to days gone by when certain legislators were trying to implement a "forward funding" model to allow us to only spend that money which we have actually received. I believe that we can accomplish a portion of this through HJR28 but it can be further enhanced by reducing the fund that is used to simply give cash to Alaskans and diverting these proceeds to fund the government.

I would like to see a version of these concepts along with a POMV approach and to solidify the deal I think we should steal a page from the old Mackie plan. My thought is that we institute a cap of the PF at \$2,500 which should be computed in future periods on a POMV concept with the excess earnings going into the HJR28 fund to provide us future fiscal certainty for generations to come.

The Mackie Plan concept comes in by drafting a bill that does just that but for the coming year pays out a 2008 PF divided of \$2,500. This is a one time shot only and then future years are calculated based on the POMV formula (or similar). You get the residents to vote for the big one-time payout while at the same time permanently capping the amount we all get. No guarantees that future years will be this big but we know they will never be bigger. The excess earnings are deposited into the new HJR28 fund and available for all Alaskans to fund the future of our state - the exact thing the PF was designed to do but not seemingly going to happen.

Thanks for listening - keep up the good work.

John Dittrich
9024 Snowy Owl Circle
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Cindy Smith

From: Linda Hay
Sent: Thursday, April 03, 2008 4:49 PM
To: Cindy Smith
Subject: HJR 28
Attachments: CBR draws.xls; CBRF Cash Flow Borrowing.doc

Cindy - I am sending this on to you so that it may be distributed to your committee members. This is an email exchange that I had with Deputy Commissioner Brian Andrews from Revenue. Attached are two attachments which also pertain to this topic. This was a concern that the department expressed when they came to talk to Rep. Samuels on HJR 28. I expect they will bring this up in committee tomorrow. Let me know if you need any further details.

Linda

Linda Hay
Staff to Rep. Ralph Samuels
House Majority Leader
Alaska State Legislature
(907)465-6791 (phone)
907-465-3810 (fax)

From: Andrews, Brian C (DOR) [mailto:brian.andrews@alaska.gov]
Sent: Thursday, April 03, 2008 3:52 PM
To: Linda Hay
Subject: RE: HJR 28

Potential Debt Service payment impact: FY08 69.9 million, FY09 69.8 million
Cash Flow Borrowing (millions): Cash flow borrowing needs since FY94 have varied from a high of 1.1 Billion down to zero.
We have not needed the CBRF for cash flow needs for the past three years.

Best Regards,

Brian C Andrews, CIMA
Deputy Commissioner of Revenue/Treasury

From: Linda Hay [mailto:Linda_Hay@legis.state.ak.us]
Sent: Thursday, April 03, 2008 2:30 PM
To: Andrews, Brian C (DOR)
Subject: RE: HJR 28

Hi Brian - Do you have any update on this?

Thanks

Linda

4/3/2008

Linda Hay
Staff to Rep. Ralph Samuels
House Majority Leader
Alaska State Legislature
(907)465-6791 (phone)
907-465-3810 (fax)

From: Andrews, Brian C (DOR) [mailto:brian.andrews@alaska.gov]
Sent: Wednesday, April 02, 2008 9:13 AM
To: Linda Hay
Subject: RE: HJR 28

We are working up the details I will have specifics by tomorrow.

Best Regards,

Brian C Andrews, CIMA
Deputy Commissioner of Revenue/Treasury

From: Linda Hay [mailto:Linda_Hay@legis.state.ak.us]
Sent: Wednesday, April 02, 2008 8:23 AM
To: Andrews, Brian C (DOR)
Subject: HJR 28

Brian - Rep. Samuels has asked me to follow up with you on the loans that are taken from the CBR to better manage cash flow. Does this happen every year - once a year or is it more frequent and how much are you usually talking about. You also indicated that the money is paid back in a short time frame with interest (I believe you mentioned 6 months???). Any more details that you can give us on this aspect would be appreciated.

Linda

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House Majority Leader
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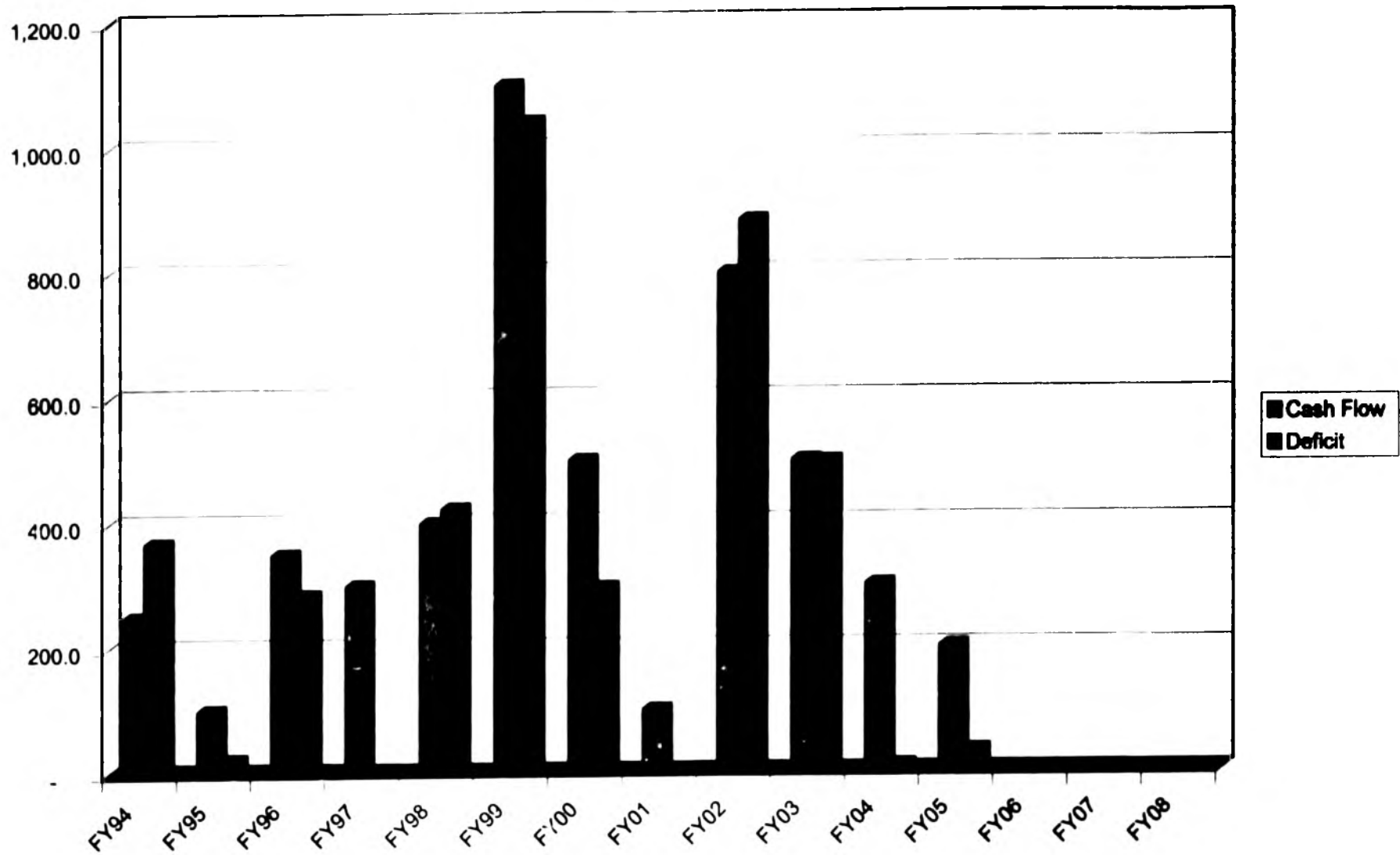
4/3/2008

CBRF Cash Flow Borrowing

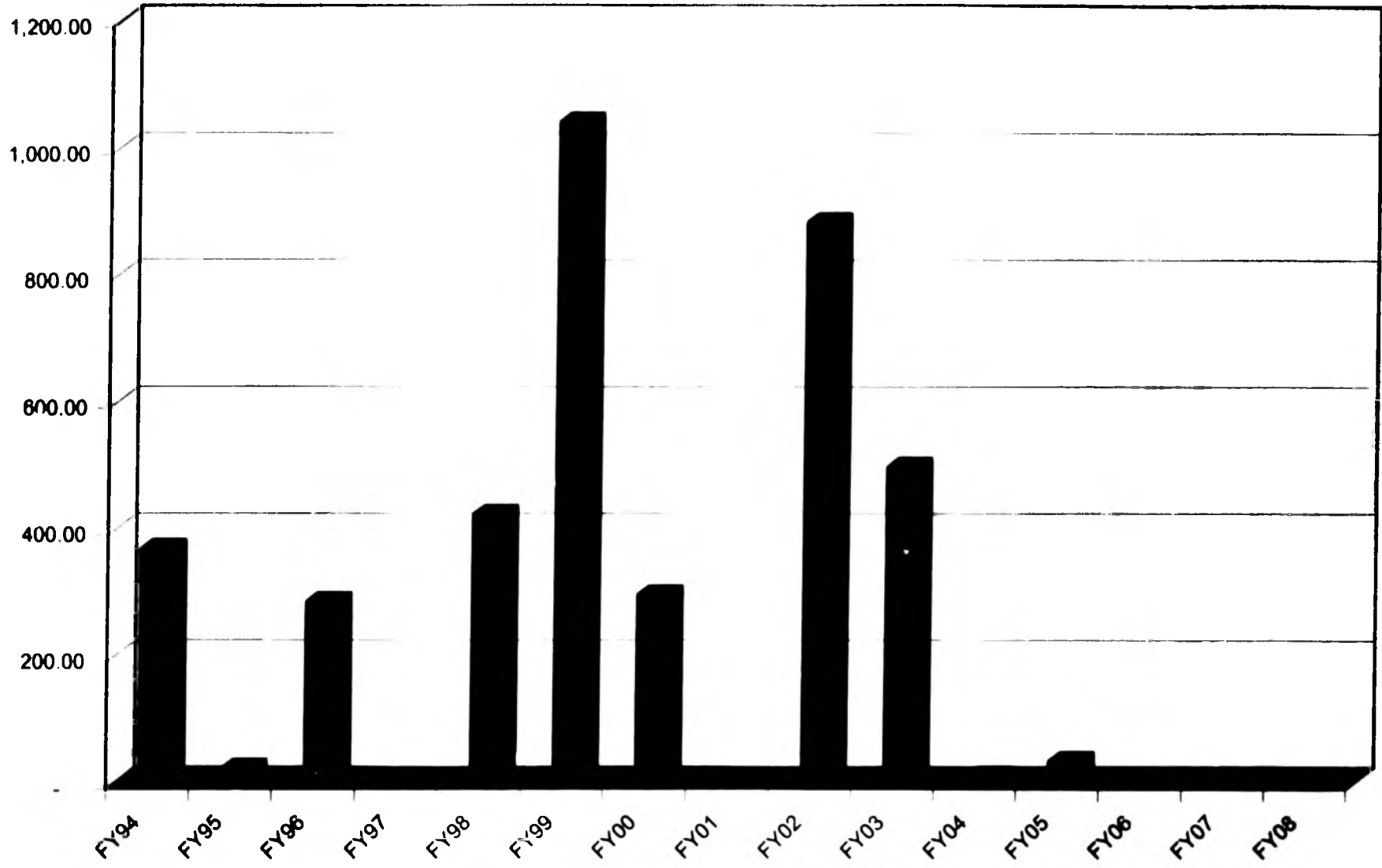
- The State's daily cash need can be greater than \$100 million in a single day.
- Borrowing occurs any time the General Fund cash balance drops below or is projected to drop below \$100 million for five days.
- Cash flow borrowing occurs due to a mismatch in timing between revenues received and disbursements out.
- Revenues tend to flow in at a consistent rate throughout the year, with peak periods at the end of each month, quarter and fiscal year.
- Disbursements are more cyclical with high and low periods throughout the year. The first quarter disbursements of each fiscal year are generally higher than receipts for the same period.
- Cash flow borrowing is required even in years with balanced budgets. For FY97, '01, '04 and '05 the following amounts were borrowed for cash flow and fully repaid within the fiscal year:
 - FY97 - \$300
 - FY01 - \$100
 - FY04 - \$300
 - FY05 - \$200
- Following are the Cash Flow Borrowing and Deficit Borrowing totals by year (in millions):

	Cash Flow	Deficit
FY94	250.0	368.60
FY95	100.0	22.40
FY96	350.0	284.90
FY97	300.0	-
FY98	400.0	423.30
FY99	1,100.0	1,042.00
FY00	500.0	295.90
FY01	100.0	-
FY02	800.0	884.30
FY03	500.0	498.10
FY04	300.0	11.00
FY05	200.0	34.00
FY06	-	-
FY07	-	-
FY08	-	-
	\$ 4,900	\$ 3,865

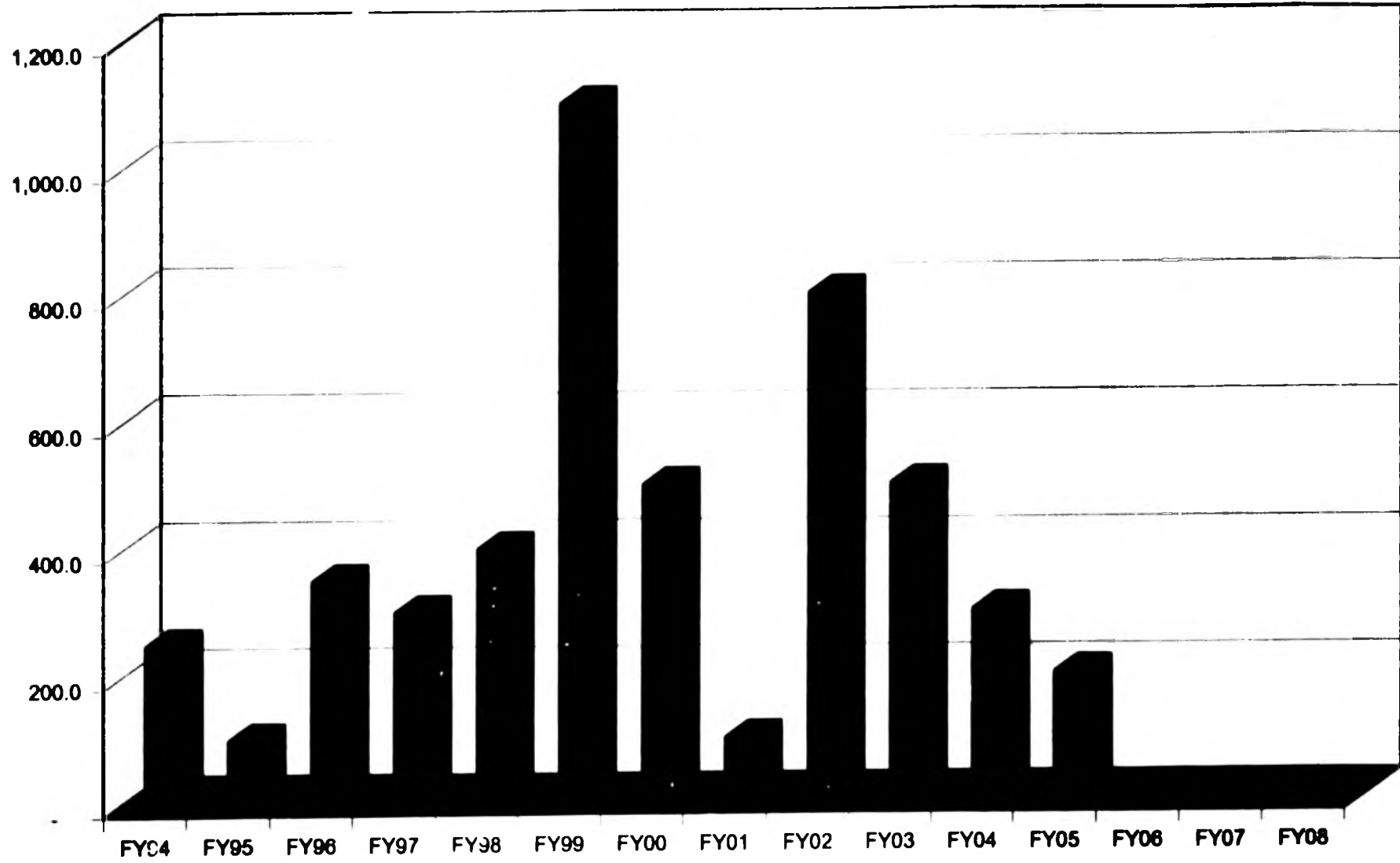
Cash Flow Borrowing and Deficit Borrowing (In thousands)



**Deficit Borrowing
(in thousands)**



**Cash Flow Borrowing
(in thousands)**



CBRF

	Cash Flow Borrowing		Deficit Borrowing
FY94	250.0	FY94	368.60
FY95	100.0	FY95	22.40
FY96	350.0	FY96	284.90
FY97	300.0	FY97	-
FY98	400.0	FY98	423.30
FY99	1,100.0	FY99	1,042.00
FY00	500.0	FY00	295.90
FY01	100.0	FY01	-
FY02	800.0	FY02	884.30
FY03	500.0	FY03	498.10
FY04	300.0	FY04	11.00
FY05	200.0	FY05	34.00
FY06	-	FY06	-
FY07	-	FY07	-
FY08	-	FY08	-
	\$ 4,900		\$ 3,865

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	\$ 4,900	\$ 3,865

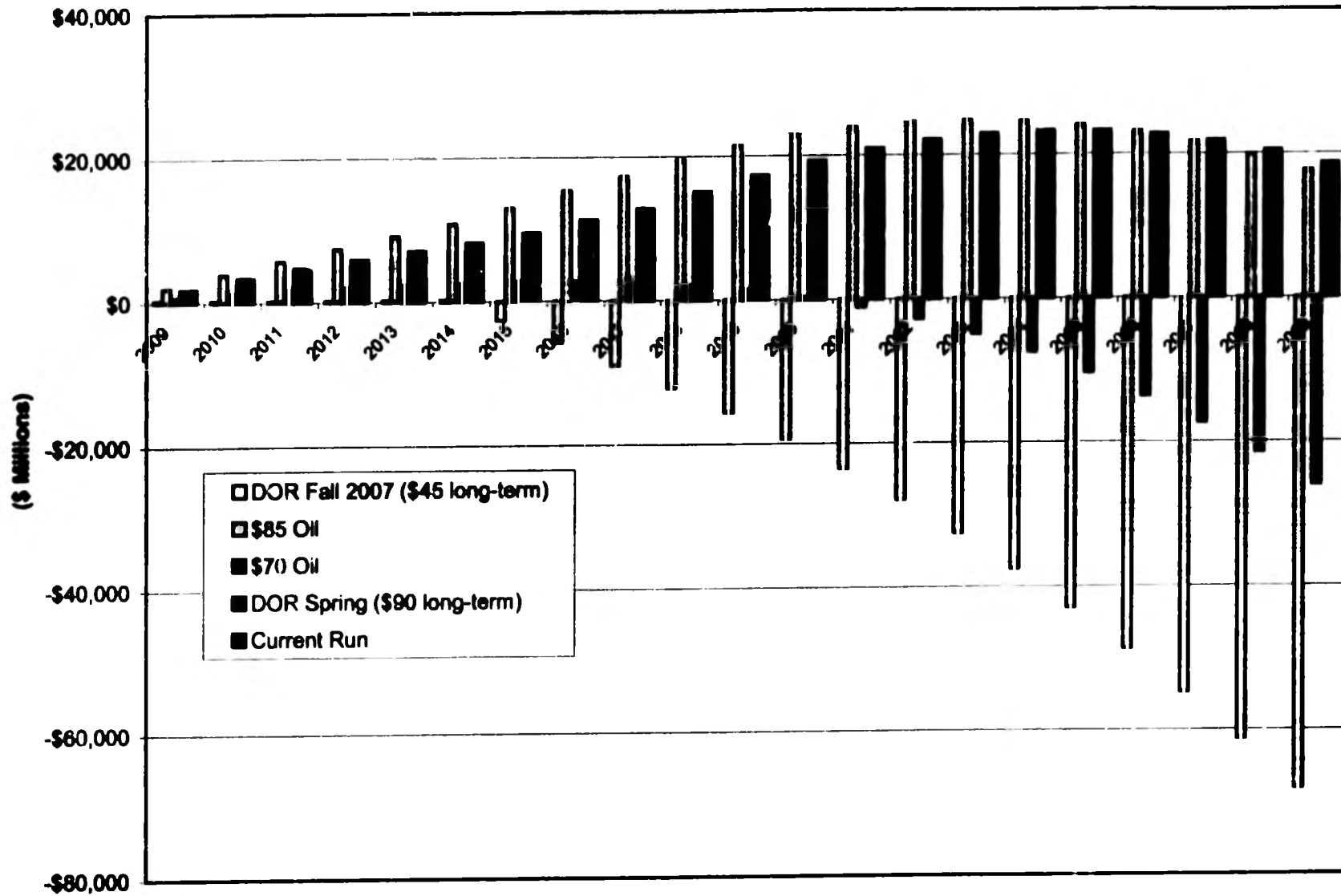
Source:

FY94-FY01 CAFR

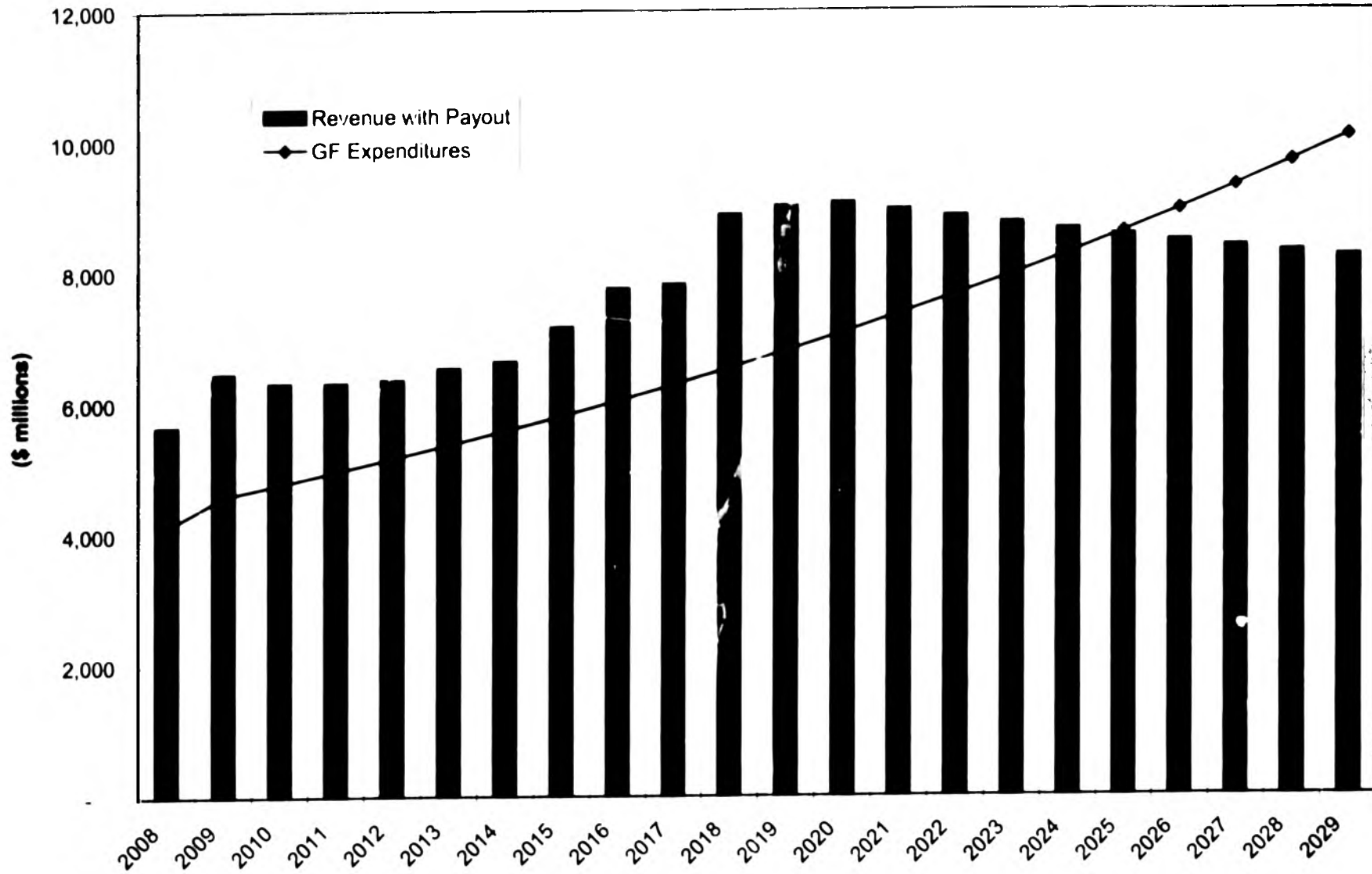
FY02-FY06 Available Balance in CBR - http://fin.admin.state.ak.us/dof/financial_reports/resource/cbr_

Reserves Outside the CBRF under HJR 28

(Fixed Forecasts use 4% GF Annual Expenditure Growth and 2% Annual Production Decline after 2020)



**Projected GF Revenue and Expenditures under HJR28
(at Current Set of Assumptions)**



ANS Historical Production Forecasts and Realized Production

Forecast Term	Est. Prod for current year	Est. Prod. For +1 yr.	Est. Prod. For +2 yr.	Actual Prod.*
2000	1.032	1.03	1.002	1.0354
2001	0.9955	1.0686	n/a	0.991
2002	1.011	1.053	1.097	1.003
2003	0.994	0.993	0.992	0.991
2004	0.985	0.98	0.98	0.98
2005	0.92	0.91	0.91	0.917
2006	0.853	0.825	0.803	0.845
2007	0.74	0.764	n/a	0.74

Production estimates and realized production are for Alaska North Slope only, as reported in the Spring Revenue Sources production forecast.

* Realized production as reported the following year