

HJR

8

HOUSE COMMITTEE REPORT

(7)

Date Referred to Committee: January 26, 2009

FURTHER REFERRALS: Judiciary
Finance

Date of Committee Action: 4-7-09

The STATE AFFAIRS Committee considered:

HOUSE JOINT RESOLUTION NO. 8

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.

HJR 8 CONST. AM: APPROP. LIMIT/MINERAL REVENUE

Recommends it be replaced with HCS or CS for _____ (_____)
For Senate Bills with new title: Technical Title New Title: HCR _____ Same Title New Title

- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

List of Abbrev for Depts:

- ADM
- CED
- COR
- CRT
- EED
- DEC
- DFG
- GOV
- DHS
- LWF
- LAW
- LEG
- MVA
- DNR
- DPS
- REV
- DOT
- UA

<u>NEW FISCAL NOTES</u>				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
00G		X		

<u>PREVIOUS FISCAL NOTES</u>				
List by Dept(s):	FN#	Fiscal	Indet.	Zero

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
<i>Craig Johnson</i>	Johnson	X			
<i>Paul Gatto</i>	Gatto			X	
<i>Paul Seaton</i>	SEATON		X		
<i>Max Gruenberg</i>	Gruenberg		✓		
<i>Gregory Wilson</i>	WILSON				✓
<i>Carl Petersen</i>	PETERSEN		X		
Chair: <i>Lynn</i>	LYNN	X			
Chair: <i>Lynn</i>					

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Member
House Finance Committee

Representative Mike Kelly *House District 7*

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 gasline 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.

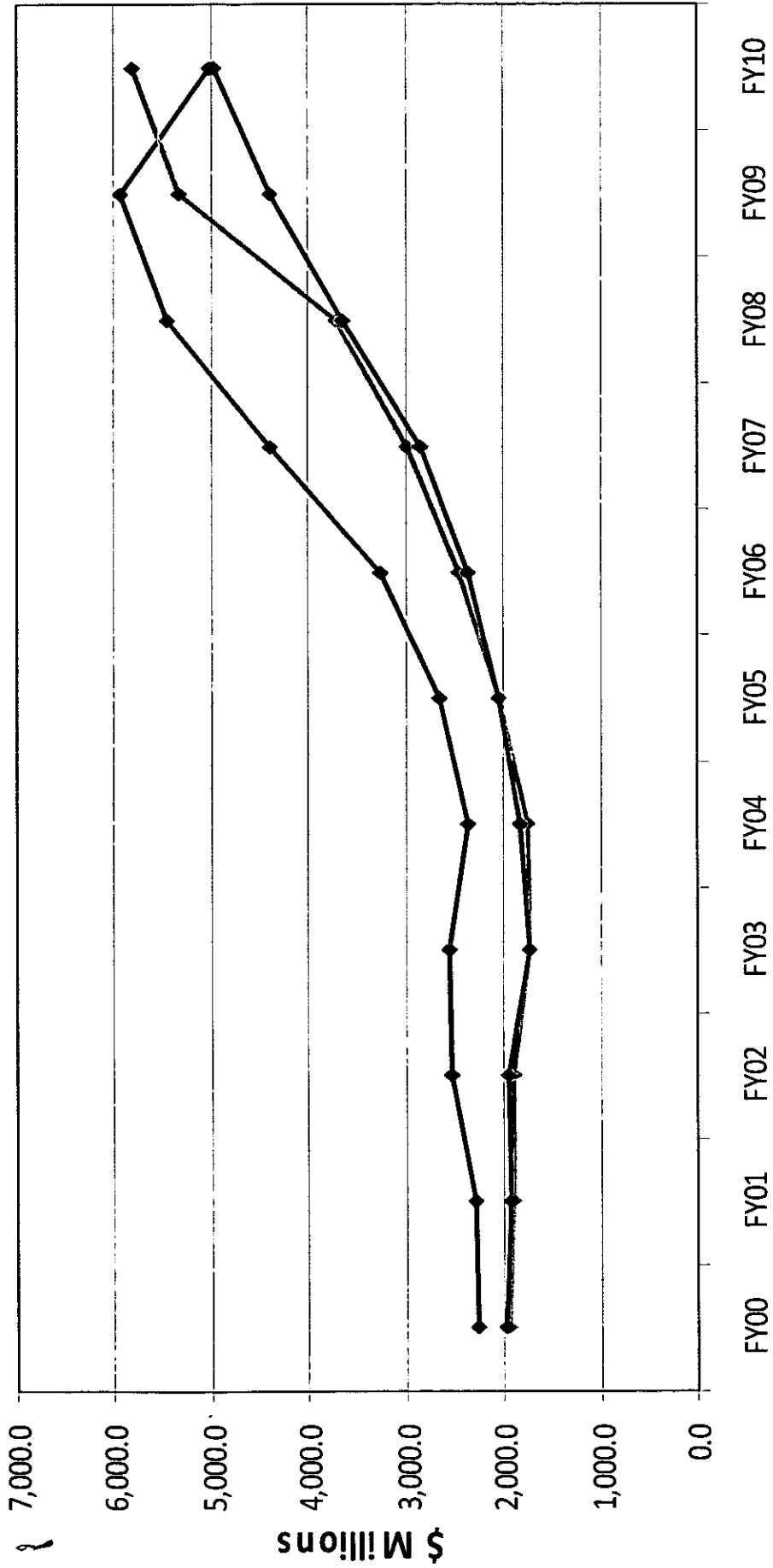
Total unrestricted income from tourism includes: \$9 million from the Car Rental Tax, \$12.3 million from the Cruise Corporate Income Tax, \$3.5 million from the Tourism Corporate Income Tax, and \$6.7 million from the Cruise Gaming Tax. Total unrestricted revenue from tourism in FY08 was \$31.5 million. 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)

State of Alaska General Fund Spending FY00 - FY10

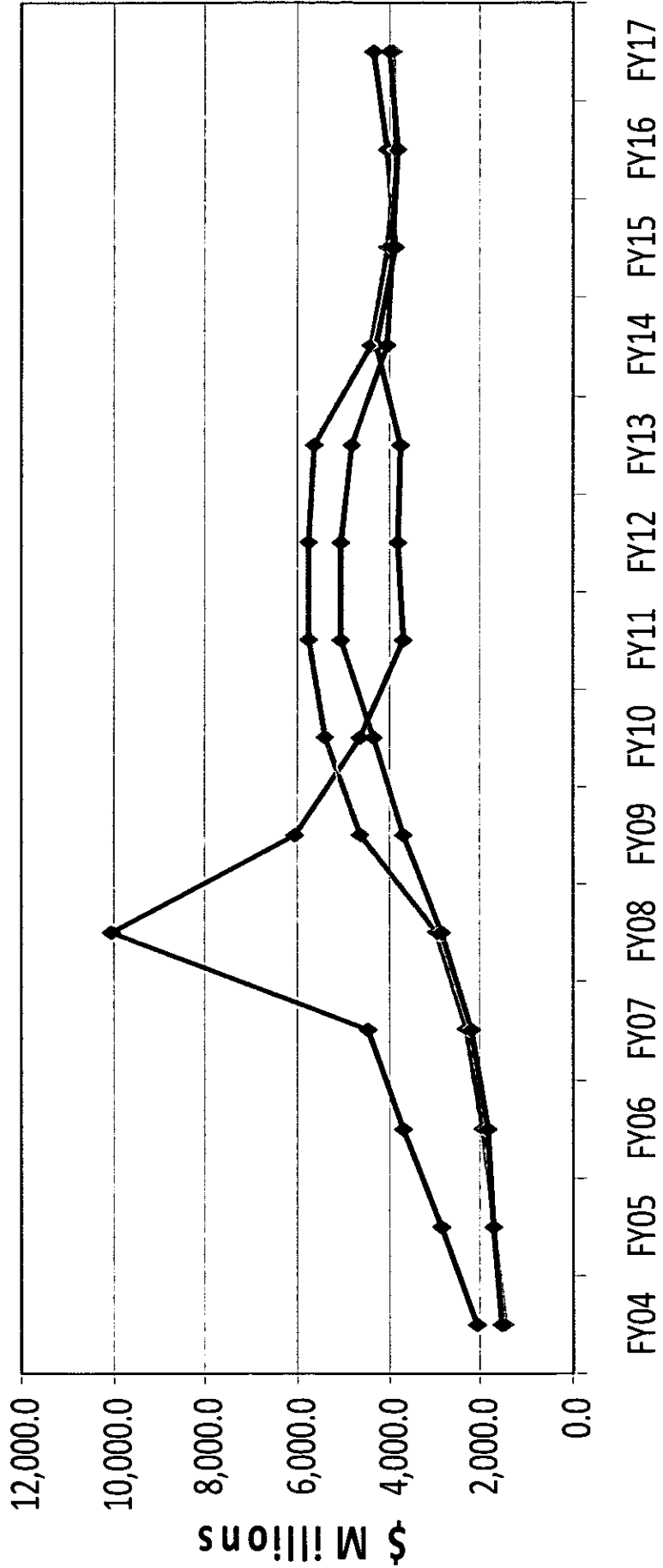
◆ Actual GF Spending ◆ 5-year Average (HJR 8 Current) ◆ 3-year Average (Taking out high & low)



Source: Fall 2008 Revenue Sources Book

5-year and 3-year Average Comparison

◆ DOR Unrestricted Mineral Revenue ◆ 5-year Average (HLR 8 Current) ◆ 3-year Average (Taking out high & low)



Source: Fall 2008 Revenue Sources Book (No big fluctuations going up and assuming decline in TAPS throughput)

MODEL HJR 8 (Millions)

	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Unrestricted Oil Revenue (Fall 2008 Revenue Resources Book)	2,054.1	2,849.6	3,699.2	4,481.4	10,012.4	6,051.4	4,626.9	3,693.5	3,803.0	3,790.9	4,266.8	3,888.1	4,036.1	4,319.5
5-year Average Appropriation Limit (HJR 8)	1,480.2	1,708.4	1,949.8	2,312.4	2,944.7	4,619.3	5,418.8	5,774.3	5,773.1	5,637.4	4,381.1	4,024.2	3,876.5	3,845.0
Difference	573.9	1,141.2	1,749.4	2,169.0	7,067.7	1,432.1	(791.9)	(2,080.8)	(1,970.1)	(1,906.5)	(1,143)	(136.1)	159.6	874.5
Deposit or Draw (BBA)														
BBA Beginning Balance	0.0	599.9	1,819.9	3,730.8	4,834.2	6,155.9	7,931.4	7,462.6	5,625.5	3,820.8	2,000.9	1,971.9	1,918.9	2,172.6
BBA Ending Balance	599.9	1,819.9	3,730.8	4,834.2	6,155.9	7,931.4	7,462.6	5,625.5	3,820.8	2,000.9	1,971.9	1,918.9	2,172.6	2,662.4
Deposit to CBR	0.0	0.0	0.0	1,274.9	6,012.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CBR Beginning Balance	2,084.0	2,184.2	2,265.6	3,822.1	10,007.7	10,460.6	10,934.0	11,428.9	11,946.2	12,486.9	13,052.0	13,642.8	14,260.2	14,905.7
CBR Ending Balance	2,184.2	2,265.6	2,547.2	3,995.1	10,460.6	10,934.0	11,428.9	11,946.2	12,486.9	13,052.0	13,642.8	14,260.2	14,905.7	15,580.3

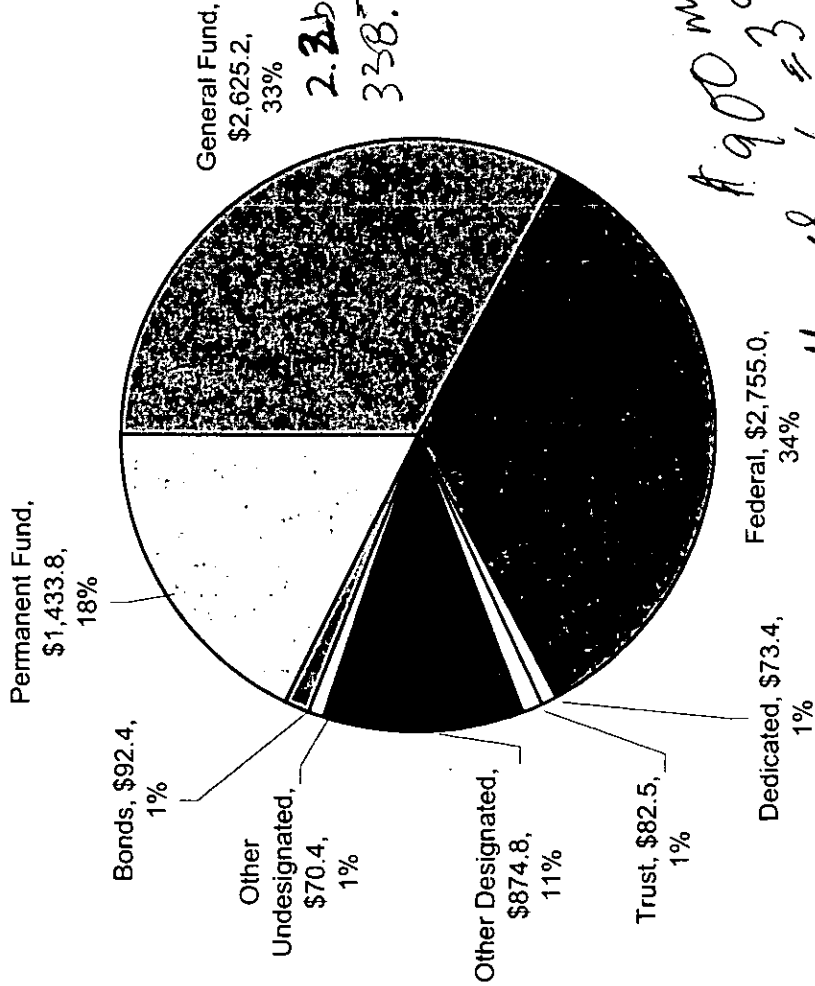
***Assumed 4.526% growth for BBA and CBR

State of Alaska Fiscal Summary

Seaton

FY06 Operating & Capital Budgets Unduplicated Appropriations by Category

(\$ millions)



Definitions of Funds

General Fund expenditures include general fund match, general fund program receipts, general fund mental health, and "pure" general fund expenditures.

Permanent Fund expenditures include inflation proofing deposits into the fund, dividends and administrative costs. They also include special deposits to the fund and use of earnings as appropriated by the legislature.

Federal expenditures include all federal funds received and spent by the State. Federal funds typically can be used only for the specific purposes for which they are received.

Dedicated expenditures as provided for in the Constitution include expenditures by the School Fund (cigarette tax), Public School Fund, Second Injury Fund, Fisherman's Fund and the Fish and Game Fund.

Trusts include the Alaska Advance College Tuition Savings Fund, the Alyeska Settlement Fund, the Mental Health Trust, the Exxon Valdez Oil Spill Restoration Fund and several funds associated with public employee retirement systems.

Other Undesignated includes all non-federal, non-general fund codes that are not designated for a specific purpose by statute.

Other Designated includes all non-federal, non-general fund codes that are designated for a specific purpose by statute.

Bonds includes proceeds of bonds for which debt service payments will not appear in future budgets.

State of Alaska Fiscal Summary

(\$ millions)

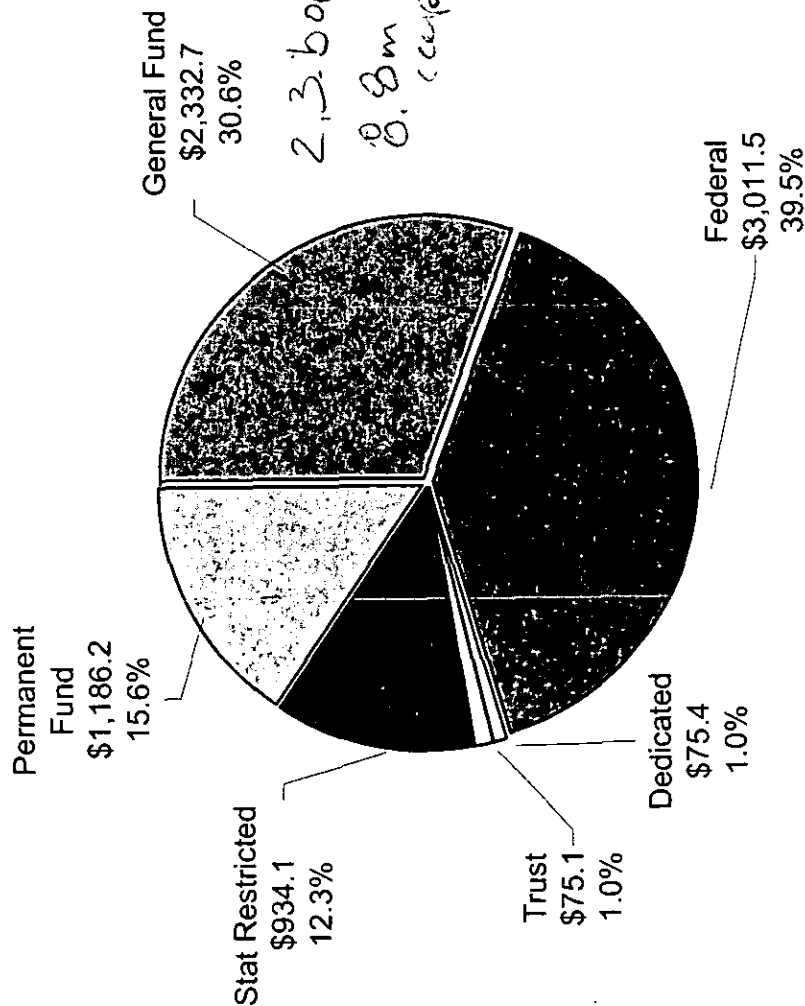
	FY05 Authorized			FY06 Budget (after vetoes)			GF Change	
	GF	Federal	Other	Total	GF	Federal		Other
REVENUE (Excludes Permanent Fund Earnings)								
1 Unrestricted General Fund Revenue (1)	2,946.9			2,946.9	2,664.0			2,664.0
2 Revised Revenue Forecast (5/18/05 \$43.46/bbl in FY05)	107.8	11.1	6.0	120.0		20.0		20.0
3 Bond Proceeds and Other Borrowing (2)			120.0	120.0		330.2		330.2
4 Corporate Dividends (3)			130.6	130.6		114.9		114.9
5 Retained Corporate Dividends (3)			(53.9)	(53.9)		(59.9)		(59.9)
6 Federal and Other Funds		3,235.3	977.1	4,212.3		851.0		3,606.0
7 Total Revenue	3,054.7	3,246.4	1,179.8	7,480.8	2,664.0	2,755.0	1,256.2	6,675.2
8								(390.7)
APPROPRIATIONS								
9 Operating	2,321.7	1,633.7	1,008.1	4,963.5	2,214.1	1,681.3	1,011.2	4,906.6
10 Agency Operations (Non-Formula) & RPLs	1,116.4	814.2	1,309.4	3,240.0	1,298.2	819.0	1,345.0	3,462.1
11 Formula Programs (4)	1,150.9	778.3	148.6	2,077.8	845.7	818.7	141.9	1,806.4
12 Debt Service	2.7	8.6	250.0	261.3	52.0	8.0	241.2	301.2
13 Fund Capitalization	51.7	32.6	27.7	112.0	18.2	35.6	15.3	69.1
14 Duplicated Authorization (5)			(727.7)	(727.7)			(732.2)	(732.2)
15 Capital	8.8	1,458.8	153.5	1,621.1	338.7	1,075.9	238.4	1,653.1
16 Project Appropriations & RPLs (Revised Programs)	7.0	1,457.4	101.4	1,565.8	332.2	1,075.9	197.8	1,606.0
17 Mental Health Projects	1.9	1.5	4.1	7.4	6.5	0.0	5.6	12.1
18 Projects Funded with Debt Proceeds			95.2	95.2	0.0	0.0	308.2	308.2
19 Duplicated Authorization (5)			(47.2)	(47.2)			(273.2)	(273.2)
20 New Legislation					11.4	(2.3)	6.6	15.7
21 Total Authorization (unduplicated)	2,330.5	3,092.5	1,161.6	6,584.6	2,564.2	2,755.0	1,256.2	6,575.4
22 Surplus (Draw From CBR)	724.2				99.8			(624.4)
23 Post-Session Activity								
24 Supplemental Operating Appropriations (6)	172.6	61.2	20.3	254.1	60.0			60.0
25 Capitalization of the Public Education Fund (4)	414.2	0.0	0.0	414.2				
26 Supplemental Capital Appropriations	128.8	92.6	74.3	295.7				
27 Duplicated Authorization (5)			(76.3)	(76.3)				
28 Total Authorization	3,046.1	3,246.4	1,179.8	7,472.2	2,624.2	2,755.0	1,256.2	6,635.4
29 Revised Surplus (Draw From CBR)	8.6				39.8			(421.9)
30 Permanent Fund Dividends			607.0	607.0			690.0	690.0
31 Permanent Fund Inflation Proofing			640.0	640.0			651.0	651.0
32 Capital Income Fund			20.0	20.0			30.0	30.0
33 TOTAL WITH PERMANENT FUND	3,046.1	3,246.4	2,446.8	8,739.2	2,624.2	2,755.0	2,627.2	8,006.4
34								

Notes:

- (1) Revenue assumptions are from the Spring 2005 Revenue Sources Book. The oil forecast is \$41.75 per barrel and .920 million barrels per day in FY05 and \$38.60 per barrel and .911 mbd in FY06.
- (2) Money borrowed for FY05 projects includes \$45 million in AHFC bonds and \$50.1 million in ASLC bonds and \$50.1 million in ASLC bonds and \$20 million in line of credit. \$138 million in Airport bonds, \$20.4 million in COPs, \$85 million in ASLC bonds and \$20 million in line of credit.
- (3) Corporate dividends include funds made available to the State by the boards of AHFC, AIDEA, and ASLC. Dividends retained by AHFC for debt service on state capital project bonds are subtracted.
- (4) FY06 appropriations for formula programs excludes the \$414 million FY05 capitalization of the Public Education Fund (line 26) that will be used for K-12 education in FY06. Appropriating money in one fiscal year while spending it in another distorts year-to-year comparisons. Adjusting for K-12 funding would reduce FY05 GF appropriations to \$2.6 billion and increase FY06 appropriations to \$3.0 billion.
- (5) Duplicated authorizations are in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided.
- (6) Supplemental appropriations for FY06 is an estimate.

FY05 Fiscal Summary

State of Alaska Expenditures by Category--FY05 Operating & Capital Budgets (\$ millions)



Definitions of Funds

General Fund expenditures include general fund match, general fund program receipts, general fund mental health, and "pure" general fund expenditures.

Permanent Fund expenditures include inflation proofing deposits into the fund, dividends and administrative costs. They also include special deposits to the fund as appropriated by the legislature.

Federal expenditures include all federal funds received and spent by the State. Federal funds typically can be used only for the specific purposes for which they are received.

Dedicated expenditures as provided for in the Constitution include expenditures by the School Fund (cigarette tax), Public School Fund, Second Injury Fund, Fisherman's Fund and the Fish and Game Fund.

Trusts include the Alaska Advance College Tuition Savings Fund, the Alyeska Settlement Fund, the Mental Health Trust, the Exxon Valdez Oil Spill Restoration Fund and several funds associated with public employee retirement systems.

Statutorily Restricted expenditures include tuition, food and service fees and interest earned by the University of Alaska; several State loan and enterprise funds; the Marine Highway Fund; receipts of several State corporations and the disaster relief fund.

at 600 million dollars difference between for 2005 for 6F spending + HTR & 26% of operating budget

FY04/FY05 Fiscal Summary

(\$ millions)

REVENUE (Excludes Permanent Fund Earnings)	FY04 Authorized		FY05 Enacted		GF Change	
	GF	Federal	Other	Federal	Other	Total
Unrestricted General Fund Revenue (1)	2,331.6					1,961.1
New Revenues (2)						10.8
Bond Proceeds (3)			123.5		120.0	
Corporate Dividends (4)			(53.0)		130.6	(53.9)
Retained Corporate Dividends (4)		2,759.6	1,072.4		943.1	
Federal and Other Funds				3,011.5		3,954.6
Total Revenue	2,331.6	2,759.6	1,142.9	3,011.5	1,139.8	6,123.2
APPROPRIATIONS						
Operating						
Agency Operations (Non-Formula)	2,233.1	1,633.5	977.9	1,566.0	986.3	4,876.2
Formula Programs	1,086.8	721.5	1,260.8	752.4	1,280.0	3,137.3
Debt Service & Fund Capitalization	1,060.5	730.4	140.5	772.1	134.0	2,056.4
Revised Program Legislation (RPLs)	53.7	47.8	231.8	41.3	280.9	376.6
Supplemental Appropriations	32.1	75.5	1.8			
New Legislation		58.2	12.6			12.5
Duplicated Authorization (5)			(669.6)		17.3	19.3
Capital	86.0	1,126.1	165.0	1,445.5	153.5	1,607.8
Project Appropriations	84.6	969.3	198.9	1,445.5	105.5	1,559.8
Bond Specific Projects			92.4		95.2	
Revised Program Legislation (RPLs)		61.1	0.0			
Supplemental Appropriations	1.5	95.7	6.7			
Duplicated Authorization (5)			(133.0)		(47.2)	(47.2)
Total Authorization (unduplicated)	2,319.1	2,759.6	1,142.9	3,011.5	1,139.8	6,484.0
Draw From CBR or (GF Lapse) (1)	(12.5)					
Permanent Fund Dividends			568.0		512.0	512.0
Permanent Fund Inflation Proofing & Other Transfers (6)		2.4	170.0		619.0	619.0
TOTAL WITH PERMANENT FUND	2,319.1	2,761.9	1,880.9	3,011.5	2,270.8	7,615.0
						13.6
						373.3
						13.6

Notes:

- (1) Revenue assumptions are from the Spring 2004 Revenue Sources Book. FY04 is \$31.13 per barrel and .985 million barrels per day. FY05 is \$28.30 per barrel and .980 mbd. As of 10/5/04 (thru 1/3 of the year) the YTD avg was \$40.87. With approx \$60 million in add'l revenue for every dollar/bbl there will be a significant GF lapse if prices continue to remain high.
- (2) This includes increased revenue the executive branch expects to collect from increased fees and user costs that require no legislative action. It also includes expected revenue generated from SB231, HB484 and SB1001 (tobacco bill passed during the special session).
- (3) AHFC is providing \$45 million in bond proceeds. ASLC is providing \$75 million in bond proceeds as a return on invested capital.
- (4) Corporate dividends include funds made available to the State by the boards of AHFC, AIDEA, and ASLC. Dividends retained by AHFC for debt service on state capital project bonds are subtracted.
- (5) Duplicated authorizations are in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided.
- (6) \$354 million of FY04's inflation proofing of \$524 was prefunded in FY03. The balance of \$170.0 was funded with a supplemental but is being shown on this line.

Rep. Max Gruenberg

From: Sarita Knull
Sent: Friday, April 03, 2009 9:45 AM
To: Rep. Max Gruenberg
Cc: Deneen Tuck; Pat Davidson
Subject: RE: Balance Owed to Constitutional Budget Fund Reserve
Signed By: sarita_knull@legis.state.ak.us
Attachments: Rep. Gruenberg memo. - 4-3-09.pdf

Good morning Representative Gruenberg:

Here the Legislative Auditor's response to your inquiry concerning the balance owed to the constitutional budget reserve fund. I will be sending you the hard copy of this memorandum through the mail.

Have a wonderful day.

Sarita Knull

*Executive Secretary II
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300
Phone: (907) 465 - 3833
Fax: (907) 465 - 2347*

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ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

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MEMORANDUM

TO: The Honorable Max Gruenberg
Alaska State House of Representatives

FROM: Pat Davidson *Pat D*
Legislative Auditor

DATE: April 3, 2009

RE: Balance owed to Constitutional
Budget Reserve Fund

You asked what is the amount owed by the General Fund to the Constitutional Budget Reserve Fund (CBRF). The calculation below is based on an accrual basis of accounting, and, therefore, the beginning point agrees with the FY 08 Comprehensive Annual Financial Report.

Balance owed at the end of FY 08	\$150,093,111
Increase in amount owed to CBRF during FY 09	
Sec. 72(b) Ch. 29, SLA 2008 (management fees)	4,080,000
Sec. 28(a) Ch 27, SLA 2008 (sub-fund reverse sweep)	1,466,159,407
Sec. 28(c) Ch 27, SLA 2008 (management fees)	245,700
General Fund repayments during FY 09	
Section 28(e) Chapter 27, SLA 2008 (repayment)	<u>(1,000,000,000)</u>
Estimated amount currently owed to CBRF	\$620,578,218

This calculation comes with some assumptions and limitations. First, the calculation assumes the total amount appropriated to Department of Revenue for treasury management fee is fully spent. Secondly, the financial effect of Sec. 28(b) has not been calculated, and, therefore, has not been included in this analysis. Lastly, it does not include any potential FY 09 deficits that may require a draw from the CBRF. Any draw from the CBRF to cover an FY 09 deficit still

needs legislative approval and would not be calculated until the books close and the FY 09 financial statements have been prepared.

If you have any additional questions, please feel free to contact me at 465-3814.

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
2009 LEGISLATIVE SESSION

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

Identifier (file name): HJR008-OOG-DOE-3-27-09 Dept. Affected: OOG
 Title Constitutional amendment limiting appropriations from RDU Elections
 certain mineral revenues, relating to balanced budget.... Component Elections
 Sponsor Representatives Kelly and Crawford
 Requester House State Affairs Committee Component Number 21

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2010	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
OPERATING EXPENDITURES								
Personal Services								
Travel								
Contractual			1.5					
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING		0.0	0.0	1.5	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	0.0	1.5	0.0	0.0	0.0	0.0

Estimate of any current year (FY2009) 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 Phone 465-4611
 Division: Division of Elections Date/Time 3/27/09, 8:37pm
 Approved by: Linda Perez, Director Date 3/27/2009
Division of Administrative Services

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)

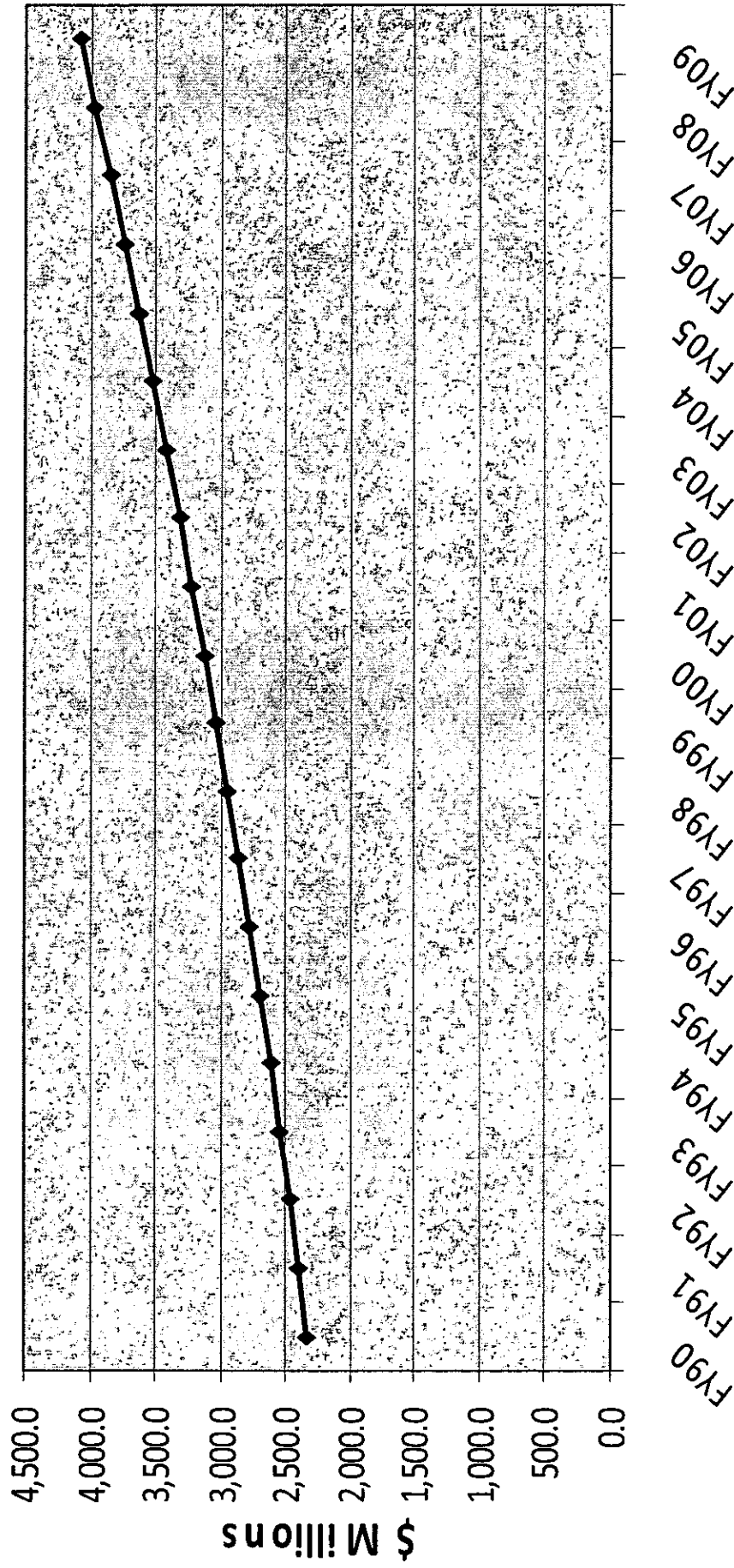
In 1990, another attempt was made by voters to impose budget stability. Voters approved a Constitutional Amendment creating the Constitutional Budget Reserve Fund (CBRF).

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.

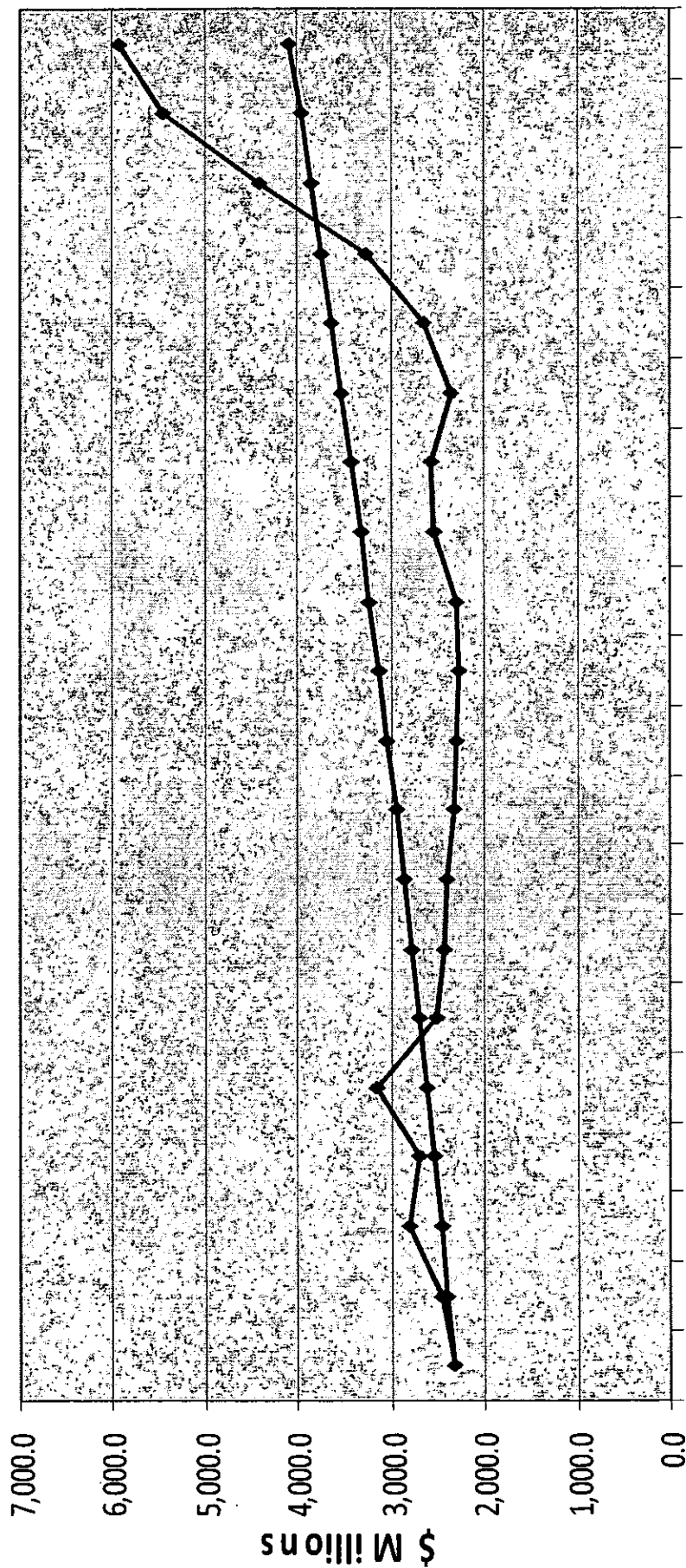
State of Alaska General Fund Spending FY90 - FY09

◆ Inflation Adjusted



State of Alaska General Fund Spending FY90 - FY09

—◆— Inflation Adjusted —◆— Actual GF Spending

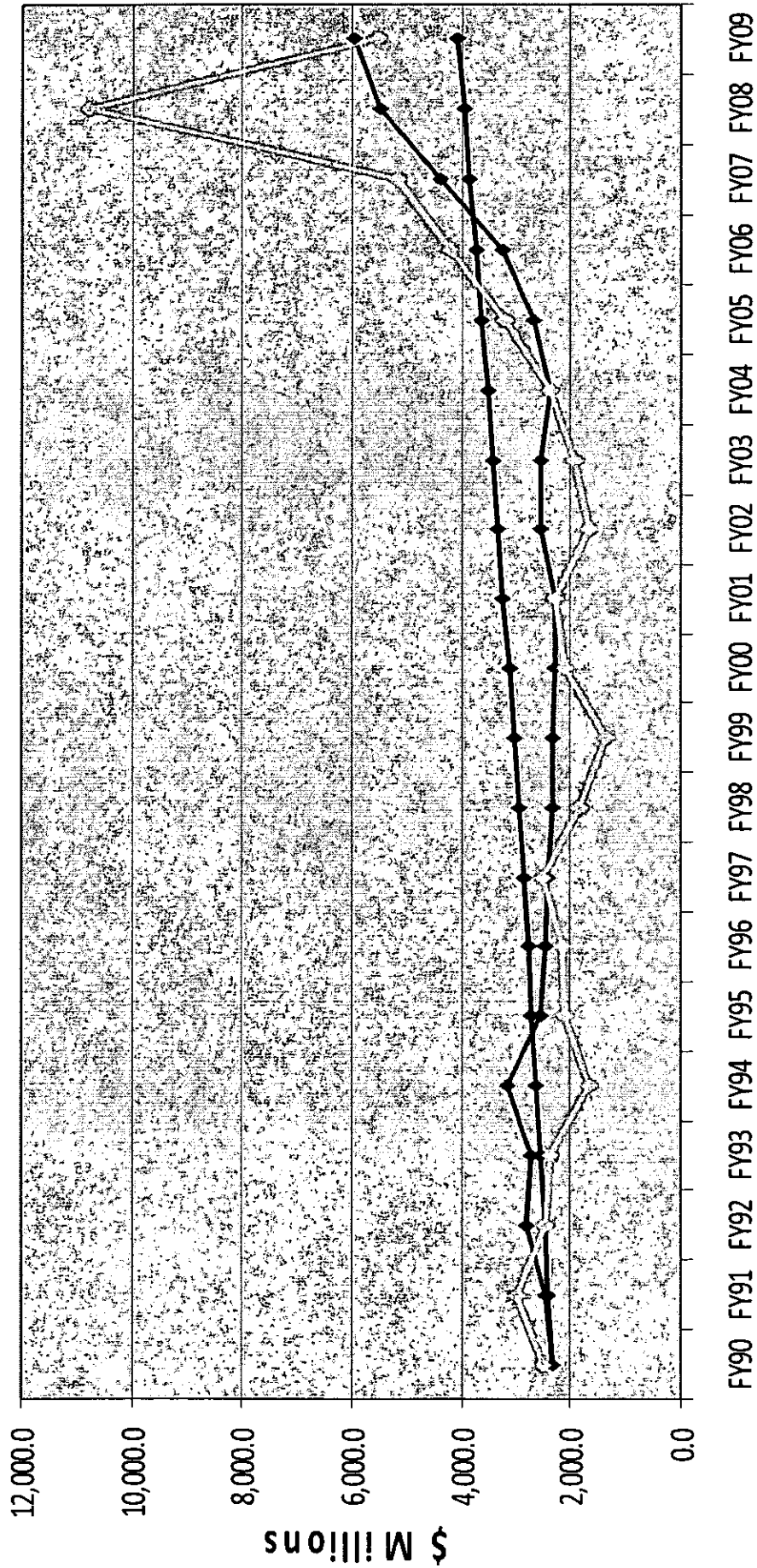


FY90 FY91 FY92 FY93 FY94 FY95 FY96 FY97 FY98 FY99 FY00 FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08 FY09

Source: Legislative Finance Division

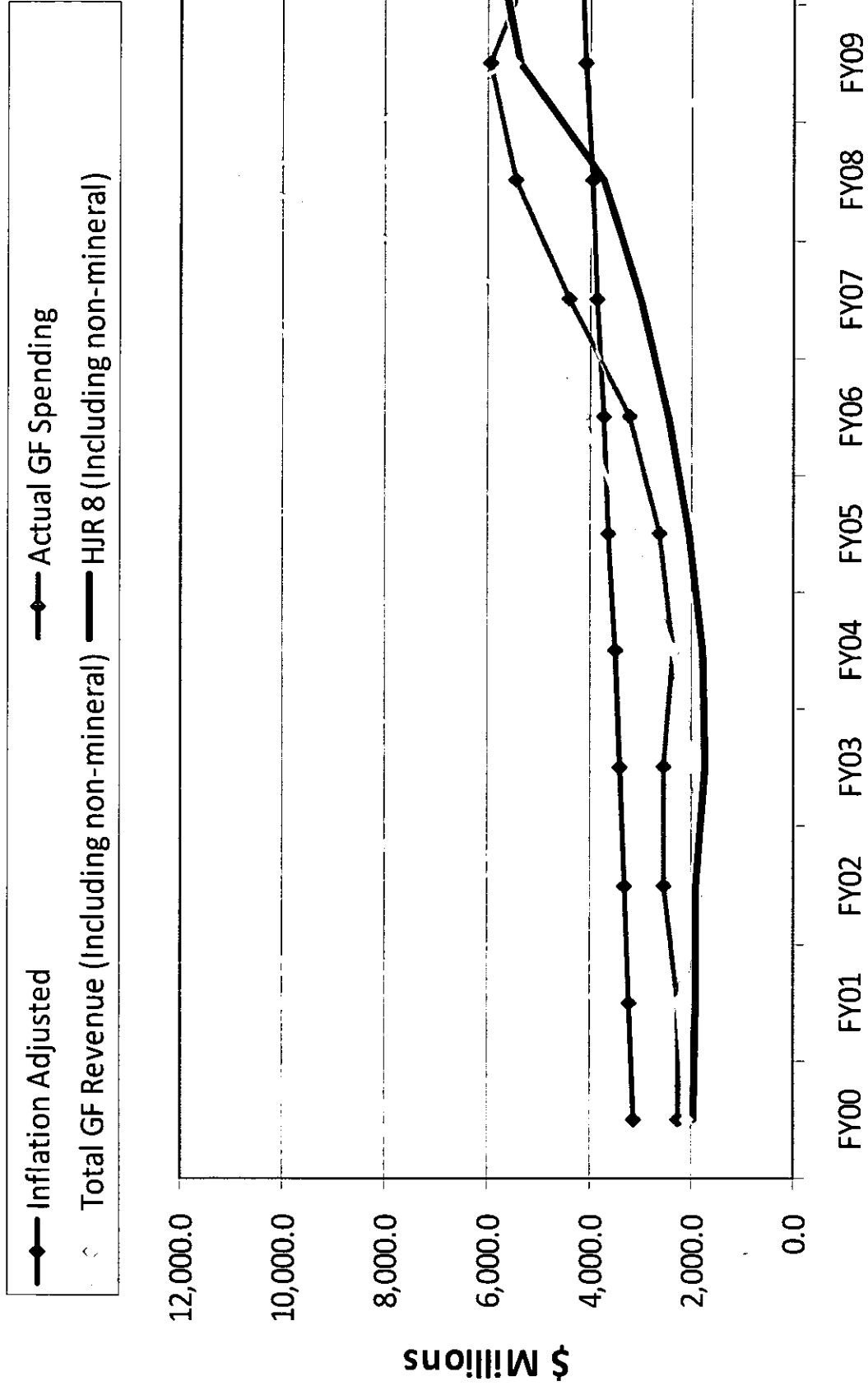
State of Alaska General Fund Spending FY90 - FY09

Inflation Adjusted
 Actual GF Spending
 Total GF Revenue (Including non-mineral)



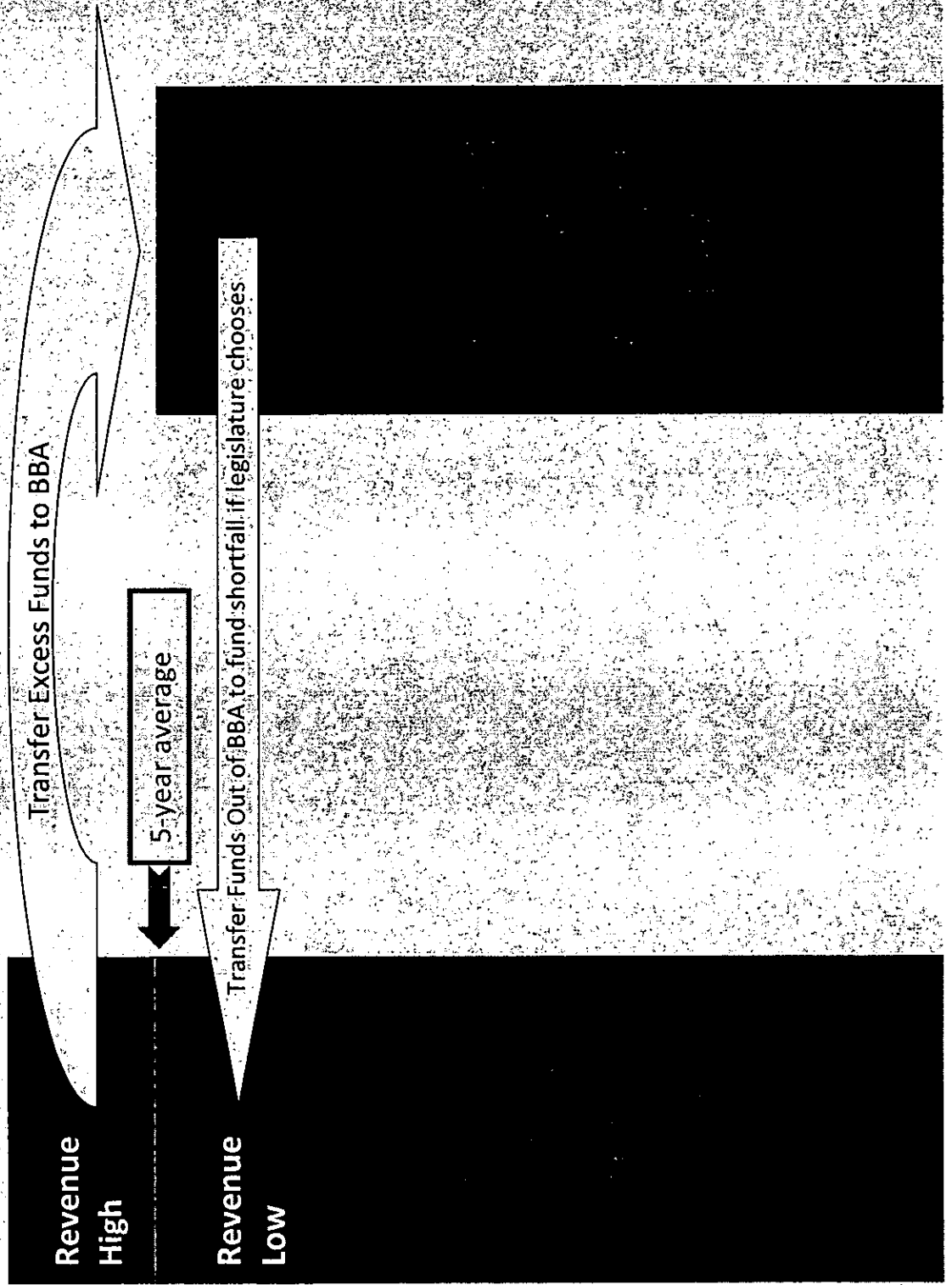
Source: Legislative Finance Division & Fall 2008 Revenue Sources Book

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

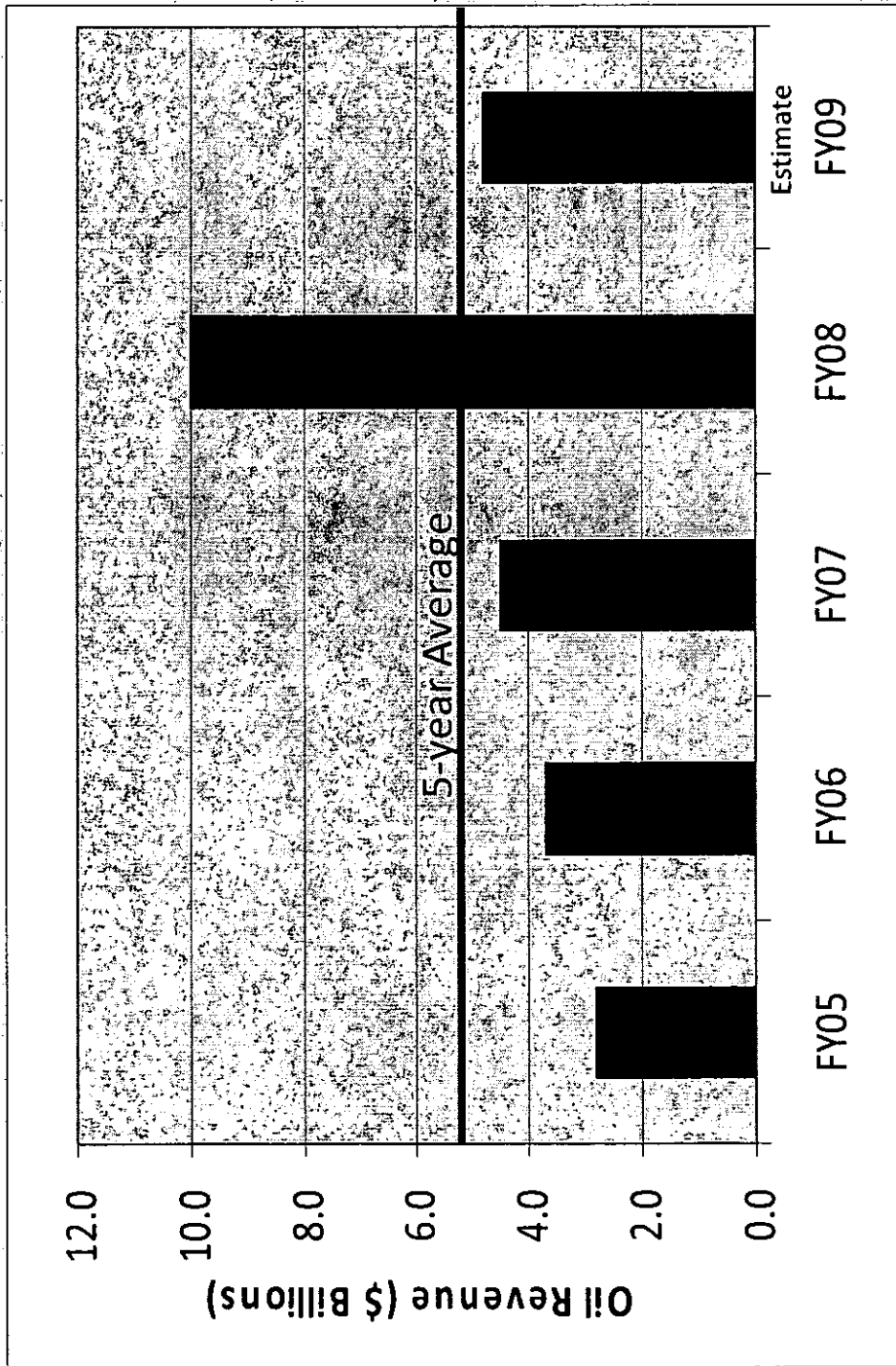
HJR 8 Does NOT touch:

- 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.

5-year Average

\$5.2

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

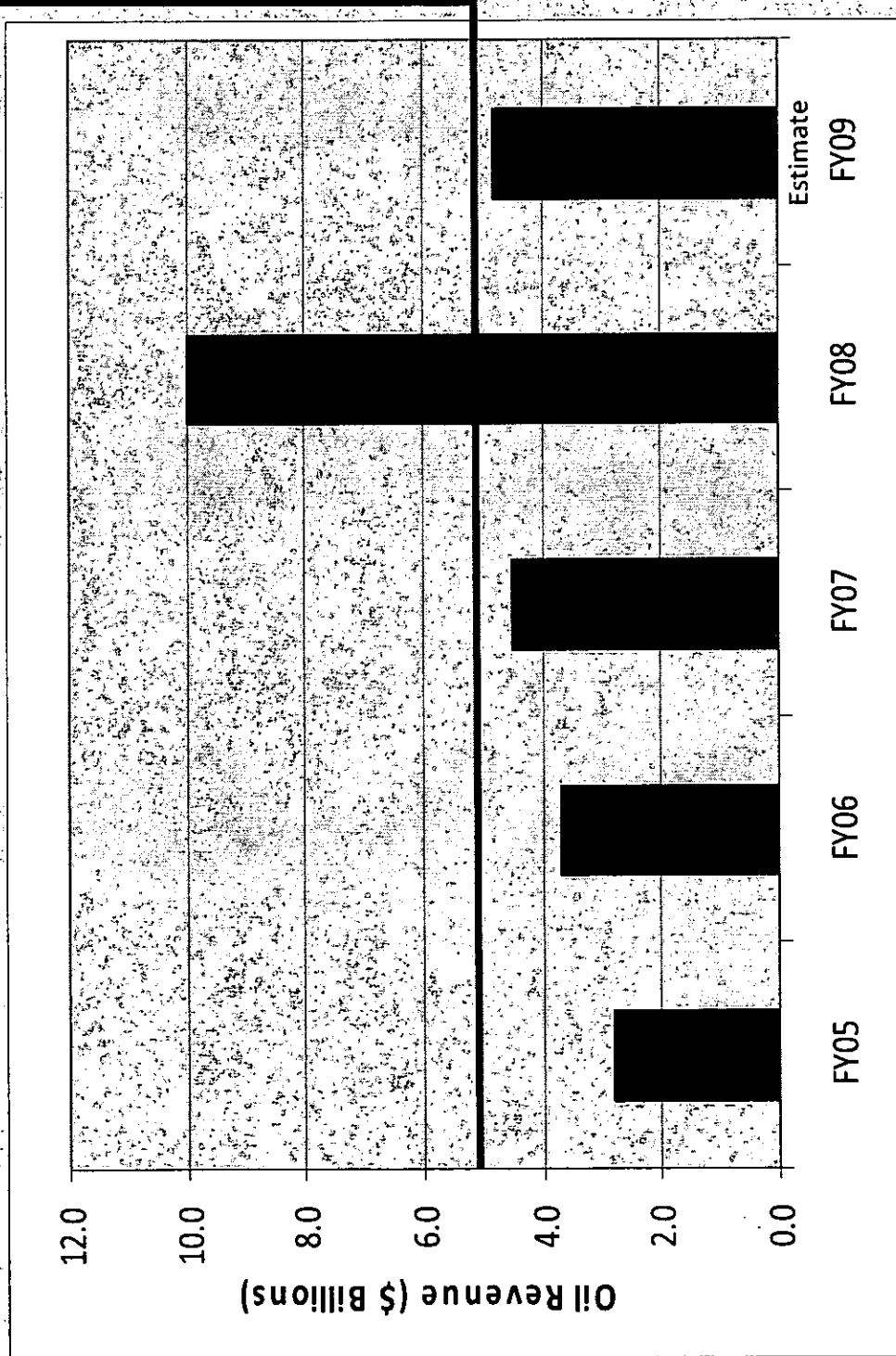
'08 \$10.0

'09 \$4.8

Total \$25.8

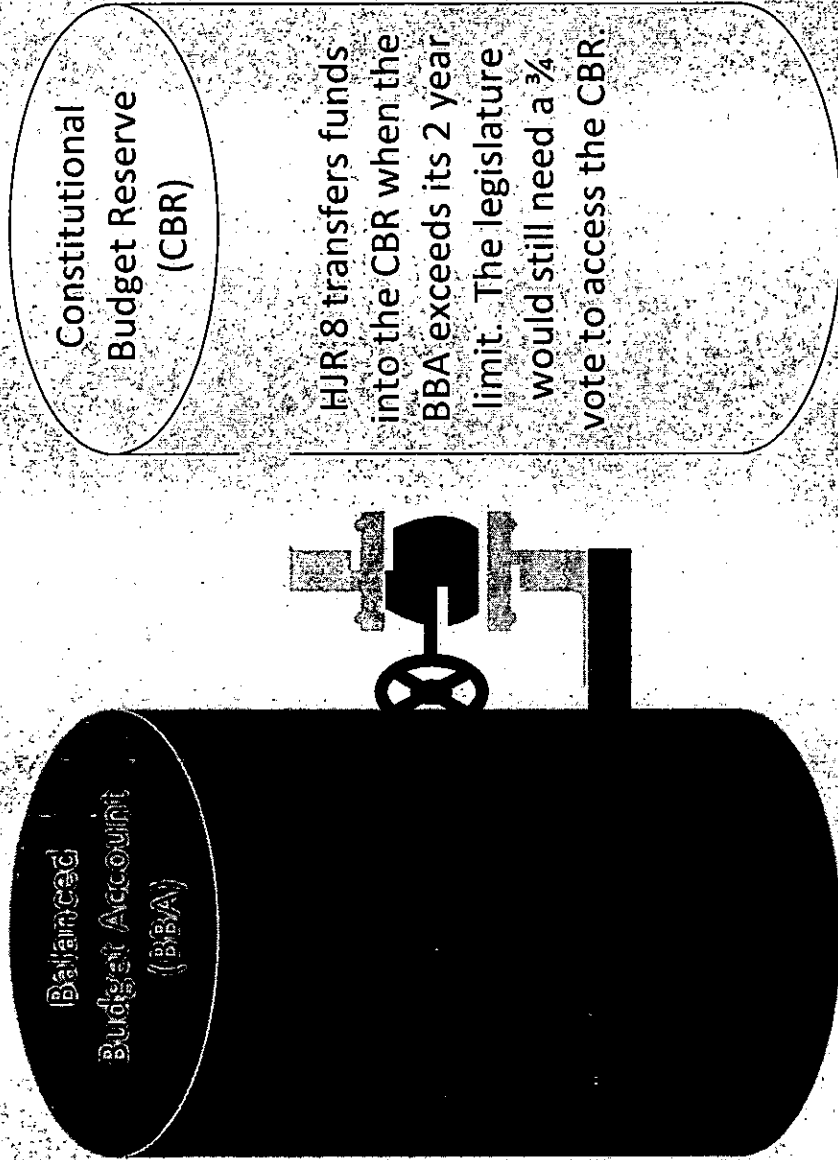
Divided by 5 =

\$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 rings 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."