

LEG. FINANCE - BILLS 1983 - 1984 1992

HJR 39

1992

CORRECTED

2

Berrier

A M E N D M E N T

Offered in the HOUSE

By Adams

TO: CSHJR 39(Fin)

Page 1, line 10, through page 3, line 21, delete all material and insert:

"* Section 1. Article IX, sec. 16, Constitution of the State of Alaska, is repealed and readopted to read:

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* Sec. 2. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

fiscal year following the fiscal year in which the balance in the appropriation reserve fund established in sec. 2 of this amendment exceeds 1.5 times the appropriations of unrestricted revenue in the preceding fiscal year.

* Sec. 5. The amendments proposed by this resolution shall be placed before the voters of the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state."

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**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

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* Sec. 2. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 17. APPROPRIATION RESERVE FUND. An appropriation reserve fund is established. Appropriations may not be made from the appropriation reserve fund except for the purpose of repelling invasion, suppressing insurrection, defending the state in war, meeting natural disasters, or appropriations required to pay the principal and interest on general obligation bonds. On June 30 of the fiscal year in which the balance of the appropriation reserve fund exceeds 1.5 times the appropriations of unrestricted revenue in the preceding fiscal year, the balance of the appropriation reserve fund shall lapse into the treasury. The balance of the appropriation reserve fund shall be invested at competitive national market rates. All earnings of the fund shall become part of the principal of the fund.

* Sec. 3. Article XV, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 29. APPROPRIATION RESERVE FUND. Beginning July 1, 1985, and continuing until June 30 of the fiscal year in which the balance of the appropriation reserve fund exceeds 1.5 times the appropriations of unrestricted revenue in the preceding fiscal year, an amount equal to 8.8 percent of the unrestricted revenue for each month shall be transferred from the treasury to the appropriation reserve fund on the first day of the succeeding month. No less than 25 percent of that portion of the unrestricted revenue of the state that has not been appropriated as allowed by this section shall be transferred from the general fund on the first day of each fiscal year during the period defined in this section.

* Sec. 4. Section 1 of this amendment takes effect on July 1 of the

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Offered: 3/13/84
Referred: Rules

Original sponsors: Hayes, Abood,
Barnes, et al

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

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CS FOR HOUSE JOINT RESOLUTION NO. 39 (Finance)

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AMENDMENT BY ADAMS TO CSHJR 39 (Fin) accomplishes the following:

1. On line 13, page 1, corrects language to make appropriations for Permanent Fund Dividends exempt from the Cash-Based spending limit, because those funds come from Permanent Fund earnings, not from the General Fund.
2. New language on line 15 exempts from the limit funds which are other than a normal expenditure from the General Fund. The amendment merely expands the language to be certain all legitimate exemptions are identified.
3. New language in line 17 corrects the time sequence, so that the correct base year is identified.
4. On page 2, line 12 in the CS, July 31 is changed to July 1 to include the first month of the fiscal year.
5. The temporary spending limit, which would have replaced the one presently in Article IX of the Constitution, has been removed. From that section of the CS, the clause which deposits 25% annually of unappropriated General Fund revenues into the reserve is moved up into Section 3 of the amended bill.

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STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: CS HJR 39 (FIN)
Title: Cash Based Budgetting

FISCAL DETAIL

Agency Affected: _____
Program Category Affected: _____

Sponsor: Hayes
Requestor: House Finance
Date of Request: 3/12/84

BRU, Program or Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

This resolution requires an annual transfer from revenues to CBB if voters approve.

Prepared By: Rep. Al Adams, Chair *AA* Phone: 465-3706
Division: House Finance Committee Date: 3/12/84

Approved by Commissioner: _____ Date: _____
Agency: _____

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

↙
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THE GENERAL FUND AS A REVENUE SOURCE FOR CASH-BASED BUDGETING
 Based on a 30th Percentile Revenue Projection
 (millions of dollars)

Fiscal Year	DOR Revenue Forecast	Revenue Under CBB	Potential Expenditure Level	General Fund Earnings	General Fund BalanceCash-Based Budgeting Reserve Fund....		
						Contributions	Earnings	Balance
1981	3,769		3,769	201	2,010			
1982	4,174		4,174	254	2,540			
1983	3,624		3,624	266	2,660			
1984	3,233		3,233	300	3,000			
1985	3,219		3,219	250	2,500			
1986	3,365	3,069	3,069	259	2,590	296.1	14	310
1987	3,729	3,401	3,401	288	2,880	328.2	48	686
1988	3,711	3,384	3,384	288	2,880	326.6	87	1,100
1989	4,068	3,710	3,710	318	3,180	358.0	132	1,590
1990	3,880	3,539	3,539	301	3,010	341.4	183	2,114
1991	3,582	3,267	3,267	275	2,750	315.2	236	2,665
1992	3,536	3,225	3,225	270	2,700	311.2	294	3,270
1993	3,405	3,105	3,105	258	2,580	299.6	357	3,927
1994	3,290	3,000	3,000	247	2,470	289.5	425	4,641
1995	3,195	3,644	3,348	685	7,297			
1996	3,033	3,483	3,467	672	7,174			
1997	3,092	3,540	3,564	673	7,180			
1998	3,159	3,617	3,512	687	7,325			
1999	3,213	3,680	3,578	698	7,447			
2000	3,245	3,718	3,648	705	7,527			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

col.

- 2 Department of Revenue January, 1984 revenue projection.
- 3 Revenues after effects of cash-based budgeting program. During the CBB reserve contribution period, revenues (column 3) are equal to DOR projections minus annual CBB contributions. Starting with the first cash-based budgeting year, revenues (column 3) are equal to DOR projections plus additional earnings which accrue to the general fund as a result of transferring the CBB reserve fund balance to the general fund.
- 4 Expenditure levels are presently limited to projected revenues (ignoring the Constitutional appropriation limit). Beginning with the first cash-based budgeting year, expenditures will be limited to the revenues collected in the previous calendar year.
- 5 General fund earnings are DOR projections up to the start of cash-based budgeting, at which point the general fund earnings will be augmented due to the increased earnings capacity of the general fund from that point on into the future.
- 6 Beginning with the first cash-based budgeting year, the general fund balance is substantially increased by the transfer of the CBB reserve fund.
- 8 Reserve fund earnings are calculated at a 10 percent annual interest rate compounded monthly.
- 9 The earnings rate of the CBB reserve fund is compounded monthly using a 10% annual interest rate.

This projection is based on a general fund unrestricted revenue contribution of 8.8 percent.

Prepared by House Research Agency - March 12, 1984

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Sent to all L.I.O.s for testifiers

AMENDED BUDGETING

HOUSE JOINT RESOLUTION 39

In early February of 1984 the Research Agency of the Alaska House of Representatives published an 80-page study titled "Cash-Based Budgeting, A Response to Revenue Uncertainty." It is the culmination of more than a year of thorough and exhaustive study by that Agency into one of the most vexing problems of any state or local government. At present, all state governments and virtually all municipalities prepare annual or biennial budgets based on anticipated income. In the case of the State of Alaska, a few weeks before the beginning of each fiscal year the Legislature completes and the Governor subsequently signs a budget based on revenues expected to begin coming into the state treasury on July 1.

Under this system the possibility always exists -- perhaps most particularly in Alaska -- of failure to fund needed projects or services because of a low revenue forecast when money actually would have been available. More serious, however, is the possibility of the Legislature and Administration authorizing funding for projects and programs for which money is later not available. Then projects must be discontinued, programs curtailed, operations interrupted and hopes and expectations dashed.

Cash-Based Budgeting is a fiscal system which eliminates the possibility of either of those events, and makes planning a more rational, certain and efficient process. By creation of an appropriation reserve fund, built up over a period of years, the Administration and the Legislature would know, going into a budget cycle precisely how much money was "in the bank" and available for appropriation. Municipalities, which rely heavily upon state funding through revenue sharing, municipal assistance and grant programs; school districts, dependent upon School Foundation funding and construction bond retirement programs; hospital districts, which rely upon state funding for operations and expansion in part, all would have a clearer idea, when preparing budgets for submission to their assemblies and boards and to the Legislature, of how much money was available.

In addition, the reserve would create a new earnings source for the State. As the legislation is presently written, an average 18 months' normal expenditures would be held in reserve. The six months additional is necessitated by the fact that the Legislature operates on a calendar year and the treasury on fiscal. This would

mean an additional annual income of approximately \$400 million, given present revenue and earnings projections, which would become part of the regular budgeting reserve. The amount of money held in the reserve could be invested in relatively long-term, stable securities, much as the Permanent Fund is at present, because as the reserve is drawn down with each day's expenditures -- paying the state's daily bills -- the day's income would be added to the account, maintaining an approximately stable earnings base of about \$4.5 billion. The effect would be a "pay-as-you-go" system, with cash certainty and added income accrual as well.

As HJR 39 is presently written and being considered by the House Finance Committee, 8.8% of General Fund income would be reserved, with deposits made on a monthly basis. When the reserve reached an amount equal to 1 1/2 times the previous year's appropriations, Cash-Based Budgeting would go into effect; that is, all budgeting would be done from the reserve fund, and all income would go into the reserve.

The Legislation imposes limitations upon expenditure so that the reserve would continue to grow and increase its earning power. Appropriations in any given year would be limited to 95% of the amount in the reserve, or an amount equal to the previous year's budget plus or minus population and inflation adjustments, whichever was less. This factor would function as a strict control on the growth of government, in addition to incrementally increasing the earning power of the reserve. There is an additional incidental check on government growth, which is the extraction of the 8.8% of General Fund income during the reserving period.

The legislation is written as a constitutional amendment for the reason that the reserve fund must be constitutionally protected. Since one legislature may not legally bind a successor body without the approval of the voters, the security of the fund would never be complete nor the system guaranteed to function as designed without constitutional protection. For this reason, the proposal must go to a general election ballot. That means that if HJR 39 is not passed this year, it would be another two years before it could be attempted again, and Fiscal Year 1988 before deposits to the reserve fund could begin. Given present income projections, 1984 would appear to be the last best opportunity to institute such a system Alaska might ever have.



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

MEMORANDUM

January 9, 1984

TO: Neil Phelps-Munson

FROM: Alexander Hoke

Alexander Hoke

REGARDING: Accelerated Start-up of Cash-Based Budgeting

I would like to bring to your attention two alternatives for accelerating the initiation date (start-up) of Cash-Based Budgeting. These options were not included in our outline for legislation.

Other than by simply increasing the percentage contributions to the CBB reserve fund each year, the following mechanisms could shorten the contribution period by one year each:

Early CBB Contribution. The point at which the CBB reserve fund would be sufficient to begin Cash-Based Budgeting could be made to occur one year earlier if an initial contribution were made as a "grubstake" to the reserve fund. If an appropriation to the CBB reserve fund of between \$250 and \$300 million (comparable to the annual percentage contribution) were made at the start of the contribution period, this amount and its interest earnings would effectively reduce the need for further contributions by \$600 million when Cash-Based Budgeting begins some seven to nine years later. Our preliminary calculations show that this early contribution could potentially cause the automatic CBB initiation to occur one year earlier than it otherwise would. Presumably, the "grubstake" appropriation would be made during this session and would be contingent on voter approval of the Cash-Based Budgeting constitutional amendment during the next general election.

Advanced Cash-Based Budgeting. According to the provisions in our CBB legislation outline, Cash-Based Budgeting would begin once the reserve fund equalled or exceeded the prior 18-months' revenues. This means that at the start of the fiscal year when this condition exists, probably between July 1, 1993 and July 1, 1995, the administration will begin to prepare the budget for the following fiscal year based on the

principles of Cash-Based Budgeting. By the time that the legislature approves this budget and it becomes effective, one year would have elapsed from the point at which the CBB reserve fund was large enough to fund Cash-Based Budgeting. In other words, there will be a one-year delay between the time that the CBB reserve fund is large enough and the point at which the first Cash-Based Budget becomes effective. During the elapsed year, additional investment earnings will accrue to the reserve fund, causing it to grow further beyond what is minimally required to start Cash-Based Budgeting.

The advanced Cash-Based Budgeting alternative would require that the Administration and the legislature project the growth of the CBB reserve fund each year and forecast the point at which reserve funds would be sufficient to start Cash-Based Budgeting. For example, if by July of 1993, the reserve fund contained about 90 percent of the funds needed to start Cash-Based Budgeting, and it became evident to the administration that the monthly percentage contributions would cause the fund to exceed the amount necessary for CBB startup by the end of the current fiscal year, then the next budget would be designed as a Cash-Based Budget assuming that CBB would start the following July 1. Likewise, the legislature would prepare a budget which anticipates that Cash-Based Budgeting will be effective at the start of the coming fiscal year. Consequently, the first Cash-Based Budget would become effective on the first July 1 for which the CBB reserve is sufficiently large to begin Cash-Based Budgeting, not one year later.

Of course, there exists the possibility that the administration and/or the legislature will inaccurately predict the size of the CBB reserve fund. The consequences of this error would be that the budget would be designed within the constraints of Cash-Based Budgeting: that total appropriations would be limited to the lesser of 95 percent of the prior calendar year's revenues or the total previous fiscal year appropriations adjusted for inflation and population changes.

With an annual growth rate of about \$600 to \$700 million towards the end of the contribution period, the CBB reserve fund will likely fall short of or exceed the required amount by several hundred million dollars making prediction of Cash-Based Budgeting start-up a simple matter. However, there would remain a chance that a prediction of whether or not Cash-Based Budgeting will become effective may result in a hair-

splitting decision for the legislature and even more so for the administration because of the greater uncertainty of their forecast. This may mean that the budget would have to be designed within the constraints of Cash-Based Budgeting even though this may not be required should the total CBB reserve fall short of having the funds needed to initiate Cash-Based Budgeting by the start of the fiscal year.

If you have any questions about these alternatives, please call me.

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date 2/15/84

REQUEST

Bill/Resolution No: CS HJR 39
 Title: Proposing amendments creating an Appropriation Reserve Fund.
 Sponsor: Hayes
 Requestor: A. State Affairs
 Date of Request: 02/14/84

FISCAL DETAIL

Agency Affected: Revenue
 Program Category Affected: _____
 BRU, Program of Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Millions of Dollars)

GENERAL FUND	-	-	(296.1)	(328.2)	(326.6)	(358.0)
FEDERAL FUNDS	-	-	-	-	-	-
OTHER: Approp. Reserve	-	-	310.0	376.2	413.6	490.0
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis.

Prepared By: David R. Tonkovich ^{DT}
 Division: Research Section

Phone: 465-2173
 Date: 02/15/84

Approved by Commissioner: *Paul Hertz*
 Agency: Revenue

Date: 2/16/84

Distribution (by Agency preparing fiscal note):

Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Analysis for CS HJR 39

1. Methodology: The Department of Revenue has cooperated with the House Research Agency in their study of cash based budgeting. Revenue numbers used by House Research are based on projections prepared by the Department in January 1984. The Department did not prepare a separate and possibly redundant projection of the fiscal effects of cash based budgeting. Rather, our analysis is based on figures prepared by the House Research Agency. The particular run evaluated is based on 30 percent case revenue projections and a contribution of 8.8 percent of unrestricted revenues each month beginning in fiscal year 1986.

2. General Observation on Bill Language: The Department feels that the bill is extremely difficult to interpret in its present form. The major source of confusion is that in several references to "year" it is unclear whether the bill means fiscal year or calendar year. This makes it very hard to think through the implications of the various bill provisions.

3. Comments on House Research Agency Figures: [See Attached Printout]

a. The Department feels that the 30 percent revenue case provides an appropriate benchmark for evaluating the impacts of cash based budgeting. Compared to the mean case there is a higher probability that revenues projected in the 30 percent case will actually be realized. The conservative outlook is justified given the long time span considered and the uncertainty in the numbers presented in the analysis.

b. Calculations of contributions, earnings, and balances of the Appropriation Reserve Fund seem reasonable. Two potential problems should be noted. First, there are complications in forecasting long-term interest rates, given the uncertain impacts of massive federal deficits. Second, any of the analyses which are presented in nominal dollars need to be interpreted carefully. For instance, if a 6 percent inflation rate is assumed, the reserve fund balance of \$4.641 billion in FY 94 is equivalent to \$2.747 billion of purchasing power in FY 85.

c. In FY 95 the balance of the Appropriation Reserve Fund is transferred to the general fund. The attached analysis adds this balance to an estimated balance in the general fund. A problem of interpretation arises in that the critical starting point of budget deliberations is the balance available for appropriation. Because a substantial portion of the general fund balance at any point in time may be in illiquid assets or be reserved for some purpose (e.g. money appropriated but not yet spent), the entire balance is not available for appropriation. On the other hand, the balance transferred from the Appropriation Reserve Fund would be available for appropriation within the limits prescribed by the bill's expenditure limitation provisions. This difference needs to be kept in mind in examining the combined balance.

4. Additional Assumptions for Fiscal Note:

a. The fiscal note treats contributions to the Appropriation Reserve Fund as a reduction in general fund revenues. The amounts shown for the Appropriations Reserve Fund include this contribution plus interest earnings.

b. If contributions were not made to the Appropriation Reserve Fund, that portion of unrestricted revenues would go to the general fund. The analysis assumes that all of this money would be spent and that any interest earned would be relatively small.

THE GENERAL FUND AS A REVENUE SOURCE FOR CASH-BASED BUDGETING
 Based on a 30th Percentile Revenue Projection
 (millions of dollars)

Fiscal Year	DOR	Revenue	Potential	General	GeneralCash-Based Budgeting Reserve Fund....		
	Revenue Forecast	Under CDB	Expenditure Level	Fund Earnings	Fund Balance	Contributions	Earnings	Balance
1981	3,769		3,769	201	2,010			
1982	4,174		4,174	254	2,540			
1983	3,624		3,624	266	2,660			
1984	3,233		3,233	300	3,000			
1985	3,219		3,219	250	2,500			
1986	3,365	3,069	3,069	259	2,590	296.1	14	310
1987	3,729	3,401	3,401	288	2,880	328.2	48	686
1988	3,711	3,384	3,384	288	2,880	326.6	87	1,100
1989	4,068	3,710	3,710	318	3,180	358.0	132	1,590
1990	3,880	3,539	3,539	301	3,010	341.4	183	2,114
1991	3,582	3,267	3,267	275	2,750	315.2	236	2,665
1992	3,536	3,225	3,225	270	2,700	311.2	294	3,270
1993	3,405	3,105	3,105	258	2,580	299.6	357	3,927
1994	3,290	3,000	3,000	247	2,470	289.5	425	4,641
1995	3,195	3,644	3,348	685	7,297			
1996	3,033	3,483	3,467	672	7,174			
1997	3,092	3,540	3,564	673	7,180			
1998	3,159	3,617	3,512	687	7,325			
1999	3,213	3,680	3,578	698	7,447			
2000	3,245	3,718	3,648	705	7,527			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

col.

- 2 Department of Revenue January, 1984 revenue projection.
- 3 Revenues after effects of cash-based budgeting program. During the CBB reserve contribution period, revenues (column 3) are equal to DOR projections minus annual CBB contributions. Starting with the first cash-based budgeting year, revenues (column 3) are equal to DOR projections plus additional earnings which accrue to the general fund as a result of transferring the CBB reserve fund balance to the general fund.
- 4 Expenditure levels are presently limited to projected revenues (ignoring the Constitutional appropriation limit). Beginning with the first cash-based budgeting year, expenditures will be limited to the revenues collected in the previous calendar year.
- 5 General fund earnings are DOR projections up to the start of cash-based budgeting, at which point the general fund earnings will be augmented due to the increased earnings capacity of the general fund from that point on into the future.
- 6 Beginning with the first cash-based budgeting year, the general fund balance is substantially increased by the transfer of the CBB reserve fund.
- 8 Reserve fund earnings are calculated at a 10 percent annual interest rate compounded monthly.
- 9 The earnings rate of the CBB reserve fund is compounded monthly using a 10% annual interest rate.

This projection is based on a general fund unrestricted revenue contribution of 8.8 percent.

Prepared by: House Research Agency

CS HJR 39 Sectional Analysis
Prepared by House Research Agency

Chronological Sequence of Provisions

- 1) An appropriation reserve fund is created upon voter approval in the next general election.
- 2) Contributions to the reserve fund (as provided in Section 3 of this resolution) begin July 31, 1985 and continue through June 30 of the year in which the reserve balance exceeds 1.5 times the preceding year appropriations of unrestricted revenues.
- 3) General fund appropriations are limited (as provided in Section 4 of this resolution) during the period of time in which contributions are made to the reserve fund.
- 4) When sufficient funds to begin cash-based budgeting have been collected, the reserve fund balance is transferred into the treasury.
- 5) Once cash-based budgeting begins, a new spending limit (as defined in Section 1 of this resolution) is imposed.

Section 1.

This section replaces the existing State Constitutional spending limit provisions. According to Article 9, Section 16 of the Alaska Constitution, the present appropriation limit is equal to \$2.5 billion adjusted for federal indices of change in population and inflation since July 1, 1981, except for appropriations for permanent fund dividends, revenue bond proceeds, debt service on general obligation bonds, and non-State trust funds. Article 9 Section 16 further provides that within the appropriation limit, "at least one-third shall be reserved for capital projects and loan appropriations." Appropriations for capital projects above the appropriation limit are permitted if approved by the governor or passed by a three-fourths legislative veto override and if approved by the Alaska voters.

Section 1 of CS HJR 39 proposes to substitute for the current appropriation limit one of the following limitations, whichever is less:

- 1) the appropriations for the year that this constitutional limit becomes effective (see Section 5 for effective date), adjusted each year for changes in population and inflation; or
- 2) "95 percent of the unrestricted revenue of the State in the previous calendar year." (In a period of declining revenues, this would likely be the effective limit on State appropriations).

Section 2.

An appropriation reserve fund is created in this section and is protected from appropriation except in a state of emergency or for meeting the general obligation bonded debt of the State. During a period of (roughly 7 to 9) years, contributions to the reserve fund will be made from unrestricted revenues as described in section 3 below. The reserve fund will be transferred into the treasury once the balance exceeds 1.5 times the preceding fiscal year appropriations of unrestricted revenue. This automatic termination of contributions to the reserve fund insures that cash-based budgeting will begin with the equivalent of 18 month's of State appropriations in the reserve.

This section further provides that the appropriation reserve balance is to be invested at competitive market rates and that all earnings from these investments will be retained by the reserve fund during the years when contributions are being made to the fund.

Section 3.

This section provides that 8.8 percent of unrestricted revenues received each month will be transferred into the appropriation reserve fund from July 31, 1985 until the reserve fund exceeds 1.5 times the appropriations of the preceding year. In other words, until the appropriation reserve fund contains a balance sufficient to begin cash-based budgeting, monthly contributions equal to 8.8 percent of the previous month's unrestricted revenues are deposited into the reserve fund.

Contributions under this section are to be calculated after deducting the amount of contributions defined in Section 4 of this resolution. Section 4 contributions to the reserve fund are equal to 25 percent of any remaining (unappropriated) revenues at the end of each fiscal year. Contributions under this section are equal to 8.8 percent of unrestricted revenues minus the amount of contributions under the 25 percent mechanism.

Section 4.

This section provides for an interim appropriation limit to be effective during the period when contributions are being made to the appropriations reserve fund. Except for appropriations to the permanent fund or for bonded debt service, spending is limited under this section to the fiscal year appropriations on the effective date of this section adjusted annually for changes in population and inflation. Appropriations above this limit may be made only in a state of emergency.

A supplementary source of contributions to the reserve fund is provided in this section. These contributions equal 25 percent of any unappropriated revenues remaining at the end of each fiscal year during the contribution period. For example, unappropriated revenues would remain in the event that actual revenues received during the year exceed expectations, and more importantly, exceed total appropriations for the year.

Section 5.

This section establishes an effective date for the appropriation limitation defined in Section 1 of this resolution. The effective date is July 1 of the year in which the appropriation reserve fund balance exceeds 1.5 times the preceding fiscal year appropriations.*

Section 6.

This section provides that the Constitutional amendments proposed in this resolution shall be placed before the voters in the next general election.

*According to the language in this section, the appropriation limits defined in Section 1 of this resolution will become effective the year before the balance of the reserve fund is transferred to the treasury. In other words, the budgetary procedures of cash-based budgeting will become effective before the money to implement cash-based budgeting has been transferred to the treasury. This appears to be an unintended discrepancy.

CS HJR 39 Appropriation Limitation Comparison to Existing Law

The appropriation limitation in Section 1 of CS HJR 39 differs from the existing appropriation limit (Article IX Section 16 of the Alaska Constitution) in the following ways:

Appropriation Limit

The existing Constitutional limit equals \$2.5 billion adjusted annually for changes in population and inflation. Section 1 of CS HJR 39 provides that appropriations are limited by one of two limits, whichever is less:

- 1) the appropriations for the year that this constitutional limit becomes effective, adjusted each year for changes in population and inflation; or
- 2) "95 percent of the unrestricted revenue of the State in the previous calendar year."

Base of Appropriation Limit

The existing Constitutional limit identifies a base amount of \$2.5 billion. By comparison, the first limit of Section 1 of CS HJR 39 identifies a base equal to "the amount appropriated in the fiscal year this section takes effect ..." Section 5 of CS HJR 39 defines the effective date of this section as the year following the fiscal year in which the balance of the appropriation reserve fund exceeds 1.5 times the appropriation of unrestricted revenue in the preceding fiscal year. This effective date can be thought of as the fiscal year in which cash-based budgeting begins (approximately FY 95).

Population and Inflation Adjustment Indices

The existing Constitutional limit specifies that the base appropriation limit is to be adjusted by federal indices of change in inflation and population. CS HJR 39 states that the base limit is to be adjusted by changes in population and inflation as defined by law.

One Third Capital Budget Reservation

The existing Constitutional expenditure limit states that within the limit of appropriations, "at least one-third shall be reserved for capital projects and loan appropriations." CS HJR 39 makes no such provisions.

State of Disaster/Emergency

The existing Constitutional limit allows appropriations in excess of the limit "to meet a state of disaster declared by the governor as prescribed by law." CS HJR 39 similarly permits appropriations in excess of the limit when "a state of emergency is declared by the governor as provided by law."

Other Exceptions for Appropriations Beyond the Limit

The existing Constitutional limit excludes from the limit: appropriations for Alaska permanent fund dividends. CS HJR 39 provides that Alaska permanent fund appropriations are excluded from the limit.

The existing Constitutional limit excludes from the limit: appropriations of revenue bond proceeds and appropriations to pay the principal and interest on general obligation bonds. CS HJR 39 excludes from the limit "appropriations of the proceeds of revenue or general obligation bonds and appropriations required to pay the principal and interest on general obligation bonds."

*approved
Johansen
"or other source"
Troy*

The existing Constitutional limit excludes from the limit: "appropriations of money received from a non-State source in trust for a specific purpose, including revenues of a public enterprise or public corporation of the State that issues revenue bonds...". CS HJR 39 makes no such provisions.

Appropriations During/For a Fiscal Year

The existing Constitutional limit applies to appropriations "made for a fiscal year". CS HJR 39 limits appropriations from the treasury "during a fiscal year".

*4/19/72
Appropriation
cleaner picture*

Interim Appropriation Limit

Section 4 of CS HJR 39 contains provisions for an interim appropriation limit to be effective during the period when contributions are being made to the reserve fund. The provisions in this section differ from the appropriation limitation provisions of Section 1 in that Section 1 provides for a second limit based on "95 percent of the unrestricted revenue of the state for the previous calendar year." The interim limit does not impose this additional limitation.

CS HJR 39 Sectional Analysis
(Finance Committee Substitute)
Prepared by House Research Agency

Chronological Sequence of Provisions

- 1) An appropriation reserve fund is created upon voter approval in the next general election.
- 2) Contributions to the reserve fund (as provided in Section 3 of this resolution) begin July 31, 1985 and continue through June 30 of the year in which the reserve balance exceeds 1.5 times the preceding year appropriations of unrestricted revenues.
- 3) General fund appropriations are limited (as provided in Section 4 of this resolution) during the period of time in which contributions are made to the reserve fund.
- 4) When sufficient funds to begin cash-based budgeting have been collected, the reserve fund balance is transferred into the treasury.
- 5) Once cash-based budgeting begins, a new spending limit (as defined in Section 1 of this resolution) is imposed.

Section 1.

This section replaces the existing State Constitutional spending limit provisions. According to Article 9, Section 16 of the Alaska Constitution, the present appropriation limit is equal to \$2.5 billion adjusted for federal indices of change in population and inflation since July 1, 1981, except for appropriations for permanent fund dividends, revenue bond proceeds, debt service on general obligation bonds, and non-State trust funds. Article 9 Section 16 further provides that within the appropriation limit, "at least one-third shall be reserved for capital projects and loan appropriations." Appropriations for capital projects above the appropriation limit are permitted if approved by the governor or passed by a three-fourths legislative veto override and if approved by the Alaska voters.

A) SHORT.

Section 1 of CS HJR 39 proposes to substitute for the current appropriation limit one of the following limitations, whichever is less:

- 1) the appropriations for the year that this constitutional limit becomes effective (see Section 5 for effective date), adjusted each year for changes in population and inflation; or
- 2) "95 percent of the unrestricted revenue of the State in the previous calendar year." (In a period of declining revenues, this would likely be the effective limit on State appropriations).

These limitation provisions become effective once cash-based budgeting begins (see Section 5 for the effective date). Appropriations which fall within the limits of this section exclude appropriations "to the permanent fund, appropriations of the proceeds of revenue or general obligations bonds and appropriations required to pay the principal and interest on general obligation bonds..."

Section 2.

An appropriation reserve fund is created in this section and is protected from appropriation except in a state of emergency or for meeting the general obligation bonded debt of the State. During a period of (roughly 7 to 9) years, contributions to the reserve fund will be made from unrestricted revenues as described in section 3 below. The reserve fund will be transferred into the treasury once the balance exceeds 1.5 times the preceding fiscal year appropriations of unrestricted revenue. This automatic termination of contributions to the reserve fund insures that cash-based budgeting will begin with the equivalent of 18 month's of State appropriations in the reserve.

This section further provides that the appropriation reserve balance is to be invested at competitive market rates and that all earnings from these investments will be retained by the reserve fund during the years when contributions are being made to the fund.

Section 3.

This section provides that 8.8 percent of unrestricted revenues received each month will be transferred into the appropriation reserve fund from July 31, 1985 until the reserve fund exceeds 1.5 times the appropriations of the preceding year. In other words, until the appropriation reserve fund contains a balance sufficient to begin cash-based budgeting, monthly contributions equal to 8.8 percent of the previous month's unrestricted revenues are deposited into the reserve fund.

Section 4.

This section provides for an interim appropriation limit to be effective during the period when contributions are being made to the appropriations reserve fund. Except for appropriations to the permanent fund or for bonded debt service, spending is limited under this section to the fiscal year appropriations on the effective date of this section adjusted annually for changes in population and inflation. Appropriations above this limit may be made only in a state of emergency.

A supplementary source of contributions to the reserve fund is provided in this section. These contributions equal 25 percent of any unappropriated revenues remaining at the end of each fiscal year during the contribution period. For example, unappropriated revenues would remain in the event that actual revenues received during the year exceed expectations, and more importantly, exceed total appropriations for the year.

Section 5.

This section establishes an effective date for the appropriation limitation defined in Section 1 of this resolution. The effective date is July 1 of the year following the fiscal year in which the appropriation reserve fund balance exceeds 1.5 times the preceding fiscal year appropriations.

Section 6.

This section provides that the Constitutional amendments proposed in this resolution shall be placed before the voters in the next general election.

HJR 39

BILL HJR0039
PAGE 00538
DATE 03/18/83
CHAMBER HOUSE
TEXT HOUSE JOINT RESOLUTION NO. 39 by Hayes, Abood, Barnes, Bettisworth, Cowdery, Flood, Liska, Martin, Ringstad, Uehling, Ward, Lindauer and Bussell:
Proposing amendments to the Constitution of the State of Alaska creating an appropriation reserve fund.
was read the first time and referred to the State Affairs and Finance Committees.

BILL HJR0039
PAGE 02652
DATE 02/21/84
CHAMBER HOUSE
TEXT The State Affairs Committee has had HOUSE JOINT RESOLUTION NO. 39 (proposing amendments to the Constitution of the State of Alaska creating an appropriation reserve fund), under consideration, recommends it be replaced with COMMITTEE SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (State Affairs):
"Proposing amendments to the Constitution of the State of Alaska creating an appropriation reserve fund and limiting increases in appropriations."
and reports it back as follows: Abood (Chairman) and Cowdery recommend do pass; M. M. Miller and Larson have no recommendation. A fiscal note was attached.
HJR 39 was referred to the Finance Committee.
The fiscal note appears in House Journal Supplement No. 95.

BILL HJR0039
PAGE 02901
DATE 03/13/84
CHAMBER HOUSE
TEXT The Finance Committee has had HOUSE JOINT RESOLUTION NO. 39 (proposing amendments to the Constitution of the State of Alaska creating an appropriation reserve fund), recommends it be replaced with COMMITTEE SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Finance):
Proposing amendments to the Constitution of the State of Alaska creating an appropriation reserve fund and limiting increases in appropriations.
and reports it back as follows: Adams (Chairman), Ward, Fritz, Grussendorf, Furnace and Martin recommend do pass. A zero fiscal note was attached.
HJR 39 was referred to the Rules Committee for placement on the calendar.

Appropriation
Reserve Fund
(creation of)

HOUSE JOINT RESOLUTION NO. 39, (see page 333, 1983 report).
Reported back to the House February 21 by State Affairs
recommending it be replaced with a substitute and as follows:
Abood (Chair) and Cowdery recommend it do pass; M. M. Miller and
Larson had no recommendation. To Finance.

The State Affairs CS completely rewrites the resolution:

--Section 1 rewrites Article IX, section 16 of the Alaska
Constitution, "Finance and Taxation. Appropriation Limit." to
establish a limit on appropriations that is the lesser of two
amounts ". . . appropriations from the treasury during a fiscal year
may not exceed the lesser of the amount appropriated in the year
this section takes effect adjusted for the cumulative inflation and
population growth or decline as defined by law or 95 percent of the
unrestricted revenue of the state for the previous calendar year. .
. . .".

Permanent Fund and general obligation debt appropriations would be
exempt, and additional appropriations would be allowed only if the
Governor declares a state of emergency. Section 1 would take
effect on July 1 of a year when the reserve fund reaches its target
balance (balance is defined in section 2, below) thus, this limit
will go in to effect at that point; between June 30, 1986 and that
point, however, there will be a different "interim" appropriations
limit, defined in section 4, below.

--Section 2 adds a new section to Article IX of the Alaska
Constitution, "Finance and Taxation" that establishes a reserve
fund [to receive deposits defined in section 3, below]. It

prohibits the use of the fund for appropriations, with certain
exceptions (such as repelling invasion and meeting natural
disasters), and would require investment of the fund balance [i.e.,
of deposits made to the fund], including retention and reinvestment
of those interest earnings. After June 30 of the year when the
total balance of the fund (including interest earnings) reaches
150% of the amount of unrestricted revenues appropriated in the
previous fiscal year, the fund balance lapses into the treasury
[from which it can then be legally appropriated]. [Note: "150%" =
"Target Balance"].

--Section 3 adds a new section to Article XV of the Alaska
Constitution, "Schedule of Transitional Measures", that provides
for monthly deposits to the reserve fund. The deposits will equal
8.8% of the state's monthly collection of unrestricted revenues
(which are received into the Treasury). The deposits will be
transferred to the fund on the first of each month [note:
"transfer" is a legal term--it means an automatic Treasury
transfer, which is not an "appropriation"--thus, these deposits are
not counted under the limit created in section 1, above.]

The monthly deposits will begin on July 31, 1985 (the first deposit
will thus be 8.8% of unrestricted revenues collected during the
first month of that fiscal year, which begins on July 1, 1985).
Deposits will stop on June 30 of the year when the fund reaches its
target balance (thus, the last deposit made on that June 1).

Allows extra deposits to be made to the fund, in addition to the monthly deposits--these deposits may occur because of the interim spending limit set up on section 4, below, which will be in place from after June 30, 1986 until the fund target is reached; while this interim limit is in effect, at least 25% of any unappropriated (i.e., "excess" or "over the interim limit") revenues must be transferred into the fund; these are the extra deposits ("any balance", p. 2, line 16 of the resolution).

Would allow the amount of the extra deposits to take the place of an equal amount of monthly deposits required in a given year. If the amount of the extra deposits were greater than the total amount of monthly deposits remaining in the year, however, the remainder of the extra deposits would not replace the monthly deposits beginning in (or after) January of the next year (i.e., no matter how large the extra deposit(s) in any year, it/they could never replace more than 12 monthly deposits).

--Section 4 adds a new section to Article XV of the Alaska Constitution, "Schedule of Transitional Measures", that would create an interim appropriations limit, that would be in effect from after June 30, 1986 until June 30 of the year when the fund reaches its target balance. The limit provides that appropriations may not exceed the amount appropriated in the year in which this section becomes effective (presumably 1984, upon voter approval), as adjusted annually for inflation and population growth.

The Permanent Fund appropriations and general obligation debt appropriations are exempted from this interim limit (as with the subsequent limit, after the fund reaches its target balance). Other appropriations over the limit can be made only if the Governor declares an emergency. If there are "excess" or "surplus" unrestricted revenues (i.e., above amount established by this interim limit), at least 25% of them shall be transferred (again: not an "appropriation") into the reserve fund--transferral will occur on the first day of the coming fiscal year (i.e., the one being appropriated/budgeted).

--Section 5 provides that the (later) appropriations limit created in section 1 will go into effect on July 1 of the year in which the fund reaches its target balance. It also provides that everything else in section 1 becomes effective on that same July 1st.

--Section 6 provides that the amendment proposed by this resolution will be placed before the voters at the next general election (November, 1984).

History: the resolution was introduced March 18, '83 by Rep. Hayes and proposed amendments to the state constitution creating an appropriation reserve fund. After July 1, 1992 no money in excess of the balance of the appropriation reserve fund at the close of the preceding fiscal year could be withdrawn from the treasury, except for wars, natural disasters, or redeeming indebtedness at the time the section takes effect.

After July 1, 1992, all state revenues would be required to be placed in the fund and the balance would lapse into the treasury at the close of each fiscal year. Annual appropriations would have started during the 14th Legislature, and continued through the 17th in amounts equal to 15% of the average gross receipts of the general fund (described how amounts are figured).

Offered: 3/13/84
Referred: Rules

Original sponsors: Hayes, Abood,
Barnes, et al

1 IN THE HOUSE BY THE FINANCE COMMITTEE
2 CS FOR HOUSE JOINT RESOLUTION NO. 39 (Finance)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 Proposing amendments to the Constitution
6 of the State of Alaska creating an
7 appropriation reserve fund and limiting
8 increases in appropriations.

9 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. Article IX, sec. 16, Constitution of the State of Alaska,
11 is repealed and readopted to read:

12 SECTION 16. APPROPRIATION LIMITATIONS. Except for appropria-
13 tions ^{for} ~~to the~~ Alaska permanent fund ^{dividends} appropriations of the proceeds of
14 revenue or general obligations bonds and appropriations required to
15 pay the principal and interest on general obligation bonds, ^{other exemption} ~~appropri-~~ ^{in it}
16 ations from the treasury during a fiscal year may not exceed the ^X
17 lesser of the amount appropriated in ^{preceding the FY in which} the fiscal year ^X This section ^{etc}
18 takes effect adjusted for the cumulative inflation and population
19 growth or decline as defined by law or 95 percent of the unrestricted
20 revenue of the state for the previous calendar year. An appropriation
21 in excess of this limit may not be made unless a state of emergency is
22 declared by the governor as provided by law. The governor shall cause
23 any unexpended or unappropriated balance to be invested so as to yield
24 competitive market rates to the treasury.

25 * Sec. 2. Article IX, Constitution of the State of Alaska, is amended
26 by adding a new section to read:

27 SECTION 17. APPROPRIATION RESERVE FUND. An appropriation re-
28 serve fund is established. Appropriations may not be made from the
29 appropriation reserve fund except for the purpose of repelling

1 invasion, suppressing insurrection, defending the state in war, meet-
2 ing natural disasters, or appropriations required to pay the principal
3 and interest on general obligation bonds. On June 30 of fiscal
4 year in which the balance of the appropriation reserve fund exceeds
5 1.5 times the appropriations of unrestricted revenue in the preceding
6 fiscal year, the balance of the appropriation reserve fund shall lapse
7 into the treasury. The balance of the appropriation reserve fund
8 shall be invested at competitive national market rates. All earnings
9 of the fund shall become part of the principal of the fund.

10 * Sec. 3. Article XV, Constitution of the State of Alaska, is amended
11 by adding a new section to read:

12 SECTION 29. APPROPRIATION RESERVE FUND. Beginning July 1,
13 1985, and continuing until June 30 of the fiscal year in which the
14 balance of the appropriation reserve fund exceeds 1.5 times the appro-
15 priations of unrestricted revenue in the preceding fiscal year, an
16 amount equal to 8.8 percent of the unrestricted revenue for each month
17 shall be transferred from the treasury to the appropriation reserve
18 fund on the first day of the succeeding month.

19 ~~Sec. 4. Article XV, Constitution of the State of Alaska, is amended~~
20 ~~by adding a new section to read:~~

21 ~~SECTION 30. APPROPRIATION LIMITATIONS. After June 30, 1986, and~~
22 ~~until June 30 of the fiscal year in which the balance of the appro-~~
23 ~~priation reserve fund exceeds 1.5 times the appropriations of unre-~~
24 ~~stricted revenue in the preceding fiscal year's appropriations from~~
25 ~~the treasury during a fiscal year, except for appropriations to the~~
26 ~~Alaska permanent fund, appropriations of the proceeds of revenue or~~
27 ~~general obligation bonds and appropriations required to pay the prin-~~
28 ~~cipal and interest on general obligation bonds, may not exceed the~~
29 ~~amount appropriated in the fiscal year in which this section becomes~~

1 ~~effective by more than the cumulative inflation and population growth~~
2 or decline as prescribed by law. An appropriation in excess of this
3 limit may not be made unless a state of emergency is declared by the
4 governor as provided by law. The governor shall cause any unexpended
5 or unappropriated balance to be invested so as to yield competitive
6 ~~market rates to the treasury.~~ No less than 25 percent of that portion
7 of the unrestricted revenue of the state which has not been appropri-
8 ated as allowed by this section shall be transferred from the general
9 fund to the appropriation reserve fund on the first day of each fiscal
10 year during the period defined in this section. ~~During the period in~~
11 ~~which this section is in effect the provisions of Section 16 of~~
12 ~~Article IX of this Constitution are superseded.~~

13 * Sec. ~~4.4~~ Section 1 of this amendment takes effect on July 1 of the
14 fiscal year following the fiscal year in which the balance in the appropri-
15 ation reserve fund established in sec. 2 of this amendment exceeds 1.5
16 times the appropriations of unrestricted revenue in the preceding fiscal
17 year.

18 * Sec. ~~4.5~~ The amendments proposed by this resolution shall be placed
19 before the voters of the state at the next general election in conformity
20 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-
21 tion laws of the state.

additions
[] deletions

Original sponsors: Hayes, Abood,
Barnes, et al

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE JOINT RESOLUTION NO. 39 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 Proposing amendments to the Constitution
6 of the State of Alaska creating an
7 appropriation reserve fund and limiting
8 increases in appropriations.

9 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. Article IX, sec. 16, Constitution of the State of Alaska,
11 is repealed and readopted to read:

12 SECTION 16. APPROPRIATION LIMITATIONS. Except for appropria-
13 tions to the Alaska permanent fund, appropriations of the proceeds of
14 revenue or general obligations bonds and appropriations required to
15 pay the principal and interest on general obligation bonds,] appropri-
16 ations from the treasury during a fiscal year may not exceed the
17 lesser of the amount appropriated in the fiscal year ^{previous fiscal year} this section
18 takes effect adjusted for the cumulative inflation and population
19 growth or decline as defined by law] or 95 percent of the unrestricted
20 revenue of the state for the previous calendar year.] An appropriation
21 in excess of this limit may not be made unless a state of emergency is
22 declared by the governor as provided by law. The governor shall cause
23 any unexpended or unappropriated balance to be invested so as to yield
24 competitive market rates to the treasury.

↳ state indebtedness and appropriations reserved to pay

25 * Sec. 2. Article IX, Constitution of the State of Alaska, is amended
26 by adding a new section to read:

27 SECTION 17. APPROPRIATION RESERVE FUND. An appropriation re-
28 serve fund is established. Appropriations may not be made from the
29 appropriation reserve fund except for the purpose of repelling

1 invasion, suppressing insurrection, defending the state in war, meet-
2 ing natural disasters, or appropriations required to pay the principal
3 and interest on ^{State indebtedness} general obligation bonds. On June 30 of the fiscal
4 year in which the balance of the appropriation reserve fund exceeds
5 1.5 times the appropriations of unrestricted revenue in the preceding
6 fiscal year, the [balance of the appropriation] reserve fund shall lapse
7 into the treasury. The balance of the appropriation reserve fund
8 shall be invested at competitive national market rates. All earnings
9 of the fund shall become part of the principal of the fund.

10 * Sec. 3. Article XV, Constitution of the State of Alaska, is amended
11 by adding a new section to read:

12 SECTION 29. APPROPRIATION RESERVE FUND. Beginning July 31,
13 1985, and continuing until June 30 of the fiscal year in which the
14 balance of the appropriation reserve fund exceeds 1.5 times the appro-
15 priations of unrestricted revenue in the preceding fiscal year, an
16 amount equal to 8.8 percent of the unrestricted revenue for each month
17 shall be transferred from the treasury to the appropriation reserve
18 fund on the first day of the succeeding month. ^{Remove discretion}
^{to reduce 8.8 deposit by 25% end of year deposit}

19 * Sec. 4. Article XV, Constitution of the State of Alaska, is amended
20 by adding a new section to read:

21 SECTION 30. APPROPRIATION LIMITATIONS. After June 30, 1986, and
22 until June 30 of the fiscal year in which the balance of the appro-
23 priation reserve fund exceeds 1.5 times the appropriations of unre-
24 stricted revenue in the preceding fiscal year's appropriations from
25 the treasury during a fiscal year, except for appropriations to the
26 Alaska permanent fund, appropriations of the proceeds of ^{State income} revenue or
27 general obligation bonds and appropriations required to pay the prin-
28 cipal ^{State indebtedness} and interest on general obligation bonds, may not exceed the
29 amount appropriated in the fiscal year in which this section becomes

1 effective by more than the cumulative inflation and population growth
2 or decline as prescribed by law. An appropriation in excess of this
3 limit may not be made unless a state of emergency is declared by the
4 governor as provided by law. The governor shall cause any unexpended
5 or unappropriated balance to be invested so as to yield competitive
6 market rates to the treasury. No less than 25 percent of that portion
7 of the unrestricted revenue of the state which has not been appropri-
8 ated as allowed by this section shall be transferred from the general
9 fund to the appropriation reserve fund on the first day of each fiscal
10 year during the period defined in this section. During the period in
11 which this section is in effect the provisions of Section 16 of
12 Article IX of this Constitution are superseded.

13 * Sec. 5. Section 1 of this amendment takes effect on July 1 of the
14 fiscal year following the fiscal year in which the balance in the appro-
15 priation reserve fund established in sec. 2 of this amendment exceeds 1.5
16 times the appropriations of unrestricted revenue in the preceding fiscal
17 year.

18 * Sec. 6. The amendments proposed by this resolution shall be placed
19 before the voters of the state at the next general election in conformity
20 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-
21 tion laws of the state.
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Official Business

Alaska State Legislature

House of Representatives

Office of the Majority Leader

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

TO: HOUSE MAJORITY COALITION MEMBERS

FROM: REPRESENTATIVE RAMONA BARNES
HOUSE MAJORITY LEADER

DATE: MARCH 15, 1984

RE: CSHJR 39 (Fin) Proposing amendments to the constitution of the State of Alaska creating an appropriation reserve fund and limiting increases in appropriations.

ISSUE The present system of budgeting is satisfactory, and thus cash based budgeting is an unnecessary gimmick.

ANSWER At present, all state governments and most municipalities prepare annual or biennial budgets based on anticipated income. In Alaska, a few weeks before the beginning of each fiscal year, the legislature completes and the governor signs a budget based on revenues expected to begin coming into the state treasury on July 1. This method of budgeting poses two problems. First, it is possible for the state to fail to fund needed projects because of a low revenue forecast when money actually would have been available. Second, and more seriously, it is possible for the state to fund projects for which money is later not available, with the attendant ramifications of curtailing programs, interrupting operations and dashing expectations.

ISSUE Cash based budgeting is a good idea, but now is not the right time to do it.

ANSWER Because of the lead time necessary in getting a constitutional amendment approved by the voters, and the projections of declining revenue in the late 1980's, this may be the last opportunity the state has to implement cash based budgeting. Constitutional amendments can only be placed on the ballot during general elections. If the amendments contained in this resolution are not placed before the voters this year, they cannot be placed before the voters until 1986. This means that money would not start being put in the fund until FY 1988. Current projections are that state revenue will begin declining in FY 1989. It may be more difficult for the state to deposit 8.8% of its income in the fund for the years 1988 through 1995, when 6 of those 7 years are years of declining income. Thus, this appears to be the last good chance we have to adopt cash based budgeting.

ISSUE

Other than providing certainty in the budgeting process, there are no other advantages to cash based budgeting.

ANSWER

Under this legislation, an average of 18 months' normal expenditures would be held in reserve, and can be invested in relatively long-term, stable securities. (The additional six months is necessitated by the fact that the legislature operates on a calendar year and the budget is prepared for a fiscal year.) The existence of this reserve would result in approximately \$400 million in additional income for the budgeting process, given anticipated revenue and earnings projections. This extra income would be a valuable resource as state oil revenues decline.

A second major advantage is that subordinate political units which are dependent on the states for a share of their operating budgets each year will have a clearer idea of how much money the state has available to provide to them. Thus, the budgeting process is easier for the municipalities as well as for the state under this proposal.



Official Business

Alaska State Legislature

House of Representatives

Al Adams
Chairman
Committee on Finance

WHILE IN SESSION
Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-3706

OUT OF SESSION
P.O. Box 333
Kotzebue, Alaska 99752
(907) 442-3320
1024 W. 6th
Anchorage, Alaska 99501
(907) 274-0615

February 6, 1984

TO: Members of the House Finance Committee
FROM: Representative Al Adams
RE: Proposed Letter of Intent for CSHB 524 (Fin)

LETTER OF INTENT CSHB 524 (Fin)

It is the intent of the Legislature that for the purposes of calculating the spending limit in HB 524 the following equation be used:

$$\text{Base} \times (1 + \text{rate of growth in population}) \times (1 + \text{inflation adjustment}) = \text{Limit}$$

The base is \$2,500,000 for fiscal year 1982. For each succeeding fiscal year the base shall be adjusted by the rate of change in population and the Anchorage Consumer Price Index-Urban (CPI-U).

The rate of change in population shall be calculated as the continuously compounded annual rate of change between 1970 and 1980 (April 1) estimates of population established by the U.S. Census Bureau in their decennial censuses. For example, the rate of change for the 1980's is computed as follows:

$$\text{Population}_{1980} = \text{Population}_{1970} \cdot e^{rt}$$

$$\text{Rate of change} = r = \frac{\text{Ln}(\text{population}_{1980} / \text{population}_{1970})}{t}, \text{ or}$$

$$\text{Rate of change} = .0284 = \frac{\text{Ln}(401851/302583)}{10}$$

The rate of change in the Anchorage CPI-U computed as the July to July change in the index as published in the U.S. Department of Labor, Bureau of Labor Statistics.

CS HJR 39 Sectional Analysis
(Finance Committee Substitute)
Prepared by House Research Agency

Chronological Sequence of Provisions

- 1) An appropriation reserve fund is created upon voter approval in the next general election.
- 2) Contributions to the reserve fund (as provided in Section 3 of this resolution) begin July 31, 1985 and continue through June 30 of the year in which the reserve balance exceeds 1.5 times the preceding year appropriations of unrestricted revenues.
- 3) General fund appropriations are limited (as provided in Section 4 of this resolution) during the period of time in which contributions are made to the reserve fund.
- 4) When sufficient funds to begin cash-based budgeting have been collected, the reserve fund balance is transferred into the treasury.
- 5) Once cash-based budgeting begins, a new spending limit (as defined in Section 1 of this resolution) is imposed.

Section 1.

This section replaces the existing State Constitutional spending limit provisions. According to Article 9, Section 16 of the Alaska Constitution, the present appropriation limit is equal to \$2.5 billion adjusted for federal indices of change in population and inflation since July 1, 1981, except for appropriations for permanent fund dividends, revenue bond proceeds, debt service on general obligation bonds, and non-State trust funds. Article 9 Section 16 further provides that within the appropriation limit, "at least one-third shall be reserved for capital projects and loan appropriations." Appropriations for capital projects above the appropriation limit are permitted if approved by the governor or passed by a three-fourths legislative veto override and if approved by the Alaska voters.

Section 1 of CS HJR 39 proposes to substitute for the current appropriation limit one of the following limitations, whichever is less:

- 1) the appropriations for the year that this constitutional limit becomes effective (see Section 5 for effective date), adjusted each year for changes in population and inflation; or
- 2) "95 percent of the unrestricted revenue of the State in the previous calendar year." (In a period of declining revenues, this would likely be the effective limit on State appropriations).

These limitation provisions become effective once cash-based budgeting begins (see Section 5 for the effective date). Appropriations which fall within the limits of this section exclude appropriations "to the permanent fund, appropriations of the proceeds of revenue or general obligations bonds and appropriations required to pay the principal and interest on general obligation bonds..."

Section 2.

An appropriation reserve fund is created in this section and is protected from appropriation except in a state of emergency or for meeting the general obligation bonded debt of the State. During a period of (roughly 7 to 9) years, contributions to the reserve fund will be made from unrestricted revenues as described in section 3 below. The reserve fund will be transferred into the treasury once the balance exceeds 1.5 times the preceding fiscal year appropriations of unrestricted revenue. This automatic termination of contributions to the reserve fund insures that cash-based budgeting will begin with the equivalent of 18 month's of State appropriations in the reserve.

This section further provides that the appropriation reserve balance is to be invested at competitive market rates and that all earnings from these investments will be retained by the reserve fund during the years when contributions are being made to the fund.

Section 3.

This section provides that 8.8 percent of unrestricted revenues received each month will be transferred into the appropriation reserve fund from July 31, 1985 until the reserve fund exceeds 1.5 times the appropriations of the preceding year. In other words, until the appropriation reserve fund contains a balance sufficient to begin cash-based budgeting, monthly contributions equal to 8.8 percent of the previous month's unrestricted revenues are deposited into the reserve fund.

Section 4.

This section provides for an interim appropriation limit to be effective during the period when contributions are being made to the appropriations reserve fund. Except for appropriations to the permanent fund or for bonded debt service, spending is limited under this section to the fiscal year appropriations on the effective date of this section adjusted annually for changes in population and inflation. Appropriations above this limit may be made only in a state of emergency.

A supplementary source of contributions to the reserve fund is provided in this section. These contributions equal 25 percent of any unappropriated revenues remaining at the end of each fiscal year during the contribution period. For example, unappropriated revenues would remain in the event that actual revenues received during the year exceed expectations, and more importantly, exceed total appropriations for the year.

Section 5.

This section establishes an effective date for the appropriation limitation defined in Section 1 of this resolution. The effective date is July 1 of the year following the fiscal year in which the appropriation reserve fund balance exceeds 1.5 times the preceding fiscal year appropriations.

Section 6.

This section provides that the Constitutional amendments proposed in this resolution shall be placed before the voters in the next general election.

THE GENERAL FUND AS A REVENUE SOURCE FOR CASH-BASED BUDGETING
 Based on a 30th Percentile Revenue Projection
 (millions of dollars)

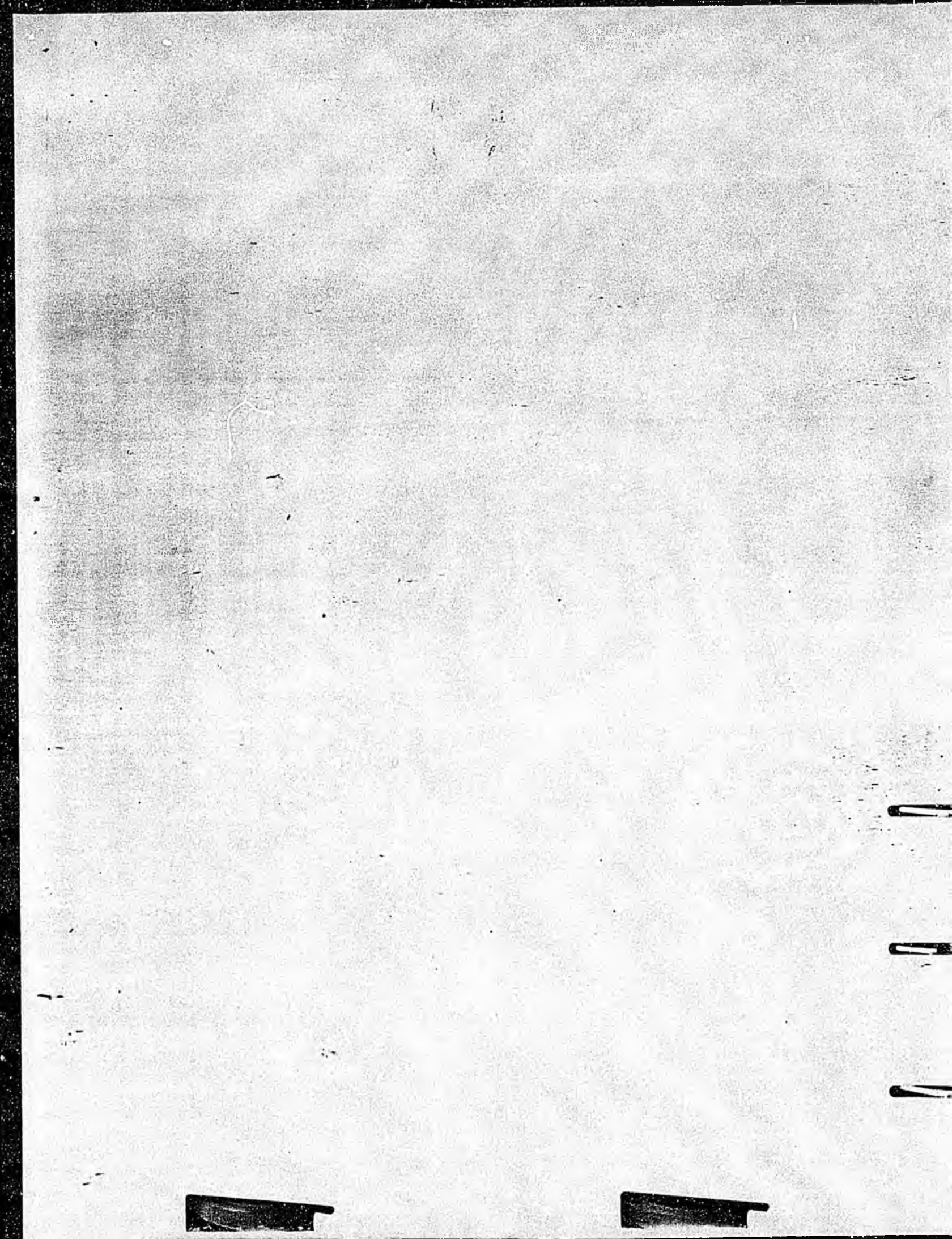
Fiscal Year	DOR Revenue Forecast	Revenue Under CBB	Potential Expenditure Level	General Fund Earnings	General Fund BalanceCash-Based Budgeting Reserve Fund....		
						Contributions	Earnings	Balance
1981	3,769		3,769	201	2,010			
1982	4,174		4,174	254	2,540			
1983	3,624		3,624	266	2,660			
1984	3,233		3,233	300	3,000			
1985	3,219		3,219	250	2,500			
1986	3,365	3,069	3,069	259	2,590	296.1	14	310
1987	3,729	3,401	3,401	288	2,880	328.2	48	686
1988	3,711	3,384	3,384	288	2,880	326.6	87	1,100
1989	4,068	3,710	3,710	318	3,180	358.0	132	1,590
1990	3,880	3,539	3,539	301	3,010	341.4	183	2,114
1991	3,582	3,267	3,267	275	2,750	315.2	236	2,665
1992	3,536	3,225	3,225	270	2,700	311.2	294	3,270
1993	3,405	3,105	3,105	258	2,580	299.6	357	3,927
1994	3,290	3,000	3,000	247	2,470	289.5	425	4,641
1995	3,195	3,644	3,348	685	7,297			
1996	3,033	3,183	3,467	672	7,174			
1997	3,092	3,540	3,564	673	7,180			
1998	3,159	3,617	3,512	687	7,325			
1999	3,213	3,680	3,578	698	7,447			
2000	3,245	3,718	3,648	705	7,527			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

col.

- 2 Department of Revenue January, 1984 revenue projection.
- 3 Revenues after effects of cash-based budgeting program. During the CBB reserve contribution period, revenues (column 3) are equal to DOR projections minus annual CBB contributions. Starting with the first cash-based budgeting year, revenues (column 3) are equal to DOR projections plus additional earnings which accrue to the general fund as a result of transferring the CBB reserve fund balance to the general fund.
- 4 Expenditure levels are presently limited to projected revenues (ignoring the Constitutional appropriation limit). Beginning with the first cash-based budgeting year, expenditures will be limited to the revenues collected in the previous calendar year.
- 5 General fund earnings are DOR projections up to the start of cash-based budgeting, at which point the general fund earnings will be augmented due to the increased earnings capacity of the general fund from that point on into the future.
- 6 Beginning with the first cash-based budgeting year, the general fund balance is substantially increased by the transfer of the CBB reserve fund.
- 8 Reserve fund earnings are calculated at a 10 percent annual interest rate compounded monthly.
- 9 The earnings rate of the CBB reserve fund is compounded monthly using a 10% annual interest rate.

This projection is based on a general fund unrestricted revenue contribution of 8.8 percent.

Prepared by House Research Agency - March 12, 1984



CURRENT APPROPRIATIONS LIMIT

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 16. APPROPRIATION LIMIT. Except for appropriations for Alaska permanent fund dividends, appropriations of revenue bond proceeds, appropriations required to pay the principal and interest on general obligation bonds, and appropriations of money received from a non-State source in trust for a specific purpose, including revenues of a public enterprise or public corporation of the State that issues revenue bonds, appropriations from the treasury made for a fiscal year shall not exceed \$2,500,000,000 by more than the cumulative change, derived from federal indices as prescribed by law, in population and inflation since July 1, 1981. Within this limit, at least one-third shall be reserved for capital projects and loan appropriations. The legislature may exceed this limit in bills for appropriations to the Alaska permanent fund and in bills for appropriations for capital projects, whether of bond proceeds or otherwise, if each bill is approved by the governor, or passed by affirmative vote of three-fourths of the membership of the legislature over a veto or item veto, or becomes law without signature, and is also approved by the voters as prescribed by law. Each bill for appropriations for capital projects in excess of the limit shall be confined to capital projects of the same type, and the voters shall, as provided by law, be informed of the cost of operations and maintenance of the capital projects. No other appropriation in excess of this limit may be made

except to meet a state of disaster declared by the governor as prescribed by law. The governor shall cause any unexpended and unappropriated balance to be invested so as to yield competitive market rates to the treasury.

* Sec. 2. Article XV, Constitution of the State of Alaska, is amended by adding new sections to read:

SECTION 26. APPROPRIATIONS FOR RELOCATION OF THE CAPITAL. If a majority of those voting on the question at the general election in 1982 approve the ballot proposition for the total cost to the State of providing for relocation of the capital, no additional voter approval of appropriations for that purpose within the cost approved by the voters is required under the 1982 amendment limiting increases in appropriations (art. IX, sec. 16).

SECTION 27. RECONSIDERATION OF AMENDMENT LIMITING INCREASES IN APPROPRIATIONS. If the 1982 amendment limiting appropriation increases (art. IX, sec. 16) is adopted, the lieutenant governor shall cause the ballot title and proposition for the amendment to be placed on the ballot again at the general election in 1986. If the majority of those voting on the proposition in 1986 rejects the amendment, it shall be repealed.

SECTION 28. APPLICATION OF AMENDMENT. The 1982 amendment limiting appropriation increases (art. IX, sec. 16) applies to appropriations made for fiscal year 1984 and thereafter.

* Sec. 3. The amendments proposed by this resolution shall be placed before the voters of the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state.

Introduced: 3/18/83
Referred: State Affairs and
Finance

BY HAYES, ABOOD, BARNES,
BETTISWORTH, COWDERY, FLOOD,
LISKA, MARTIN, RINGSTAD,
UEHLING, WARD, LINDAUER
AND BUSSELL

1 IN THE HOUSE

2

HOUSE JOINT RESOLUTION NO. 39

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

THIRTEENTH LEGISLATURE - FIRST SESSION

5

Proposing amendments to the Constitution

6

of the State of Alaska creating an

7

appropriation reserve fund.

8

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9

* Section 1. Article IX, Constitution of the State of Alaska, is amend-

10

ed by adding a new section to read:

11

SECTION 17. APPROPRIATION RESERVE FUND. An appropriation re-
serve fund is established. After July 1, 1992, no money in excess of
the balance of the appropriation reserve fund at the close of the
preceding fiscal year shall be withdrawn from the treasury except for
the purpose of repelling invasion, suppressing insurrection, defending
the State in war, meeting natural disasters, or redeeming indebtedness
outstanding at the time this section becomes effective. After July 1,
1992, all revenue of the State shall be placed in the appropriation
reserve fund and the balance of the appropriation reserve fund shall
lapse into the treasury at the close of each succeeding fiscal year.

20

21

* Sec. 2. Article XV, Constitution of the State of Alaska, is amended

22

by adding a new section to read:

23

SECTION 26. APPROPRIATION RESERVE FUND. Beginning with the
First Session of the Fourteenth Legislature and continuing through the
First Session of the Seventeenth Legislature, the legislature shall
annually appropriate from the general fund to the appropriation re-
serve fund an amount equal to 15 percent of the average gross receipts
of the general fund, as determined in accordance with this section.
For the purposes of this section, "average gross receipts of the

27

28

29

1 general fund" is determined by dividing the total amount of money
2 deposited in the general fund and in special accounts within the
3 general fund (other than the appropriation reserve fund) from all
4 sources during the four fiscal years immediately preceding the current
5 fiscal year by four.

6 * Sec. 3. The amendments proposed by this resolution shall be placed
7 before the voters of the state at the next general election in conformity
8 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-
9 tion laws of the state.

Offered: 2/21/84
Referred: Finance

Original sponsors: Hayes, Abood,
Barnes, et al

1 IN THE HOUSE BY THE STATE AFFAIRS COMMITTEE
2 CS FOR HOUSE JOINT RESOLUTION NO. 39 (State Affairs)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 Proposing amendments to the Constitution
6 of the State of Alaska creating an
7 appropriation reserve fund and limiting
8 increases in appropriations.

9 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. Article IX, sec. 16, Constitution of the State of Alaska,
11 is repealed and reenacted to read:

12 SECTION 16. APPROPRIATION LIMITATIONS. Except for appropria-
13 tions to the Alaska permanent fund and appropriations required to pay
14 the principal and interest on general obligation bonds, appropriations
15 from the treasury during a fiscal year may not exceed the lesser of
16 the amount appropriated in the year this section takes effect adjusted
17 for the cumulative inflation and population growth or decline as
18 defined by law or 95 percent of the unrestricted revenue of the state
19 for the previous calendar year. An appropriation in excess of this
20 limit may not be made unless a state of emergency is declared by the
21 governor as provided by law.

22 * Sec. 2. Article IX, Constitution of the State of Alaska, is amended
23 by adding a new section to read:

24 SECTION 17. APPROPRIATION RESERVE FUND. An appropriation re-
25 serve fund is established. Appropriations may not be made from the
26 appropriation reserve fund except for the purpose of repelling inva-
27 sion, suppressing insurrection, defending the state in war, meeting
28 natural disasters, or appropriations required to pay the principal and
29 interest on general obligation bonds. After June 30 of the year in

1 interest on general obligation bonds, may not exceed the amount
2 appropriated in the year in which this section becomes effective by
3 more than the cumulative inflation and population growth or decline as
4 prescribed by law. An appropriation in excess of this limit may not
5 be made unless a state of emergency is declared by the governor as
6 provided by law. No less than 25 percent of that portion of the
7 unrestricted revenue of the state which has not been appropriated as
8 allowed by this section shall be transferred from the general fund to
9 the appropriation reserve fund on the first day of each fiscal year
10 during the period defined in this section.

11 * Sec. 5. Section 1 of this amendment takes effect on July 1 of the
12 year in which the balance in the appropriation reserve fund established in
13 sec. 2 of this amendment exceeds 1.5 times the appropriations of unre-
14 stricted revenue in the preceding fiscal year.

15 * Sec. 6. The amendments proposed by this resolution shall be placed
16 before the voters of the state at the next general election in conformity
17 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-
18 tion laws of the state.

**CASH-BASED BUDGETING:
A Response To Revenue Uncertainty**

**House Research Agency
Alaska State Legislature
January 1984**

House Research Agency Report 83-A

The House Research Agency is the permanent, nonpartisan research support arm of the Alaska State House of Representatives. The agency performs research at the request of legislators. A bipartisan governing committee composed of the House Speaker and Minority Leader and the ranking House member of the Legislative Council (i.e., either chair or vice-chair), oversees the agency's work. While the legislature is in session, most research is of a discrete scope. During the interims between legislative sessions, projects of larger scope are undertaken.

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

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**CASH-BASED BUDGETING:
A Response To Revenue Uncertainty**

O. Alexander Hoke
House Research Agency
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January 1984

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INTRODUCTION

Following the 1982 legislative session, the House Research Agency undertook a study of policy options for dealing with uncertain revenues.¹ Alternatives presented in the report included: risk-adjusted forecasting, forward funding (cash-based budgeting), revenue indexed budgeting, and the creation of a rainy day fund. The purpose of this report is to analyze more intensively the cash-based budgeting alternative presented in the 1982 study.

Legislative interest in cash-based budgeting initially surfaced with the introduction of two bills: HB 477 (1979) and HJR 39 (1983). These legislative measures proposed the creation of an "appropriation reserve fund" into which 15 percent of annual General Fund unrestricted revenues would be deposited over a period of seven years. With a reserve totaling somewhat more than one year's appropriations, cash-based budgeting would have begun with: 1) a transfer of the reserve fund balance to the General Fund, and 2) the implementation of an appropriation limit equal to the amount of revenues collected in the previous fiscal year. Although neither of these measures was adopted by the legislature, they have formed the basis for subsequent discussion on this concept and have led to a substantially revised version of cash-based budgeting being proposed for the 1984 legislative session.²

There are essentially unlimited ways in which a cash-based budgeting program can be structured. This report will focus on only a few of the many alternative approaches. As a framework for these alternatives, this report responds to the following questions:

- What is "revenue uncertainty" and how does it affect the design of a cash-based budgeting program?
- How can the transition from the current budgeting system to cash-based budgeting be carried out?
- Is cash-based budgeting more than a mechanism for dealing with revenue uncertainty?
- What are the limitations of cash-based budgeting?

¹State Budget Policy Under Uncertain Revenue Forecasts: Options for Legislative Action; House Research Agency Report 82-B.

²A more complete history and analysis of HB 477 and HJR 39 can be found in Appendix A.

Additionally, this report addresses a number of the broader questions surrounding cash-based budgeting which should be pertinent to any legislative analysis of this topic. Our analysis of cash-based budgeting was aided by a series of computer programs developed within the House Research Agency. These programs enable us to assess the sensitivity of the variables and assumptions considered in this study. Moreover, these computer models make possible a fairly rapid response to legislative inquiries about the fiscal impacts of a given set of design parameters for funding a cash-based budgeting program.

CASH-BASED BUDGETING: A RESPONSE TO REVENUE UNCERTAINTY

EXECUTIVE SUMMARY

Cash-based budgeting (CBB) has been proposed as a means of eliminating the budgeting problems created by uncertain and fluctuating State revenues. Cash-based budgeting (also known as "forward funding") would reduce or eliminate uncertainty by tying the State budget for a given year to the amount of revenues already received and deposited in the treasury during a prior year. Before enacting or signing the budget, the legislature and governor would know exactly how much money was actually available to spend.

Conventional budgeting practices in most states (including Alaska) involve forecasting revenues for the coming fiscal year. Appropriations included in the budget are limited to the anticipated revenues for that year. With approximately 85 percent of Alaska's total revenues dependent on oil taxes and royalties, an error in projecting the price of oil or production level for the coming year can result in substantial miscalculations of total available revenues.

In response to the risk associated with any forecast of future revenues for the State of Alaska, the Department of Revenue began issuing a "risk-adjusted" forecast for the FY 84 budget year. The so-called "30th percentile" forecast implies that actual revenues are likely to fall short of the projected amount only 30 percent of the time. This means that there is a 70 percent probability that actual revenues will equal or exceed the forecast for that year.

"Revenue Uncertainty" And The Design Of A CBB Program

Given that the objective of the cash-based budgeting proposal is to resolve the "revenue uncertainty" problem, it is important that the concept of revenue uncertainty be fully understood.³ Revenue certainty relates to the likelihood that incoming revenues will be sufficient to cover budgeted appropriations. If "reasonable certainty" is sufficient for budgeting purposes, one might choose to limit appropriations to the 30th percentile revenue projection (which gives a 70 percent assurance that actual revenues will equal or exceed budgeted appropriations).

³It is important to recognize that the "revenue uncertainty" addressed by cash-based budgeting relates to a 12 or 18-month time period. The revenue uncertainty associated with a projected long-term revenue decline is not the specific target of cash-based budgeting.

Only when a 100 percent probability exists that revenues will be sufficient to offset budgeted appropriations for the next fiscal year can one say that "revenue uncertainty" has been eliminated. This means that the legislature and governor must know that there is "cash in the bank" sufficient to meet expenditures budgeted for the next year.

The major requirement of a cash-based budgeting program is the creation of a cash reserve from which appropriations can be made.⁴ A cash reserve equal to 18-months of expenditures is required if the legislature wishes to begin each session with absolute certainty that there is sufficient cash to meet expenditures budgeted for the next fiscal year. For absolute certainty on July 1 (the start of the budget year), only 12-months of revenues are required in the reserve. Funding of the CBB reserve fund can be structured in two basic ways:

- smaller annual deposits over a period of years would provide for a delayed start of this budgeting system.
- a single very large deposit would allow for a near-term implementation of cash-based budgeting, or

Based on the assumption that the current State government expenditure policy of appropriating total projected revenues applies for the year in which cash-based budgeting begins, an 18-month CBB reserve must contain \$4.829 billion to start cash-based budgeting in FY 86, or \$4.581 billion for a delayed start in FY 94.

Deferred Implementation of Cash-Based Budgeting

During the current session, legislative attention on cash-based budgeting has focused on a long-term payment plan (CS HJR 39) for developing the CBB reserve fund. There are essentially three sources of funding the CBB reserve for deferred implementation of cash-based budgeting: the General Fund, Permanent Fund earnings, and new or higher taxes. Over a period of years, contributions to the CBB reserve would come from one or a combination of these sources (CS HJR 39 targets General Fund unrestricted revenues). A significant feature of CS HJR 39 (and the computer model used in this report) is the automatic start-up of cash-based budgeting once the reserve fund exceeds 1.5 times the appropriations of the preceding fiscal year.

⁴A Constitutional amendment is the generally preferred means of creating the reserve fund and defining its use for budgetary purposes. The Constitution would serve to insulate the cash-based budgeting reserve fund from the political process much as is the case with the Permanent Fund.

The General Fund. In this report, General Fund unrestricted revenues identified as potentially available for contribution to a CBB reserve fund are those revenues "in excess" of the projected operating costs of government. For this purpose, no real growth in the Operating Budget above the FY 84 level (\$2.057 billion) is assumed.

Three mechanisms for obtaining contributions to the CBB reserve fund are considered in this report:

- A percentage of unrestricted revenues deposited into the CBB reserve fund monthly;
- A "grubstake" contribution to the CBB reserve fund appropriated in the 1984 legislative session to become effective contingent on voter approval of the CBB program during the 1984 general election.
- A percentage of the balance of unobligated (unappropriated) revenues remaining in the General Fund at the end of each year.

Assuming that actual revenues match the 30th percentile revenue forecast, annual contributions of 10.3 percent of total unrestricted revenues would enable the CBB reserve fund to attain the 18-month reserve requirement of \$4.581 billion by FY 94. An FY 94 cash-based budgeting start-up could also be achieved with an annual General Fund contribution of 8.9 percent if a front-end (grubstake) contribution of \$300 million were made during the current session. Under these options, annual contributions to the CBB reserve fund would range between \$300 million and \$420 million. General Fund "excess revenues" would be sufficient to meet CBB contribution requirements in every year except FY 92 and FY 93.

Permanent Fund Earnings. Permanent Fund earnings are another potential source of funds for a CBB reserve account. This report assumes the Permanent Fund is restructured to allow annual contributions to the CBB reserve fund.

Under this set of assumptions, Permanent Fund earnings contributed to the CBB reserve fund are projected to increase from \$208 million in FY 86 to \$501 million in FY 94. Given the earnings potential of the CBB reserve fund, cash-based budgeting could be started in FY 96 with Permanent Fund earnings as a source of contributions.

New or Higher Taxes. A third alternative for funding cash-based budgeting is through new or higher taxes. However, this approach is less promising than the General Fund or Permanent Fund earnings options for the following reasons:

- The political feasibility of raising petroleum taxes is a matter of considerable conjecture, especially in light of the Congressional debate over the need to limit the ability of petroleum producing states to increase oil production taxes.
- Given the January 1984 estimate of all nonpetroleum tax revenue of \$131 million, tax rates would have to be three to four times higher than existing rates in order to meet CBB reserve contribution requirements of between \$300 to \$420 million per year.
- A reinstated Alaska individual income tax could potentially raise revenues of around \$436 million per year. This potential source of funds for cash-based budgeting is of a sufficient magnitude to fund a CBB reserve by the late 1990s, but may also be useful as a supplementary source of funds under other implementation options.

Near-Term Implementation of Cash-Based Budgeting

Two methods by which cash-based budgeting could conceivably be implemented soon after voter approval in 1984 are by a loan from the Permanent Fund and by bonding. Both options would require adoption of a constitutional amendment allowing the State to incur debt for purposes other than for capital construction projects. Assuming cash-based budgeting could begin in FY 86, both the Permanent Fund loan and bonding methods would involve a lump sum deposit into the CBB reserve fund of \$4.829 billion.

Permanent Fund Loan. The plan for repayment of the Permanent Fund loan depends on the interest rate and repayment period assumed. Given a 7-year repayment period and an annual interest rate of ten percent, \$479 million per year (in addition to interest earnings on the balance) would be diverted from the General Fund to repay the loan.

The Permanent Fund loan approach to funding the CBB reserve presents difficulties for the following reasons:

- The loan repayment plan stated above assumes perfect liquidity of Permanent Fund investments. In actuality, some Permanent Fund investments are not readily retrievable for contribution into the CBB reserve fund. Consequently, the start-up date for cash-based budgeting may be delayed from 2 to 3 years, and the annual repayment amounts would be increased since the CBB reserve fund target grows in proportion to revenue projections through FY 90.

- A serious drawback of the Permanent Fund loan concept is the precedent that such a use of the Permanent Fund principal would set.
- A Permanent Fund loan would likely be viewed by the bond market as no different than any other general obligation debt of the State. Consequently, this very large outstanding debt might cause the State's AA bond rating to drop to A or A-, making further bond sales for any State agency more expensive while the loan was being repaid. Furthermore, a debt of the magnitude of \$4.8 billion would eliminate any further debt capacity for the State until this loan is repaid.

Bonding. An alternative near-term cash-based budgeting funding source is bonded debt. If \$4.829 billion in bonds could be sold by the State, cash-based budgeting could be started in the near-term with a repayment schedule much like that which would occur under the Permanent Fund loan option. The following potential problems are associated with the bonding alternative:

- According to a recent report of State debt capacity, an additional \$1.2 billion in debt could potentially be incurred by the State through FY 90 only by doubling its current debt service to revenue ratio. This report recommends against such an increase in the debt service/revenue ratio since the State's AA bond rating would be in jeopardy.⁵
- The Internal Revenue Service (IRS) forbids financial arbitrage with regard to revenues raised by sale of tax exempt bonds. This means the State would be prohibited from investing revenues raised by bond sales at interest rates higher than those pertaining to the sale of the bonds. This factor would effectively raise the overall cost of the bonding alternative for funding cash-based budgeting by the amount of foregone interest earnings of CBB reserve fund investments.

The Fiscal Benefits and Limitations of Cash-Based Budgeting

The intent of legislation proposing cash-based budgeting is to create a budgeting system which will allow legislators to know precisely how much money can be appropriated in the budgets that they will prepare. However, cash-based budgeting is more than simply a mechanism for making revenues more certain.

⁵A Review of Debt Capacity and Debt Management for the State of Alaska; August 1983, prepared by Government Finance Research Center-Municipal Finance Officers Association, Washington D.C.

Fiscal Restraint. The implementation of cash-based budgeting would provide for a constitutional prohibition against deficit spending by requiring that appropriations for a given fiscal year may not exceed total revenues already in hand from the prior calendar year. In addition, about \$400 million per year would be diverted from the revenue stream to the CBB reserve fund during the period of reserve fund growth. In those years, less revenues would be available for appropriation for other purposes.

Bringing Certainty To The Budgeting Process. Knowing exactly how much money is available for appropriation each year is different from the task of allocating available funds. Even though the size of the pie will be known under cash-based budgeting, the problems of dividing up the pie will still require difficult political decisions. For local governments and school districts who rely on State appropriations to finalize their budgets, uncertainty over revenues would remain until the legislative allocation process is complete. This source of revenue uncertainty will become an increasing problem for local jurisdictions during a period of declining revenues as a consequence of increasingly intense competition among contenders for a piece of the budget pie.

In addition, cash-based budgeting resolves the "revenue uncertainty" problem for budgeting purposes on a year-to-year basis, it does not eliminate the considerable uncertainty concerning how the State will budget "within its means" during a period of projected declining revenues.

Revenue Stability - Smoothing. With the start of cash-based budgeting, an element of revenue stability would be introduced to the extent that revenues needed to cover future appropriations would be "in the bank." However, cash-based budgeting would do nothing to smooth out an erratic revenue stream (including both sharp increases and dramatic drops) since revenues would presumably be appropriated at the same level at which they were received 18-months earlier.

Cash-Based Budgeting As An Expenditure Limitation. As a limit on expenditures, cash-based budgeting differs from conventional expenditure limitations which are tied to growth in demand for governmental services (population growth) and changes in the costs of goods and services. Instead, cash-based budgeting is simply bound to increases or declines in total State revenues which are predominately determined by changes in the price and production level of petroleum.

CHAPTER ONE

"REVENUE UNCERTAINTY" AND THE DESIGN OF A CASH-BASED BUDGETING PROGRAM

Cash-based budgeting (CBB) has been proposed as a means of eliminating the budgeting problems created by uncertain and fluctuating State revenues. Cash-based budgeting (which is also known as "forward funding") would reduce or eliminate revenue uncertainty by tying the State budget for a given year to the amount of revenues already received and deposited in the treasury during a prior year.⁶ The legislature and governor would know (before enacting or signing the budget) exactly how much money was actually available to spend. Under the present system, the budget is based on revenues expected to be received during the current fiscal year, which requires forecasting revenues a year or more in advance.

Alaska now depends on petroleum taxes and royalties for about 85 percent of total State revenues, so that revenues rise and fall directly with changes in world oil prices. The volatility and uncertain future of oil prices complicate the budget process for the legislature and the administration as well as for local governments, school districts and other entities that rely heavily on State funding.

The revenue uncertainty problem was particularly severe during the 1982 legislative session, when a large unexpected drop in oil prices caused major budget problems. In March 1982, the revenue forecast for fiscal year (FY) 83 was \$1.4 billion less than had been projected only three months earlier. The sharp decline in revenues required frequent budget revisions, contributed to a longer legislative session, and disrupted fiscal planning for local governments and other recipients of State funds.

Because the purpose of cash-based budgeting is to resolve the "revenue uncertainty" problem, it is important that the concept of revenue certainty be clearly understood.

Revenue Certainty Defined

Revenue certainty relates to the likelihood that incoming revenues will be sufficient to cover budgeted appropriations. Only when a 100 percent probability exists that available funds will be sufficient

⁶It is important to recognize that the "revenue uncertainty" addressed by cash-based budgeting relates to a 12 or 18-month time period. The revenue uncertainty associated with a projected long-term revenue decline is not the specific target of cash-based budgeting.

REVENUE UNCERTAINTY

to offset budgeted appropriations for the next fiscal year can one say that "revenue uncertainty" has been eliminated. Therefore, the legislature can be absolutely certain of its revenue posture only if all of the revenues needed for the next fiscal year are in hand before the start of the fiscal year.

This "cash in the bank" budgeting approach, called cash-based budgeting, means that we will behave as though there exists some chance that no revenues will be collected during the upcoming fiscal year. It would seem unlikely, however, that absolutely no revenues would be available to the State, except in the event of a total collapse of the government. If some minimal level of revenues can be assumed, then a budgeting method that involves somewhat less cash in the bank than is required by cash-based budgeting may suffice.

Under all but extreme circumstances, conventional budgeting practices require only reasonable certainty that a specific level of revenues will be available for the upcoming fiscal year. Having reasonable certainty means that a favorable judgment can be made concerning the probability that some anticipated amount of revenues will be forthcoming to the State treasury by the end of the upcoming fiscal year.

Most state governments budget for the next fiscal year based on the most likely forecast of revenues for that year. Although it is difficult for any state to project future revenues with consistent accuracy, most states have a fairly diversified and stable revenue base. This diversification makes an error in forecasting the revenue from any single source tolerable with respect to its impact on total state revenues. On the other hand, with 85 percent of Alaska income dependent on oil-based taxes and royalties, a small error in forecasting oil prices and production levels can result in a relatively large difference in total State revenues.

Administrative Response to the Revenue Uncertainty Problem

Prior to FY 84, the Alaska Department of Revenue had issued a "mean case" forecast of revenues for the coming fiscal year. The mean revenue projection reflects the most likely revenue forecast under a given set of assumptions for the next year. Roughly speaking, with a mean forecast, actual revenues received by the treasury will be lower than the forecast half of the time.⁷

⁷As the forecast year becomes more distant from the present, the statistical probability of actual revenues falling short of the projected amount increases significantly above 50 percent under a mean revenue forecast.

Out of concern for the budgetary difficulties raised by the volatile oil prices during 1981 and 1982, the department began issuing a "risk-adjusted" forecast for FY 84. The so-called "30th percentile" revenue forecast implies that actual revenues will fall short of the projection only 30 percent of the time. In other words, there is a 70 percent probability that actual revenues will equal or exceed the forecast for that year.

The Degree of Certainty and CBB Design

In designing a cash-based budgeting program, the level of revenue certainty desired and the point in the budgeting process at which certainty is desired dictate the amount of cash on hand needed to start cash-based budgeting. If the legislature wants to be absolutely certain as of January 1 (before the start of the legislative session), that available funds will be sufficient for the next fiscal year, the cash-based budgeting reserve fund must contain 18 months of revenues. This reserve level will cover the balance of the current fiscal year (six months) and the appropriations for the coming fiscal year (twelve months).

Any reserve level containing less than 18 months of revenues requires that some revenues be received to offset the expenditures during the coming fiscal year. In this instance, the probability that those revenues will be received is the degree of certainty that one can have for budgeting purposes.

Alternatives to Cash-Based Budgeting

In order to increase the probability that revenues will cover budgeted appropriations, a number of possible alternatives to cash-based budgeting exist: (1) the establishment of a cash-flow reserve fund equal to a partial year of revenues; (2) limiting appropriations to the level of the Department of Revenue's 30th percentile forecast. This budgeting approach provides a 70 percent assurance that revenues will be sufficient to cover budgeted appropriations; and (3) reliance on the rainy day fund as a supplementary source of revenues.

CHAPTER TWO

DEFERRED IMPLEMENTATION OF CASH-BASED BUDGETING

The major requirement for implementation of cash-based budgeting is the creation of a reserve fund which guarantees "revenue certainty" by allowing legislators to identify revenues available for appropriation in advance of the budget preparation process.⁸ Funding of the CBB reserve fund can be structured in two basic ways: with a single very large deposit which would allow for immediate implementation of cash-based budgeting (discussed in Chapter Three), or with smaller annual deposits over a period of years providing for a delayed start of this budgeting system. During the current session, legislative consideration of cash-based budgeting (CS HJR 39) has focused on the long-term payment plan for developing the CBB reserve fund. To the extent possible, the analysis of deferred implementation of cash-based budgeting in this chapter will parallel the major elements of CS HJR 39.⁹

Reserve Fund Requirements

As stated in Chapter 1, the legislature has considerable latitude in determining what constitutes "revenue certainty" and, therefore, how it might design a cash-based budgeting system to provide the desired degree of certainty. For the purposes of this analysis, revenue certainty is interpreted to require a CBB reserve account which contains funds equivalent to 1.5 times the appropriation level of the fiscal year preceding the start of cash-based budgeting.

Based on this revenue requirement, Table 1 presents the reserve fund target balances needed to begin cash-based budgeting in the corresponding fiscal year. The amounts are predicated on the assumption that the present legislative expenditure policy of appropriating total available revenues (as projected by the Department of Revenue) will continue up to the start of cash-based budgeting.

⁸A Constitutional amendment is the generally preferred means of creating the reserve fund and defining its use for budgetary purposes. The Constitution would serve to insulate the cash-based budgeting reserve fund from the political process much as is the case with the Permanent Fund.

⁹CS HJR 39 contains two appropriation limitation provisions that will not be analyzed in this report. See Appendix A for a copy of CS HJR 39.

DEFERRED IMPLEMENTATION

Because contributions to the CBB reserve fund are treasury transfers rather than appropriations, the reserve target amount projected in Table 1 is equal to total General Fund unrestricted revenues for the preceding fiscal year minus the final year's contribution to the CBB reserve fund. This technique provides a CBB reserve target commensurate with the effective level of appropriation in prior years.

Table 1
Cash-Based Budgeting Reserve Fund Requirements
(for CBB start-up on any year FY 91 through FY 97)

<u>Fiscal Year</u>	<u>DOR Revenue Projection (\$millions)</u>	<u>Minimum Contribution Percentage*</u>	<u>Final Year Contribution*</u>	<u>CBB Reserve Requirement** (\$millions)</u>
1990	\$3,880			
1991	3,582	19.6%	\$761	\$4,679
1992	3,536	15.1	541	4,562
1993	3,405	12.5	442	4,641
1994	3,290	10.3	351	4,581
1995	3,195	8.6	283	4,511
1996	3,033	7.3	233	4,443
1997	3,092	6.1	185	4,272

*The contribution figures shown pertain to a deferred implementation plan for cash-based budgeting (discussed later in this chapter) which assumes that a percentage of General Fund unrestricted revenues is contributed to the CBB reserve each year. With a percentage of General Funds as the only CBB contribution mechanism, the percentages listed above reflect the minimum contribution levels needed to begin cash-based budgeting in the corresponding fiscal year. The contribution amounts shown equal the product of the contribution percentage and the General Fund revenues for the year preceding the start of cash-based budgeting.

**Deferred implementation reserve requirements (1991-1997) for cash-based budgeting are equal to 1.5 times prior year appropriations. Appropriations are assumed to equal revenues minus annual contributions to the CBB reserve fund.

Source: Department of Revenue Jan. 1984 30th percentile forecast.

Prepared by: House Research Agency

Timing of Cash-Based Budgeting

The deferred implementation approach in CS HJR 39 entails the build-up of a CBB reserve fund through periodic contributions. This method requires that a conversion from the present budgeting practice to cash-based budgeting be postponed, but avoids the potential political liability of incurring substantial State debt through a loan from the Permanent Fund or bonding. (See Chapter Three for a discussion of Permanent Fund loan and bonding alternatives for funding cash-based budgeting.)

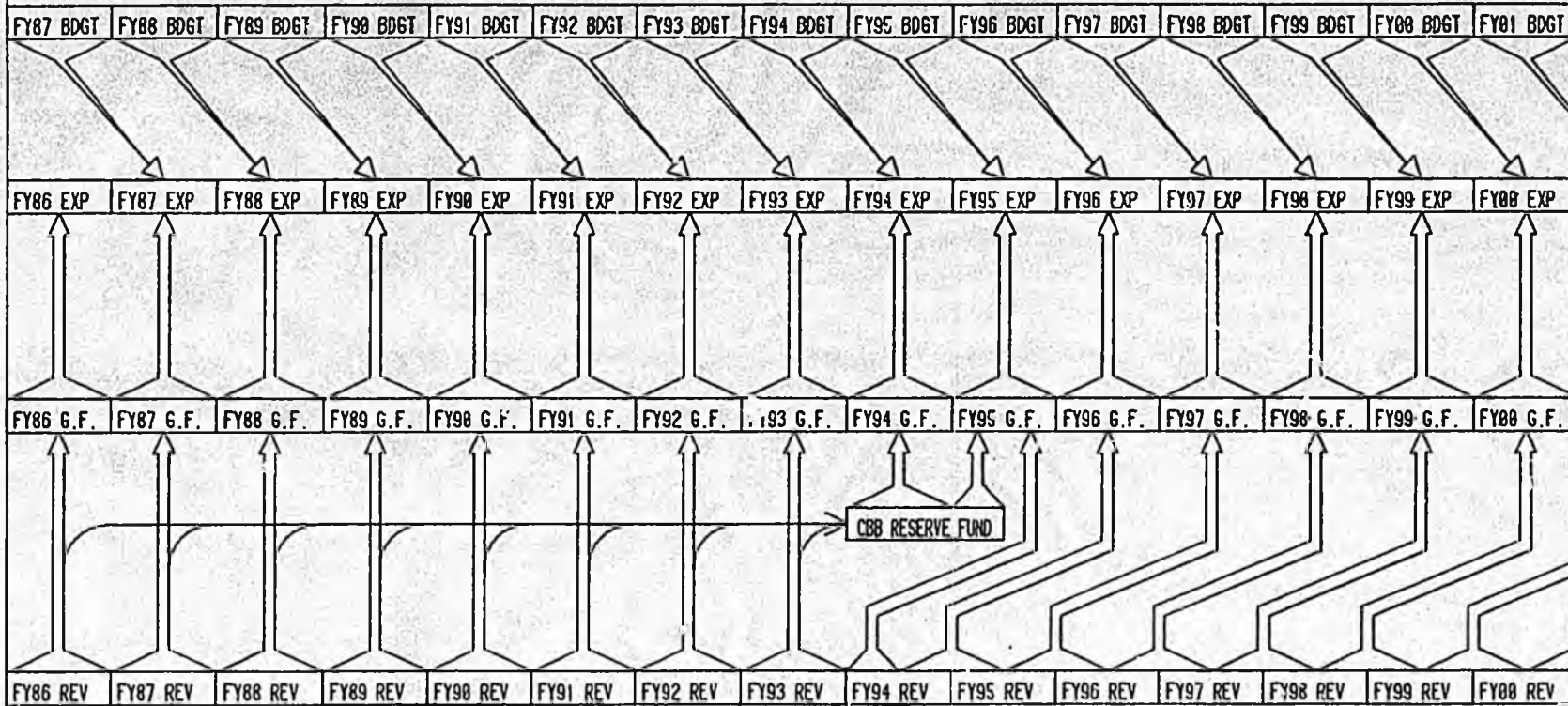
Critical to the deferred implementation plan is the desired target date on which cash-based budgeting is to begin. We will assume a start-up date for cash-based budgeting in the early 1990s which roughly corresponds with a projected decline in State revenues. This should insure that annual contributions to the CBB reserve fund will coincide with the remaining strong revenue years.

An example of how cash-based budgeting can be implemented through periodic contributions to a CBB reserve fund is displayed graphically on Figure 1. This flowchart shows how annual contributions of General Fund unrestricted revenues are diverted into the CBB reserve fund from FY 86 through FY 93. With the start of cash-based budgeting in FY 94 (in this example), State expenditures would be funded directly out of the reserves accumulated during the contribution period. Simultaneously, incoming revenues are deposited into the General Fund, and will not be available for appropriation until 18 months later.

A significant design feature of CS HJR 39 and our CBB computer model provides for an automatic start-up of cash-based budgeting once the size of the reserve fund exceeds 1.5 times the appropriations for the preceding fiscal year. With a fixed start-up date for cash-based budgeting, it is possible that unanticipated revenue shortfalls could result in insufficient contributions to the CBB reserve fund. With a flexible start-up mechanism, cash-based budgeting may begin early if the reserve grows faster than expected, or it may be delayed for a period of time if revenues fall short of projections. Regardless of the revenue outlook, however, this procedure guarantees that the CBB reserve account will contain sufficient funds when cash-based budgeting is implemented.

Figure 1

CASH-BASED BUDGETING FLOWCHART



Top section: annual budget preparation for next year.
 2nd section: fiscal year expenditures.
 3rd section: general fund.
 Bottom section: revenues collected each fiscal year.

Prepared by: House Research Agency
 February 1, 1984

Potential Deferred Implementation Funding Sources

Three sources for funding cash-based budgeting under the deferred implementation plan are considered in this chapter: the General Fund, Permanent Fund earnings, and new or higher taxes. While each of these sources is examined in the following discussion, it is important to note that in CS HJR 39, only the General Fund is utilized as a funding source for cash-based budgeting.

The General Fund. General Funds available for contribution to the CBB reserve fund may be thought of as those funds in excess of Operating Budget requirements. Of course, these "excess" revenues will be the focus of considerable competition for appropriations to the Capital Construction Budget, the Permanent Fund, and to Governor Sheffield's recently proposed Major Capital Projects Fund. Nevertheless, revenues above the operating cost of State government represent the only reasonable measure of General Fund unrestricted revenues potentially available for contributions to the CBB reserve fund.

Figure 2 shows a profile of total General Fund unrestricted revenues in constant FY 84 dollars. These figures are computed from the Revenue Department's 30th percentile projection by factoring out inflation.¹⁰ Superimposed on the revenue profile is a projection of the operating cost of government expressed in FY 84 dollars. In this analysis, we have assumed no real growth in the Operating Budget, which means that no net increases in funding levels above the FY 84 budget are provided to account for additional employees, public services, or programs. Consequently, the projected level of expenditures under this scenario results in a constant value shown by the horizontal line.

Revenue potentially available for funding cash-based budgeting is reflected in Figure 2 by that portion of the revenue profile which lies above the horizontal line (representing a continuation FY 84 level Operating Budget). The numeric values of these "excess" revenues are shown in Table 2. These values have been converted to nominal dollars so that later they can be compared to CBB reserve contributions which will be expressed in nominal dollars.

¹⁰The inflation rate used to discount revenue forecasts in this graph is 6 percent. These January 1984 revenue projections include revenues anticipated from Prudhoe Bay (Sadlerochit and Kuparuk Fields), Cook Inlet and future anticipated production from Milne Point (beginning in FY 87) and Canning River, Flaxman Island and Point Thomson (predicted to begin production in FY 89). A table showing computations for data used in Figure 2 is presented in Appendix B. Calculations and a graph comparable to Figure 2 are also shown for the Department of Revenue mean revenue forecast in Appendix B.

Figure 2
 TOTAL REVENUES VS. OPERATING BUDGET
 (1984 DOLLARS)

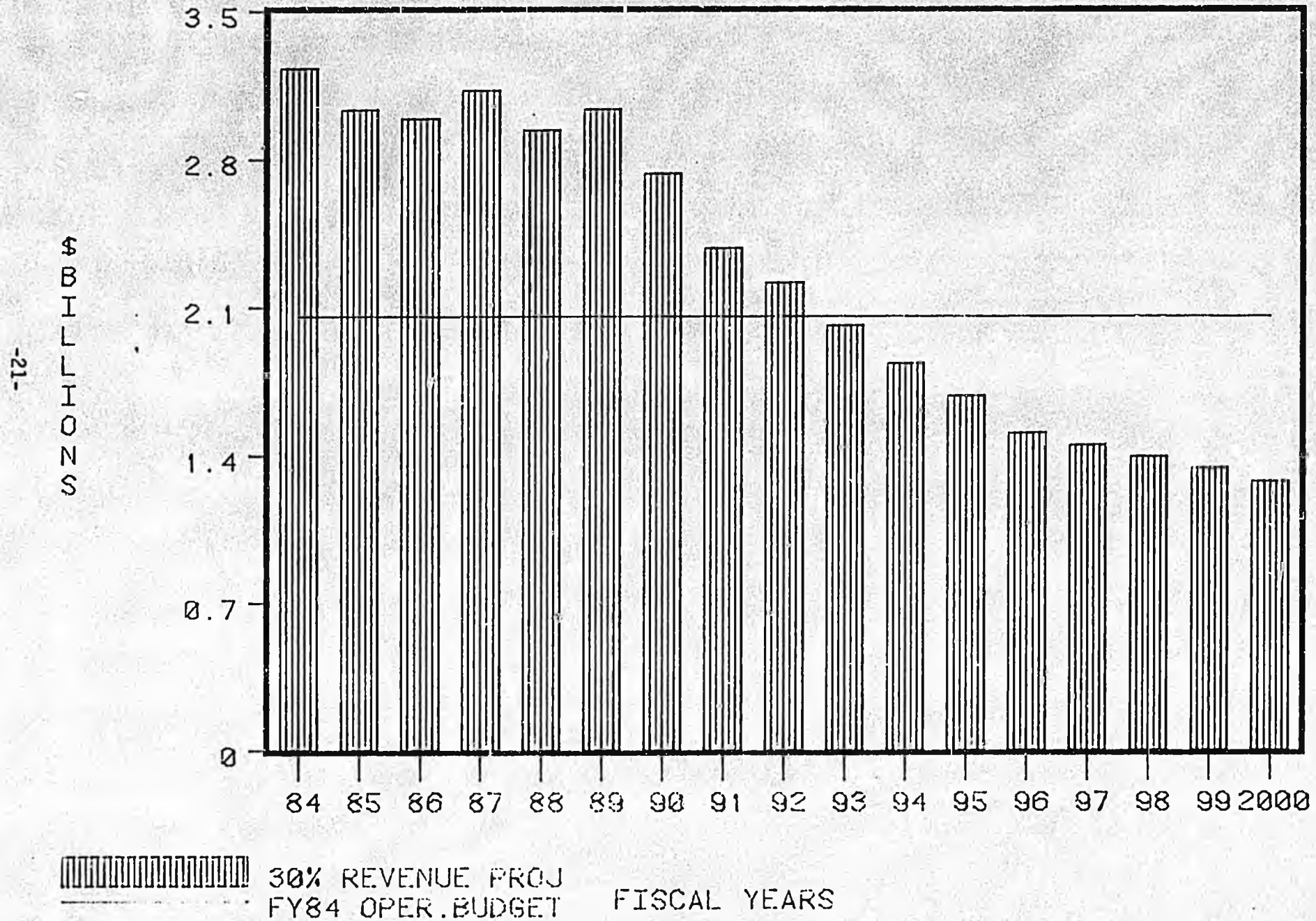


Table 2
 Projected General Fund Unrestricted Revenues in Excess
 of a Continuation (FY 84 Level) Operating Budget
 (millions of nominal dollars)

<u>Fiscal Year</u>	<u>Excess General Fund Revenues</u>
1984	\$1,176
1985	1,039
1986	1,054
1987	1,279
1988	1,114
1989	1,315
1990	962
1991	489
1992	257

Prepared by House Research Agency

The computer model developed for the purpose of analyzing the General Fund as a source of revenues for cash-based budgeting is designed to examine three primary contribution mechanisms:

- A percentage of total General Fund unrestricted revenues deposited into the CBB reserve fund monthly.
- A "grubstake" contribution to the CBB reserve fund appropriated in the 1984 legislative session to become effective contingent on voter approval of the cash-based budgeting program during the 1984 general election.
- A percentage of the balance of unobligated (unappropriated) revenues remaining in the General Fund at the end of each fiscal year. In most instances, this balance would exist to the extent that actual revenues received in a year exceed total appropriations for that year.

The third contribution mechanism is very difficult to model because of the speculative nature of making close-tolerance revenue forecasts (see Appendix C for more on this topic). Although CS HJR 39 utilizes the third contribution mechanism in addition to the General Fund percentage, the most that can be said is that these contributions would supplement other sources and may allow for an earlier start-up of cash-based budgeting.

The General Fund percentage and grubstake contributions are analyzed in the following scenarios. In both scenarios, the contribution mechanisms have been balanced so that the projected start-up date for cash-based budgeting is FY 94.

DEFERRED IMPLEMENTATION

Scenario 1 Percentage of General Fund Receipts

Table 3 shows a projection of how the cash-based budgeting program may be funded using only a percentage of monthly General Fund unrestricted treasury receipts. In this case, the percentage contribution is set to 10.3 percent of monthly revenues based on the Department of Revenue 30th percentile projection.¹¹

Under Scenario 1, annual contributions of between \$347 and \$419 million are being made to the CBB reserve fund during the period FY 86 through FY 93. Both the earnings capacity of the reserve (column 8) and the reserve balance (column 9) continue to grow during this period. In 1994, the balance exceeds 1.5 times the appropriations for FY 93, allowing the State to convert to cash-based budgeting. Beginning in FY 94, the reserve balance (\$4,596 million) is deposited into the General Fund, causing its balance to rise to \$7,327 million (column 6). Similarly, the earnings capacity of the General Fund (column 5) jumps from \$258 million in FY 93 to \$689 million in FY 94 as a consequence of the dramatic increase in the size of the General Fund balance.

The most interesting effect of cash-based budgeting is its impact on the potential expenditure level of the State. Prior to FY 86 when the first contribution is made to the CBB reserve fund, the limit on expenditures (column 4) exactly parallels the projected revenues (column 2). During the 8-year contribution period, revenues available for expenditure are diminished by the amount of CBB reserve contributions. Beginning with the start of cash-based budgeting in FY 94, the expenditure limit increases beyond the revenue level originally forecasted (column 2) because the increased earnings potential of the General Fund makes additional revenues available for appropriation.

The effects of scenarios 1 (and scenario 2 discussed on page 29) on General Fund appropriation levels from FY 84 through FY 2000 are shown in Figure 3. This graph illustrates how cash-based budgeting literally transfers funds from years of strong revenue forecasts to years when State revenues are projected to decline. Beyond the turn of the century, cash-based budgeting would continue to boost revenues by the amount of added General Fund investment earnings, regardless of the revenue outlook for the future.

¹¹See Appendix D for an analysis of Scenarios 1 and 2 under a mean revenue forecast.

Table 3
Scenario 1
THE GENERAL FUND AS A REVENUE SOURCE FOR CASH-BASED BUDGETING
Based on a 30th Percentile Revenue Projection
(millions of dollars)

Fiscal Year	DOR	Revenue	Potential	General	GeneralCash-Based Budgeting Reserve Fund....		
	Revenue Forecast	Under CBB	Expenditure Level	Fund Earnings	Fund Balance	Contributions	Earnings	Balance
1981	3,769		3,769	201	2,010			
1982	4,174		4,174	254	2,540			
1983	3,624		3,624	266	2,660			
1984	3,233		3,233	300	3,000			
1985	3,219		3,219	250	2,500			
1986	3,365	3,018	3,018	259	2,590	346.6	16	363
1987	3,729	3,345	3,345	288	2,880	384.1	56	803
1988	3,711	3,329	3,329	288	2,880	382.2	102	1,287
1989	4,068	3,649	3,649	318	3,180	419.0	155	1,861
1990	3,880	3,480	3,480	301	3,010	399.6	214	2,474
1991	3,582	3,213	3,213	275	2,750	368.9	276	3,120
1992	3,536	3,172	3,172	270	2,700	364.2	344	3,828
1993	3,405	3,054	3,054	258	2,580	350.7	417	4,596
1994	3,290	3,732	3,471	689	7,327			
1995	3,195	3,643	3,568	684	7,292			
1996	3,033	3,441	3,687	650	6,925			
1997	3,092	3,517	3,552	650	6,920			
1998	3,159	3,593	3,489	663	7,064			
1999	3,213	3,656	3,555	674	7,186			
2000	3,245	3,695	3,625	682	7,266			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

col.

- 2 Department of Revenue January, 1984 revenue projection.
- 3 Revenues after effects of cash-based budgeting program. During the CBB reserve contribution period, revenues (column 3) are equal to DOR projections minus annual CBB contributions. Starting with the first cash-based budgeting year, revenues (column 3) are equal to DOR projections plus additional earnings which accrue to the general fund as a result of transferring the CBB reserve fund balance to the general fund.
- 4 Expenditure levels are presently limited to projected revenues (ignoring the Constitutional appropriation limit). Beginning with the first cash-based budgeting year, expenditures will be limited to the revenues collected in the previous calendar year.
- 5 General fund earnings are DOR projections up to the start of cash-based budgeting, at which point the general fund earnings will be augmented due to the increased earnings capacity of the general fund from that point on into the future.
- 6 Beginning with the first cash-based budgeting year, the general fund balance is substantially increased by the transfer of the CBB reserve fund.
- 8 Reserve fund earnings are calculated at a 10 percent annual interest rate compounded monthly.
- 9 The earnings rate of the CBB reserve fund is compounded monthly using a 10% annual interest rate.

This projection is based on a general fund unrestricted revenue contribution of 10.3 percent.