

HJR

8

Alaska State Legislature

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Member

House Finance Committee

Representative Mike Kelly

House District 7

HJR 8

"An Act proposing amendments to the Constitution of the State of Alaska limiting appropriations from certain mineral revenue, relating to the balanced budget account, and relating to an appropriation limit."

The largest contributor to our state's unrestricted revenue is also the most volatile component. 85-90 percent of unrestricted revenues for FY '07 through FY'10 will come from oil. Since 1988 Alaska North Slope crude oil production has declined by 64% - from over 2 million barrels per day to under 720 thousand barrels per day. During that same period of time the market price of oil has increased sixfold. We have gone from a significant deficit in FY '03, a \$500 million draw on the CBR, to a significant surplus in FY '06 of over \$1 billion, back to a projected deficit in FY '09. This makes rational budgeting nearly impossible. HJR 8 provides an appropriation smoothing and limiting mechanism applicable to the wildly fluctuating portion of the budget that is oil revenue.

In recognition of the difficulty in building and balancing our budget in a responsible manner when the price of oil fluctuates, HJR 8 forces the legislature to incorporate its oil revenues into the budget in any given fiscal year on a five-year rolling average, (4 years back and 1 year forward). This averaging would act as a "dampener" to prevent spending sprees when oil prices are high and crashes when oil prices are low.

HJR 8 also establishes a "Balanced Budget Account" in the State Treasury. Any oil and other mineral revenue received by the state in excess of the 5-year average amount referenced above would be deposited into the Balanced Budget Account. This account would not be subject to the Constitutional Budget Reserve sweep, but would be limited to a maximum amount that is equal to the oil and other mineral revenue appropriations for the current fiscal year, plus the immediate preceding fiscal year. Any excess amount would be transferred to the Constitutional Budget Reserve.

This resolution would also provide for transfer of funds from the Balanced Budget Account into appropriations during years when actual revenue from oil and other minerals falls below the 5-year average. In lean years, the legislature may with a majority vote transfer funds from the Balanced Budget Account necessary to fill the "gap" between the revenue available and the 5-year average. If the legislature requires appropriations above what the 5-year average permits, it may choose to live within its means or seek funds from other sources of revenue including the CBR.

HJR 8 could end the constant search by the legislature for rat holes in which to stash excess revenues so they can access those funds to balance the budget in the following years, without having to buy the $\frac{3}{4}$ vote to get funds from the Constitutional Budget Reserve. The resolution also avoids "sacred cows" by having no effect on the permanent fund corpus or the earnings of the Permanent Fund, the Amerada Hess Account or the Permanent Fund Dividend.

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HJR8
 () Publish Date: _____

Identifier (file name): HJR008OOG-DOE-2-3-10
 Title: Constitutional amendment limiting appropriations
from certain mineral revenue, relating to balanced budget....
 Sponsor: Representatives Kelly, Lynn, Johnson
 Requester: House State Affairs Committee
 Dept. Affected: OOG
 RDU: Elections
 Component: Elections
 Component Number: 21

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES								
Personal Services								
Travel								
Contractual		1.5						
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING		0.0	1.5	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES								
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CHANGE IN REVENUES ()								
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF		1.5						
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
TOTAL		0.0	1.5	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: _____

POSITIONS

Full-time								
Part-time								
Temporary								

ANALYSIS: (Attach a separate page if necessary)

The passage of this resolution would require the constitutional amendment to appear on the 2010 general election ballot. The cost of providing information about the constitutional amendment in the Official Election Pamphlet, as required by AS 15.58 is \$1.5. Should the addition of this question require printing an 8-1/2 by 18 inch ballot, the cost will increase to \$22.0.

Prepared by: Gail Fenumial, Director
 Division: Division of Elections
 Approved by: Linda Perez, Director
Division of Administrative Services

Phone 465-4611
 Date/Time 2/3/10, 9:22am
 Date 2/3/2010

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Questions & Answers for HJR 8 in House State Affairs Committee

Tuesday, April 7, 2009

Question: Where did the definition of "mineral revenue" come from on page 1, lines 8-10 of the resolution?

Answer: Article 9, Section 15 of the Alaska Constitution, which says: "At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, etc..."

Mineral production refers to the State's production tax (ACES) on oil. Mineral Transportation refers to the State's tariff on transporting oil through the Trans-Alaska Pipeline System. This section would apply to a potential gasoline as well.

Question: Has the Constitutional Budget Reserve been repaid?

Answer: According to the Comprehensive Annual Financial Report of the State of Alaska, the remaining indebtedness to the CBR is \$150 million and change. In FY08 the legislature appropriated \$3 billion from the general fund to the CBR. Additionally, at the end of FY08 over \$2 billion was swept from a variety of GF sub-funds and accounts, and transferred to the CBR.

Question: Can we include fish receipts and tourism in the 5-year appropriation limit?

Answer: Yes we can, but the state receives minimal revenue from these sources when compared to mineral revenue. For example, total unrestricted income from Fish Taxes was \$22.4 and \$22.6 million in FY07 and FY08. If these receipts were included in HJR 8, they would represent ½ a percent of total revenue in FY07 and even less in FY08. The Fall 2008 Revenue Sources book includes other restricted revenue from fish receipts, but because they are restricted they should not be included in the HJR 8 model.

Total unrestricted income from tourism includes: \$9 million from the Car Rental Tax, \$12.3 million from the Cruise Corporate Income Tax, \$3.5 million from the Tourism Corporate Income Tax, and \$6.7 million from the Cruise Gaming Tax. Total unrestricted revenue from tourism in FY08 was \$31.5 million. These funds represent a 1/3 of a percent of total revenue for FY08. The Fall 2008 Revenue Sources book includes other restricted revenue from tourism, but because they are restricted they should not be included in the HJR 8 model.

Question: Can we calculate a 3-year Average, deleting the high extreme and the low extreme?

Answer: Yes. (See Attached)



FOR IMMEDIATE RELEASE

PRESS RELEASE

KELLY'S FISCAL PLAN CONST. AMEN. MOVES FROM COMMITTEE ***HJR 8 will base State spending on 5-year oil revenue average***

Tuesday, April 07, 2009, Juneau, Alaska – The House State Affairs Committee moved House Joint Resolution (HJR) 8 out of committee today. The resolution, sponsored by Rep. Mike Kelly, R-Fairbanks, would place before voters a constitutional amendment limiting State spending appropriations. The resolution bases State spending on a 5-year rolling average of oil revenue. According to the State Dept. of Revenue, 90% of the total unrestricted revenue in fiscal year 2009 is attributable to oil production.

"I appreciate the House State Affairs Committee's recognition that this resolution should be moved forward and the level of discussion regarding State spending should be dialed up," Kelly said. "We've gone from a significant deficit in FY '03 to a significant surplus in FY '06, and now back to a projected deficit in FY '10. State spending chases this oil price roller coaster, making rational budgeting extremely difficult and living within our means politically unachievable."

"This resolution looks to the future, through the past," said Rep. Craig Johnson, R-Anchorage, who co-sponsored the bill. "This is the first time I've ever heard a discussion of how we allocate our dollars in a finite world. Instead, the discussion has always been 'well, we'll just go get more from someplace else then.' This bill has brought more discussion on financial decisions than I have heard on any finance committee, sub-committee or anywhere else."

"This resolution takes money off the table in high revenue years and saves it for years when revenue is low," said House State Affairs Committee Chair Bob Lynn, R-Anchorage, who also co-sponsored the bill. "This is an appropriate discussion for the legislature to have in light of the doubling in State spending over the past 5 years. I support moving this bill along and encouraging my colleagues to consider how we allocate our resources."

HJR 8 now moves to the Judiciary Committee and Finance Committee.

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To contact Rep. Kelly, please call 1-907-465-6978.

Rep. Mike Kelly introduces state finance plan

Published Thursday, January 29, 2009

JUNEAU — Rep. Mike Kelly has introduced a plan to stabilize the state's finances by evening out the steep peaks and valleys of the "oil price roller coaster."

The Fairbanks Republican this week introduced House Joint Resolution 8, which, if approved by the Legislature, would ask voters to amend the Alaska constitution to require the state to base spending on a five-year average of oil and other minerals revenue.

That, Kelly said, would limit state spending and restore some financial stability.

"This government seems to have a ratchet, but it's only in the up direction," he said. "We have got to live within our means, and we've got to control the seemingly endless growth in state government."

He charged that state spending has doubled since 2005, when he entered the Legislature, and roughly tripled since 2000.

"If the people had to pay for that, they would be screaming bloody murder," he said.

About 90 percent of unrestricted state revenue in fiscal year 2009 came from oil production.

Kelly's plan calls for calculating state revenues on an average of the last four years and the current year and wouldn't affect the Permanent Fund. The proposal also would create a Balanced Budget Account, a short-term holding fund that could be drawn on to balance the budget at the end of each fiscal year. Any surpluses would flow into the Constitutional Budget Reserve.

The new, short-term account could help save money by eliminating steep spending in flush years and dramatic cuts in lean years, he said.

Lawmakers have to round up a three-fourths majority to tap into the CBR. That's generally done by promising money for special projects to legislators who will vote yes, Kelly said.

“If you want a billion, you’re going to pay a lot more than that to get it out,” he said.

His proposal would average revenues from all oil, natural gas and other mineral sources. At the same time, Rep. Mike Hawker, R-Anchorage, has filed a resolution for a constitutional amendment that would establish an endowment fund with natural gas revenue. Kelly said he and Hawker will discuss how the two plans could dovetail.

Sen. Joe Thomas, D-Fairbanks, agreed the state needs a long-term fiscal plan, but he has some initial concerns about Kelly’s proposal. He sits on the Senate Finance Committee.

He would like a look at scenarios of how a five-year average would have affected revenue and spending during the last several years.

An average could still pack some wallops when years with major movement, such as 2008 with \$140 per barrel oil, factor in. He cautioned against the possibility of “economic whiplash.”

And, Thomas noted, while a five-year average could smooth some ups and downs, less revenue could lead to cuts to some state services that are as essential in lean times as in boom years.

Kelly’s resolution was referred to the House state affairs, judicial and finance committees.

If the resolution passes the Legislature, he doesn’t expect too much trouble convincing voters to make the amendment.

“I think this is something that the public understands clearly the need for,” he said. “It’s about responsible budgeting.”

Rep. Mike Kelly shows some common sense: His plan has no chance.

Posted on 29 January 2009



By Dan Fagan

Like it or not, here in Alaska we live in a boom or bust economy. Alaska is known for its extremes and our economy is no different. The fluctuation in the price of oil has never been more dramatic than it was in 2008. So what's a state to do when it comes to a budget?

Republican Rep. Mike Kelly of Fairbanks has an idea. House Joint Resolution 8 sponsored by Kelly is designed to even out the up and down nature of state revenue.

The measure calls for changing the Alaska constitution requiring our big spending legislators to base budgets on a five-year of oil and other mineral revenues. It would take into account the past four years and the current year of state revenue when putting together a budget.

This plan would prevent what happened last year when the state was flush with cash and blew much of it including a massive giveaway of free cash. Rep. Kelly hopes the plan would limit state spending in boom years.

"This government seems to have a ratchet, but it's only in the up direction," Kelly told the Fairbanks News Minor. "We have got to live within our means, and we've got to control the seemingly endless growth in state government."

Kelly is on the right track. Something has to be done. In the past three years, state spending has doubled. There's no justification for that kind

of irresponsible growth. Kelly says that type of growth is only possible because Alaskans, for the most part, don't directly have to pay for state government.

"If the people had to pay for that, they would be screaming bloody murder," Kelly said.

Nine out of every ten dollars the state collects comes from the oil industry.

Rep. Kelly's plan also creates a Balanced Budget Account. Lawmakers would draw on it to balance the budget at the end of each fiscal year. Any surplus would flow into the Constitutional Budget Reserve.

Kelly hopes the new, short-term account could help save money by eliminating steep spending in flush years and dramatic cuts in lean years, he said. The truth is we do spend like drunken sailors in boom years and yet during lean years we still spend too much. Kelly's plan would at least restrict legislators from going crazy when the price of oil is high.

Does Kelly's plan have a shot? Three quarters of legislators would have to be on board so it faces an uphill battle. Democrats typically oppose any legislation that would limit government spending. And the D's seem to have firm control in the Senate with the newly formed coalition.

HJR 8

Balanced Budget Resolution
House State Affairs Committee
April 2, 2009

Representative Mike Kelly
26th Legislature

Control Spending

In 1982, voters approved an amendment to the Alaska Constitution to control state spending.

The amendment established an annual appropriation limit of \$2.5 billion plus adjustments for changes in population and inflation.

Today's Dollars

For FY 08, the Office of Management and Budget estimated the limit to be approximately:

\$7.9 billion

(Source: State of Alaska Comprehensive Financial Report
Fiscal Year Ended June 30, 2008, page 57)

FY 08 budget

The unsustainable FY 08 budget passed by the legislature after vetoes was \$5.5 billion (unrestricted General Fund revenue), or \$2.4 billion less than the 1982 constitutional spending limit.

Translation: The 1982 spending limit passed by voters is ineffective; or, we're doing a great job of controlling government growth.

Constitutional Budget Reserve Fund (CBRF)

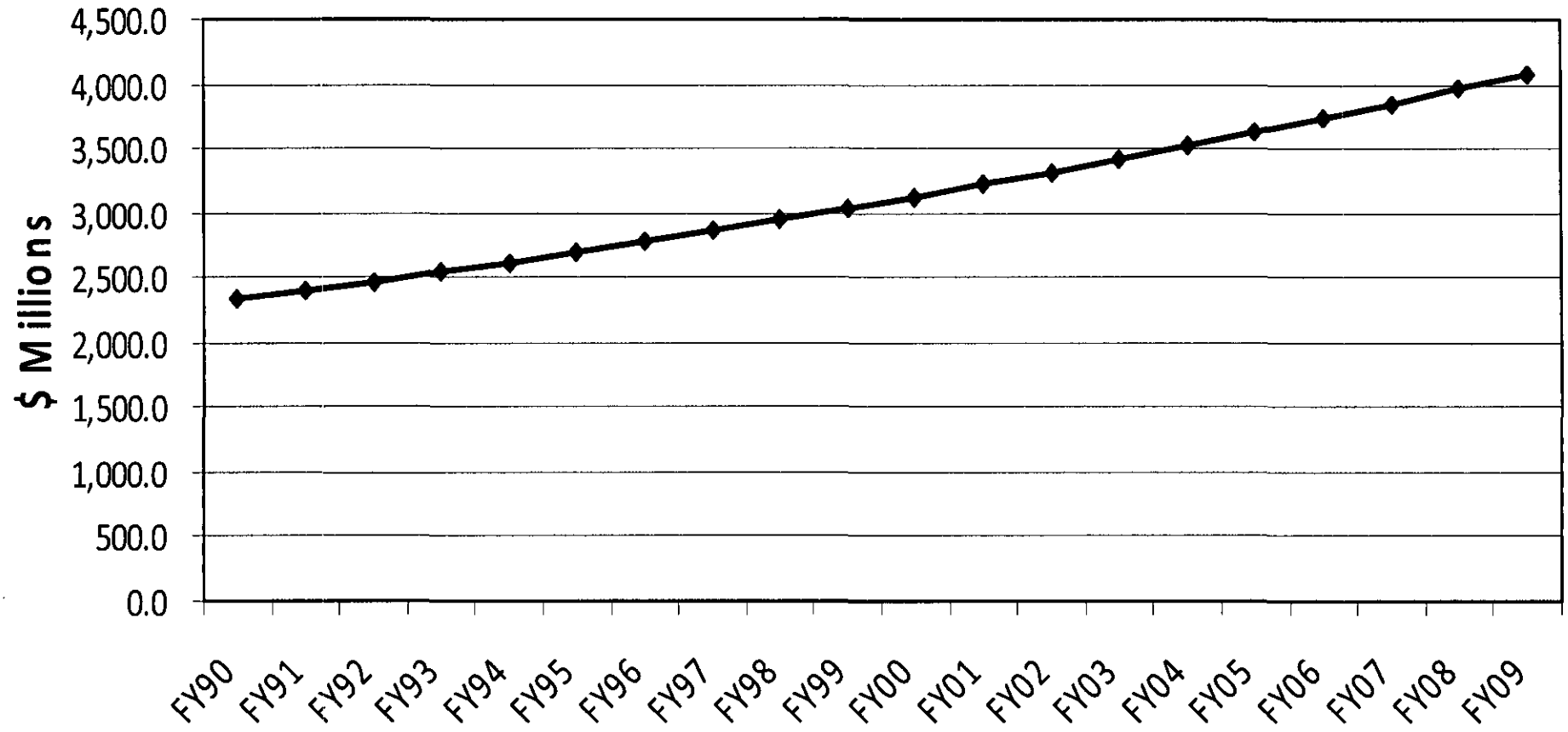
In 1990, another attempt was made by voters to impose budget stability. Voters approved a Constitutional Amendment creating the Constitutional Budget Reserve Fund (CBRF).

CBRF

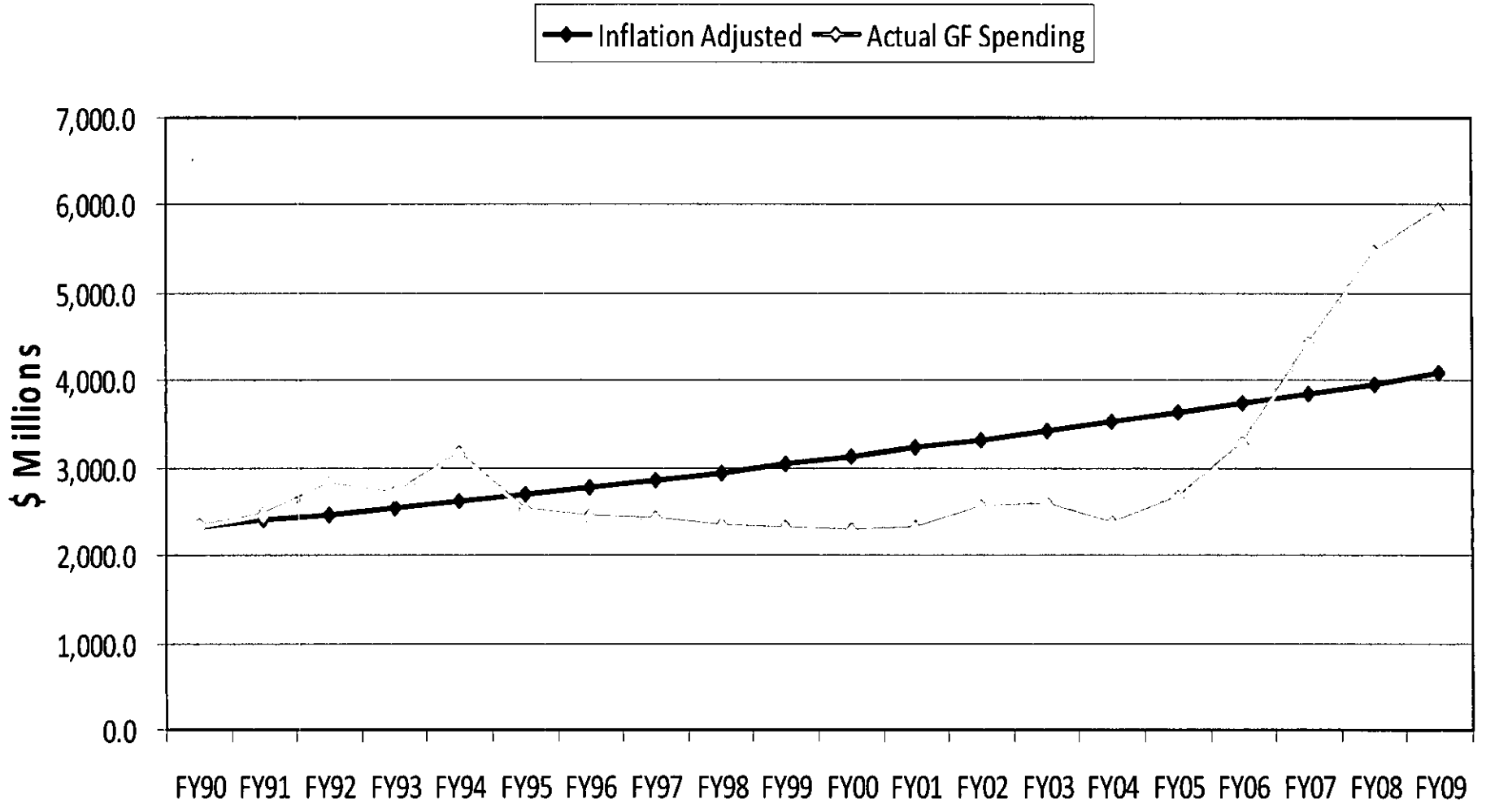
The CBRF was created to receive and protect excess revenues generated in high revenue years rather than leaving excess funds in the General Fund (where they could be easily spent). Taking money from the CBRF requires a supermajority $\frac{3}{4}$ vote, making it more difficult to tap and therefore arguably a spending controller.

State of Alaska General Fund Spending FY90 - FY09

◆ Inflation Adjusted

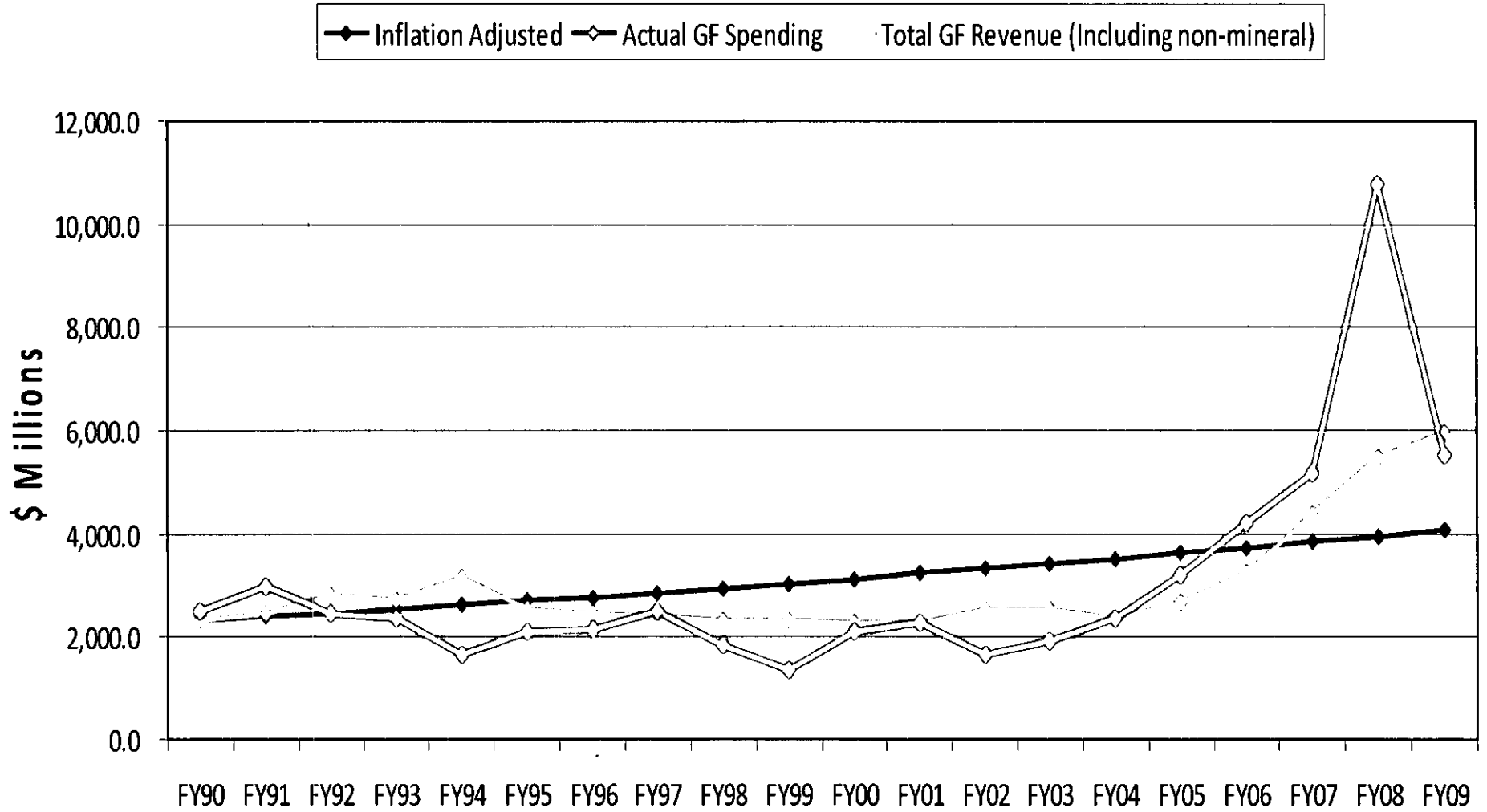


State of Alaska General Fund Spending FY90 - FY09



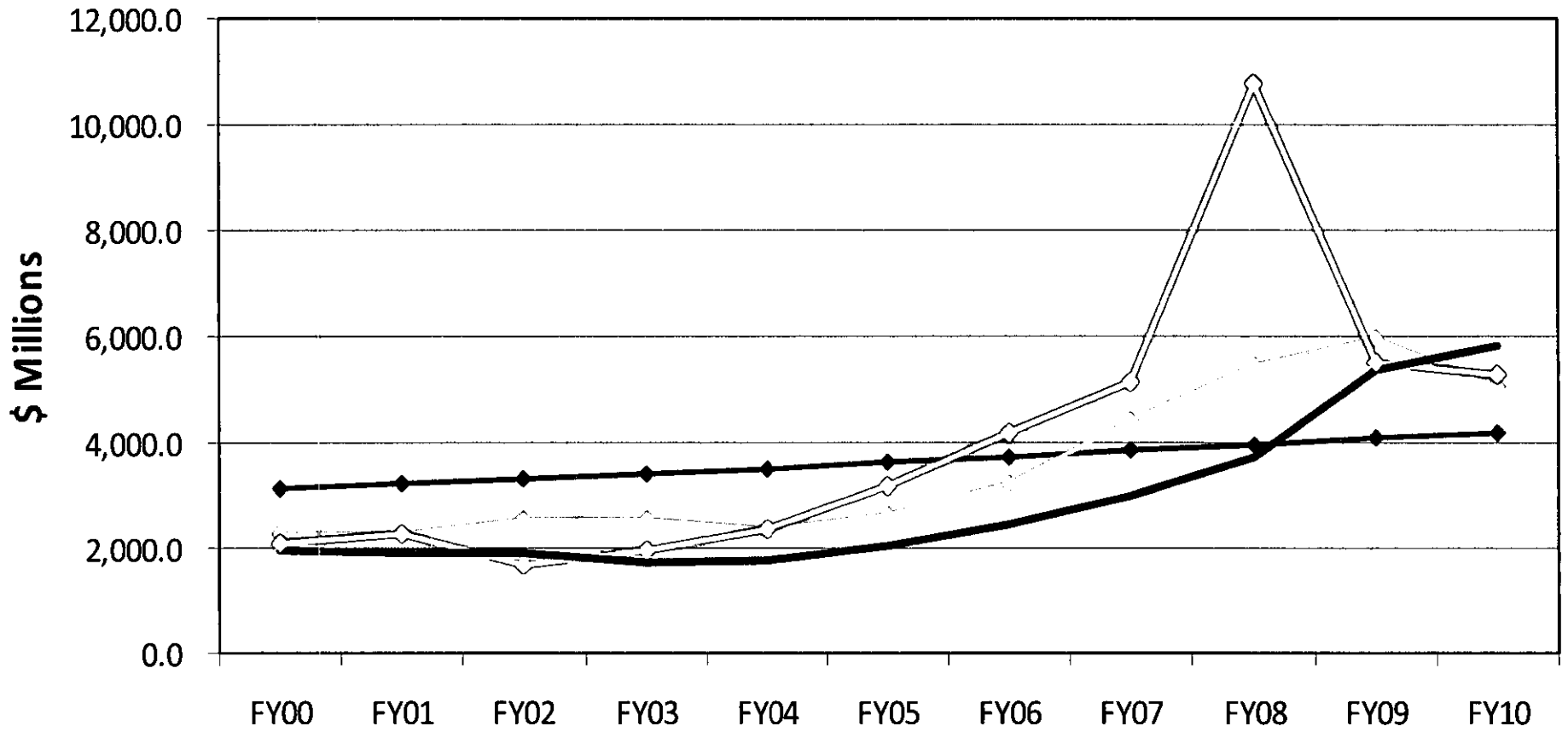
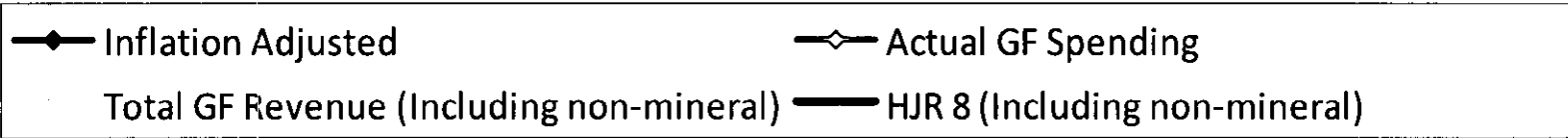
Source: Legislative Finance Division

State of Alaska General Fund Spending FY90 - FY09



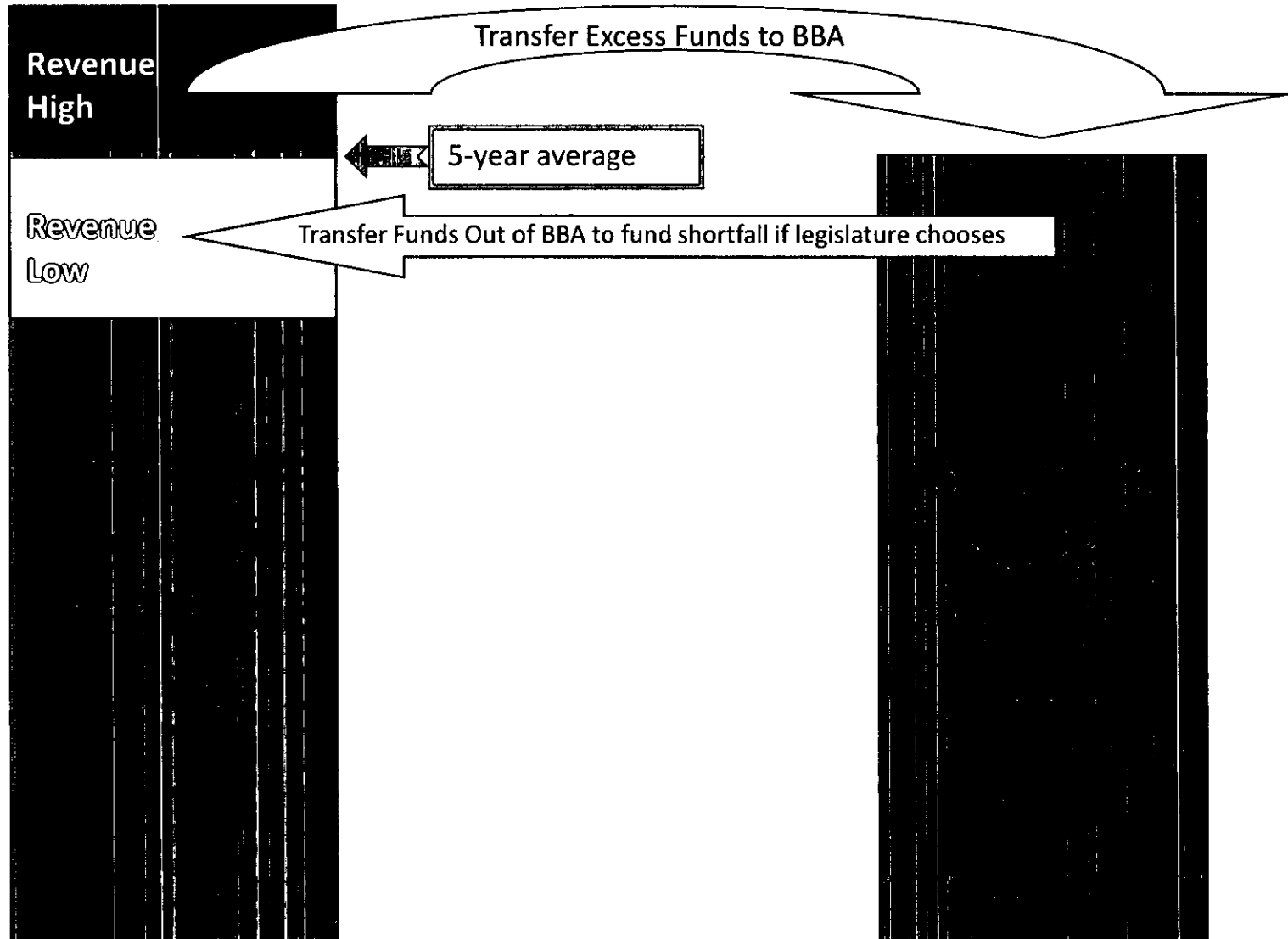
Source: Legislative Finance Division & Fall 2008 Revenue Sources Book

State of Alaska General Fund Spending FY00 - FY10



Source: Legislative Finance Division & Fall 2008 Revenue Sources Book

Basic Concept of Balanced Budget Resolution



Sacred Cows

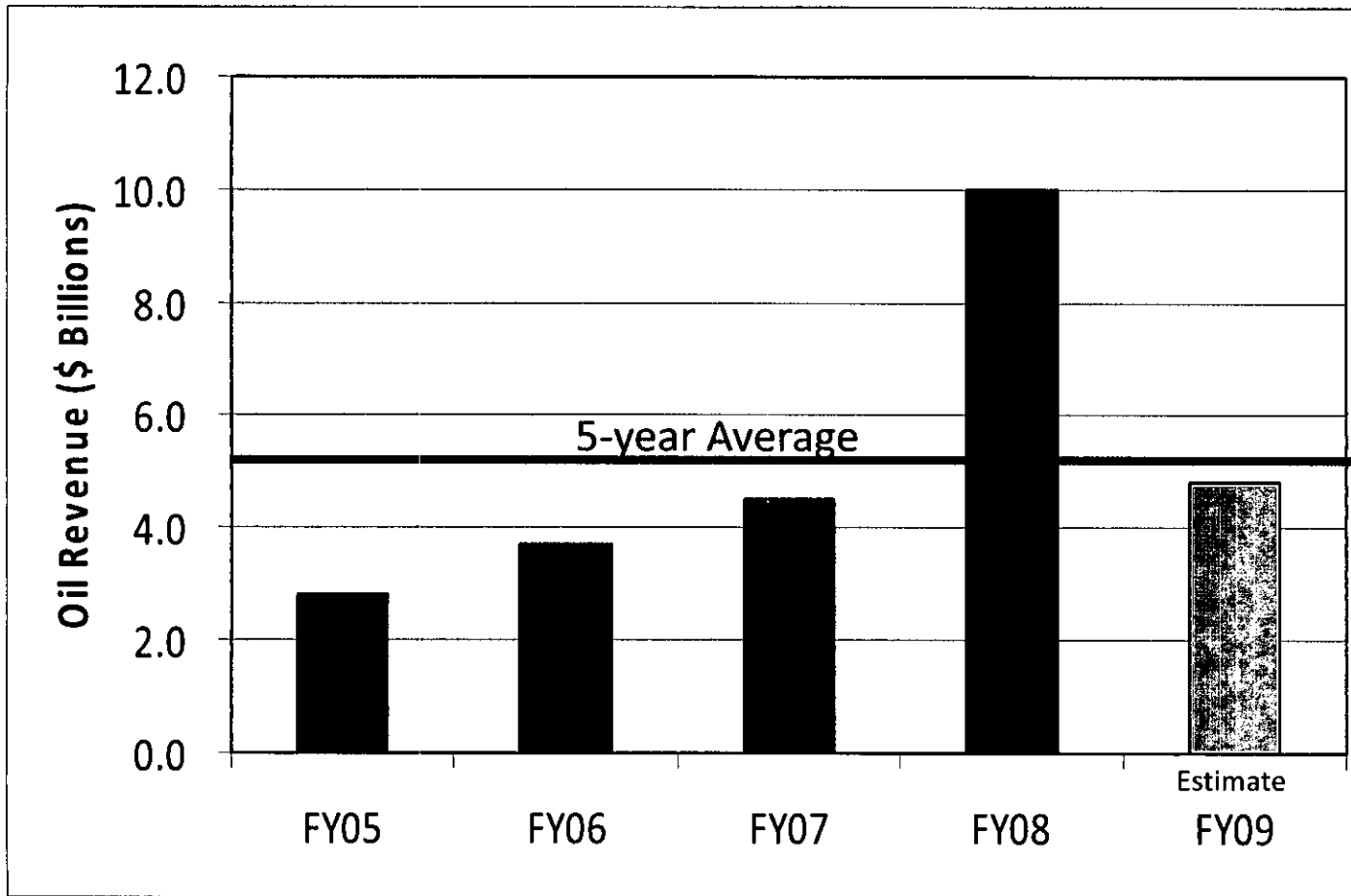
HJR 8 Does NOT touch:

- Permanent Fund Dividend
- Permanent Fund Corpus
- Permanent Fund Earnings
- Amerada Hess

CBR Sweep

The Balanced Budget Account is
NOT subject to the Constitutional
Budget Reserve sweep.

HJR 8

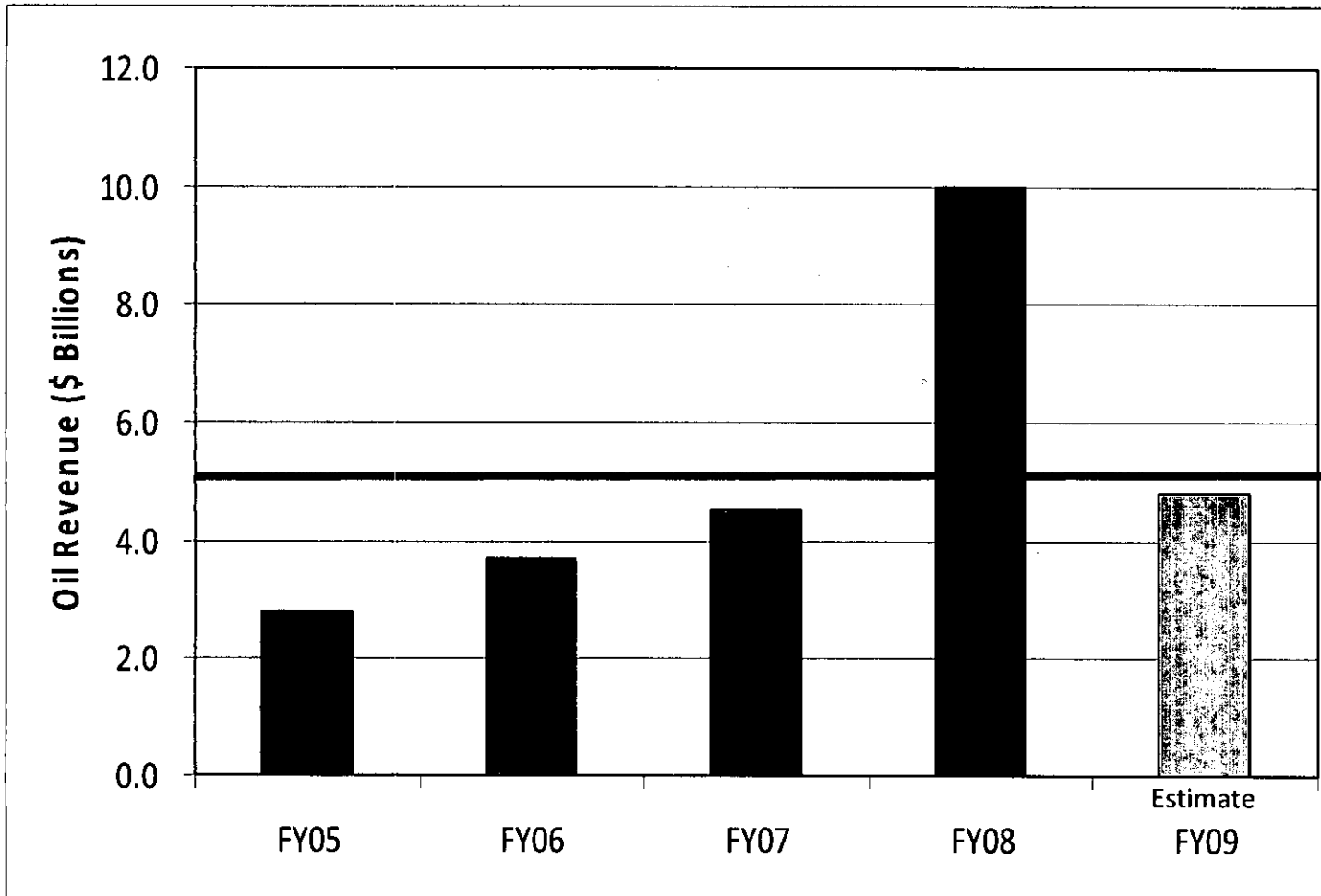


Balanced Budget Account (BBA)

- HJR 8 transfers funds into the BBA when oil prices are high and, with a simple majority vote, transfers funds out of the BBA to fill the gap when oil prices are low. When the balance of BBA exceeds 2 years of appropriations, excess will be transferred into the CBR.

Source: Fall 2008 Revenue Sources Book & Dept. of Revenue's revised 2009 Estimate (Feb. 5, 2009)

5-year Average



5-year Average Calculation:
(For '10 Budget)
 Take the Petroleum Revenue for the past 4 years, plus the Dept. of Revenue's current fiscal year projection and divide by 5.

Example:

\$ (Billions)

'05 \$ 2.8

'06 \$ 3.7

'07 \$ 4.5

'08 \$ 10.0

'09 \$ 4.8

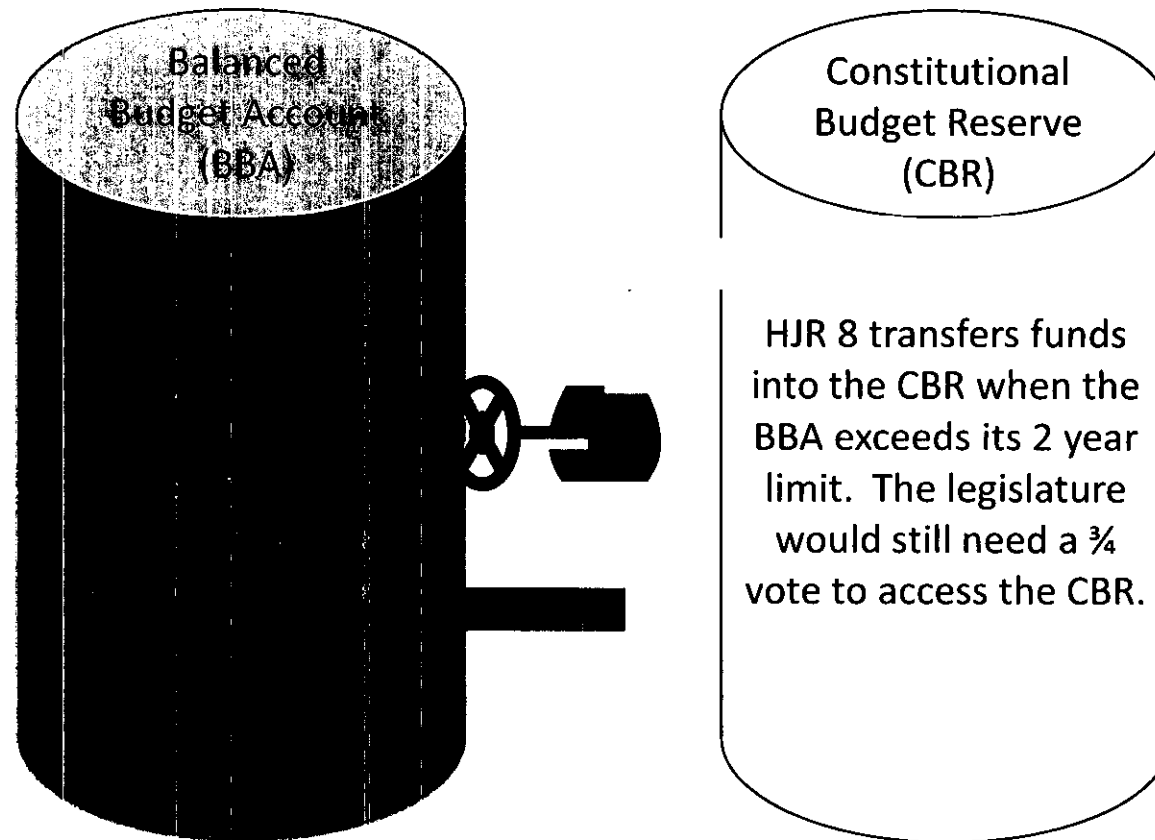
Total \$25.8

Divided by 5 =

\$ 5.2

Source: Fall 2008 Revenue Sources Book & Dept. of Revenue's revised 2009 Estimate (Feb. 5, 2009)

The BBA and CBR



Fiscal Responsibility

- Encourages a better budgeting system than “when you have it, spend it – when you don’t, cut.”
- Provides a simple but effective mechanism to help save budget surpluses and avoid deficits while encouraging government to live within its means.
- Eliminates need for complicated “rat holing” and “parking” of excess funds to avoid $\frac{3}{4}$ vote.

Why a Constitutional Amendment?

- The legislature can easily overpower, ignore or change statutory appropriation constraints.
- Let the people speak concerning this simple fiscal framework. It may be the only fiscal plan they will endorse at this time.

HJR 8 & POMV

“If the people of Alaska choose a Percent of Market Value approach to funding government using the Permanent Fund Earnings, HJR 8 would accommodate that approach.”

- Excerpts from Bradners' Alaska Legislative
Digest No. 29/07 Dec. 19, 2007:

- **Fiscal policy is more than savings and sound bites; it requires long-haul skilled political crafting.**
- Long term fiscal policy has been elusive in Alaska, especially since the beginning [of] the pipeline flow and the flow of easy money. The citizen taxpayer close scrutiny faltered and was replaced by all of us with our hands out. There are reasons why we have failed, and continue to do so.
 - **We play the budget game from the seat of our pants.**
- Lawmakers are besieged with demands to spend, especially when there is the perception or the reality as is the current case, that there is money on the table. Fiscal restraint then becomes someone else's business, or the business of tomorrow, although tomorrow brings the same appetites.
- **The same people who demand that they see a critical need in their community, or in relation to their institution or industry, will still say the Legislature "spends too much."**

