

SCOMM

101:69

Cheryl Frasca

June 22, 1995

TO: Long Range Financial Planning Commission Members

FROM: Cheryl Frasca *CFrasca*

SUBJECT: "40-30-30" Presentation Correction

Last Saturday the commission provided me the opportunity to present legislation former Senator Jan Faiks had introduced which distributed earnings of the Permanent Fund, established an Appropriation/Expenditure Limit, and created a Budget Reserve Fund. As part of the package, I provided commission members with two scenarios of what would happen if the constitutional amendment's provisions were implemented next fiscal year.

In calculating the numbers, I made an error in the FY 96 base year amount (as Annalee McConnell pointed out). Please replace that information with the enclosed spread sheet. For discussion purposes, I also changed the 2.5% scenario with a "what would happen with a 3% reduction each year" which brings expenditures in line with projected available revenues.

I regret any confusion my error may have caused and appreciated the opportunity to speak before the commission.

"50-30-20" Scenarios

If 6.5% reduction each year:

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
Expenditure Limit	2,475.8	2,314.9	2,164.4	2,023.7	1,892.2	1,769.2
Projected Revenues		1,828.6	1,907.5	1,948.2	1,971.6	1,992.7
Budget Stabilization Fund (25% of available balance)		66.4	95.1	110.0	129.0	141.7
Total Revenues Available		1,895.0	2,002.6	2,058.2	2,100.6	2,134.4
Deficit/Surplus		-419.9	-161.8	34.5	208.4	365.2

If 3% reduction each year:

(Brings expenditures in line with projected revenues)

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
Expenditure Limit	2,475.8	2,401.5	2,329.5	2,259.6	2,191.8	2,126.1
Projected Revenues		1,828.6	1,907.5	1,948.2	1,971.6	1,992.7
Budget Stabilization Fund (25% of available balance)		66.4	95.1	110.0	129.0	141.7
Total Revenues Available		1,895.0	2,002.6	2,058.2	2,100.6	2,134.4
Deficit/Surplus		-506.5	-326.9	-201.4	-91.2	8.3

If 3% decrease in
spending each year:

97
FY 92

98
FY 93

99
FY 94

00
FY 95

01
FY 96

GOAL

The Budget

1/91 Legislature
Establishes
Expenditure Limit

2401.5
1821.2

2329.5
1702.8

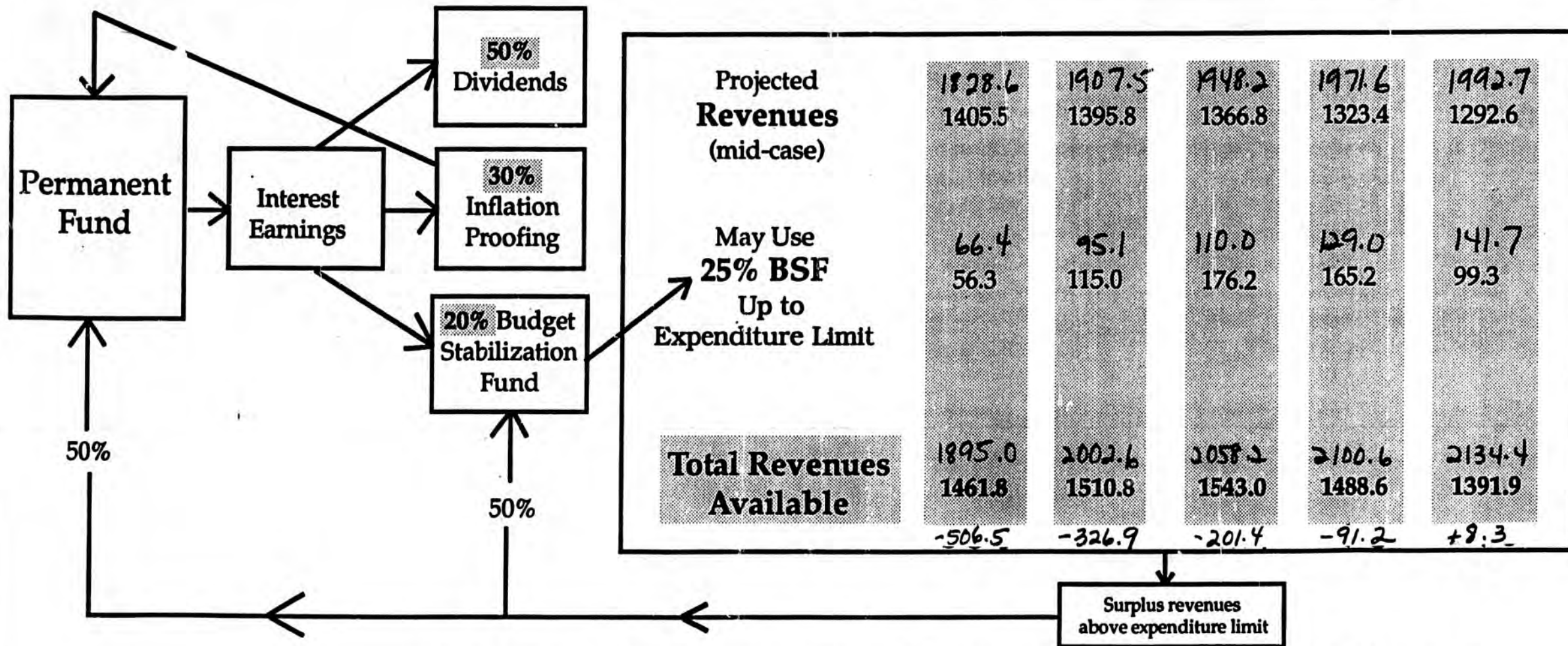
2259.6
1592.1

2191.8
1488.6

2126.1
1391.9

\$1.4
Billion
6/31/96

Can be exceeded by
3/4 vote each House, voter approval or for natural disaster



How "50-30-20" and "ERP" Work -- SSSJR 5

Prepared by Senator Jan Faiks

If 6.5% decrease
in spending each
Year:

FY 96
2475.8

97
FY 92

98
FY 93

99
FY 94

00
FY 95

01
FY 96

GOAL

The Budget

1/91 Legislature
Establishes
Expenditure Limit

2314.9

2164.4

2023.7

1892.2

1769.2

1821.2

1702.8

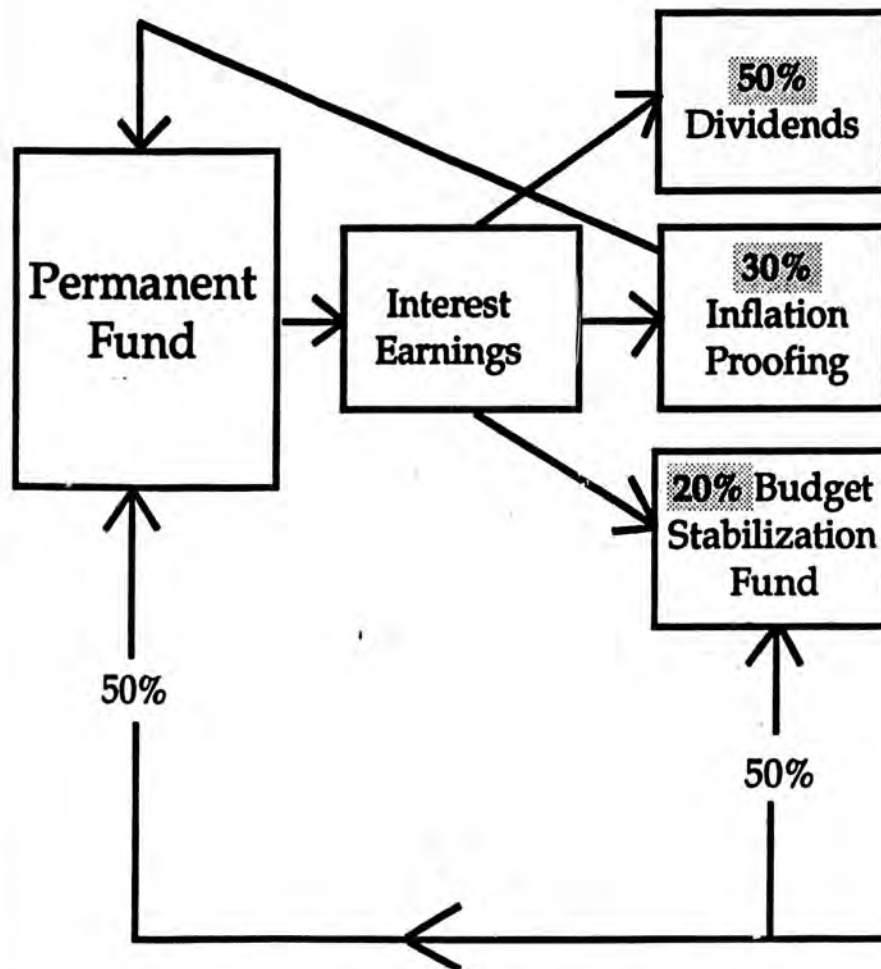
1592.1

1488.6

1391.9

\$1.4
Billion
6/31/96

Can be exceeded by
3/4 vote each House, voter approval or for natural disaster



Projected Revenues (mid-case)	1928.6 1405.5	1907.5 1395.8	1948.2 1366.8	1971.6 1323.4	1992.7 1292.6
May Use 25% BSF Up to Expenditure Limit	66.4 56.3	95.1 115.0	110.0 176.2	129.0 165.2	141.7 99.3
Total Revenues Available	1895.0 1461.8	2002.6 1510.8	2058.2 1543.0	2100.6 1488.6	2134.4 1391.9
	-419.9	-161.8	+34.5	+208.4	+365.2
	Surplus revenues above expenditure limit				

How "50-30-20" and "ERP" Work -- SSSJR 5

Prepared by Senator Jan Faiks

Long Range Financial Planning Commission Presentation

by
Cheryl Frasca

Senate Joint Resolution 40 "40-30-30"

Introduced April 10, 1987

Sponsored by Jan Faiks, Senator

Constitutional amendment's three goals:

1. Established a purpose for excess *Permanent Fund earnings* by stipulating their *distribution*.
2. Control spending by re-writing the *constitutional appropriation limit*.
3. Stabilize state spending by creating a *budget reserve fund*.

Permanent Fund Earnings

Distributed Permanent Fund income as follows:

- 40% to pay dividends.
Put the dividend program into the constitution. In 1987, the amount of the earnings to pay dividends had averaged 30%. To date, it has averaged 39%.
- 30% to inflation-proof the Permanent Fund
- 30% to a new Budget Reserve Fund

Constitutional Appropriation Limit

- Placed a ceiling of 5% growth on each year's appropriation level. The ceiling was also adjusted for inflation and population changes.
- Only upon voter approval the Limit could be exceeded.
- Revenues in excess of what could be spent because of the limit were distributed:
 - 50% to the Permanent Fund
 - 50% to the Budget Reserve Fund

Budget Reserve Fund

- Created a Budget Reserve Fund which consisted of:
 - 30% of each year's Permanent Fund earnings
 - 50% of the revenues above the Appropriation Limit

Repeal

Upon voter approval, the amendment's provisions would have been effective July 1, 1989 and would have sunset July 1, 1995. It was anticipated that there would have been sufficient balance in the Budget Reserve Fund to forward fund the state's budget, or programs such as the K-12 formula program.

Senate Bill 258

Put the "40-30-30" distribution of Permanent Fund earnings in statute on a temporary basis prior to the constitutional amendment going to the voters.

Senate Joint Resolution 5 "50-30-20" and "ERP"

Introduced January 9, 1989

Sponsored by Jan Faiks, Senator

Goals

The goals and provisions of the Sponsor Substitute for SJR 5 were similar to the original version of SJR 40, with the exceptions noted below.

A major change, however was:

Expenditure Reduction Plan replaced the Appropriation Limit. It required state spending be reduced to a level that could be supported by projected revenues (\$1.4 billion) by Fiscal Year 1996 (the fiscal year that starts this July 1st). This replaced the Appropriation Limit in SJR 40 that would have allowed spending to increase each year.

Permanent Fund Earnings

- Changed distribution of Permanent Fund income:
 - 50% for dividends
 - 30% for inflation-proofing
 - 20% to the Budget Stabilization Fund

Budget Stabilization Fund

- Re-named "Budget Stabilization Fund" to better describe its purpose
- No more than 25% of this fund's balance could be spent in any one year (up to, but not exceeding, the expenditure limit).

Expenditure Reduction Plan

- Changed the Appropriation Limit to a constitutionally mandated "Expenditure Reduction Plan"
- Required state expenditures be reduced to \$1.4 billion by FY 96. The \$1.4 billion was based on a level that Alaska could reasonably expect to sustain based on projected revenues.
- To begin ratcheting spending down, statutory legislation accompanied the constitutional amendment which required a 6.5% reduction in each of the next two fiscal years. The constitutional amendment then directed the Legislature to establish the percentage reduction that would be necessary each of the next four fiscal years to achieve the specified reduced level of \$1.4 billion by FY 96.
- A fiscal year's limit set by the Legislature could be exceeded by:
 - a three-fourths vote of each house
 - voter approval
 - for a natural disaster.

As proposed in
1989:

FY 92

FY 93

FY 94

FY 95

FY 96

The Budget

1/91 Legislature
Establishes

Expenditure Limit

1821.2

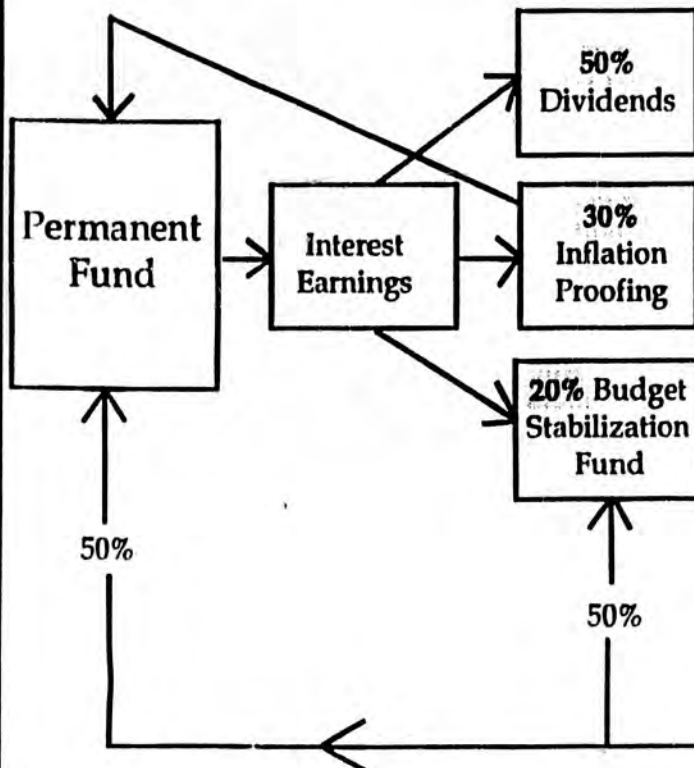
1702.8

1572.1

1488.6

1391.9

Can be exceeded by
3/4 vote each House, voter approval or for natural disaster



Projected Revenues (mid-case)	1405.5	1395.8	1366.8	1323.4	1292.6
May Use 25% BSF Up to Expenditure Limit	56.3	115.0	176.2	165.2	99.3
Total Revenues Available	1461.8	1510.8	1543.0	1488.6	1391.9

Surplus revenues
above expenditure limit

How "50-30-20" and "ERP" Work -- SSSJR 5

Prepared by Senator Jan Faiks

decrease each year:

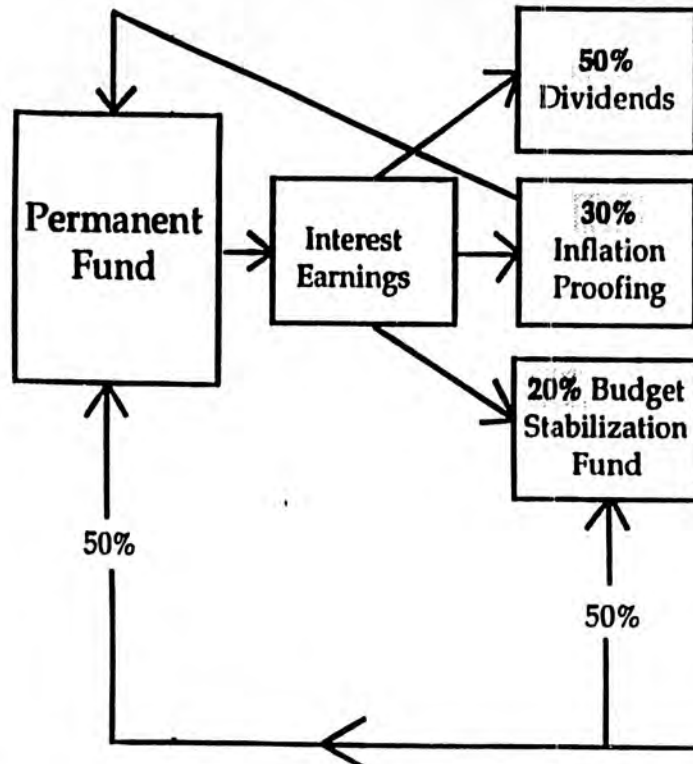
41 FY 92 48 FY 93 49 FY 94 00 FY 95 01 FY 96

GOAL

The Budget

1/91 Legislature Establishes	2218.9	2163.4	2109.3	2056.6	2005.2
Expenditure Limit	1821.2	1702.8	1592.1	1488.6	1391.9

Can be exceeded by
3/4 vote each House, voter approval or for natural disaster



Projected Revenues (mid-case)	1828.6 1405.5	1907.5 1395.8	1948.2 1366.8	1971.6 1323.4	1992.7 1292.6
May Use 25% BSF Up to Expenditure Limit	66.4 56.3	95.1 115.0	110.0 176.2	129.0 165.2	141.7 99.3
Total Revenues Available	1895.0 1461.8	2002.6 1510.8	2058.2 1543.0	2100.6 1488.6	2134.4 1391.9
Deficit/Surplus	-324.0	-160.8	-51.1	+43.9	+129.2

would not need
All of Available BSF

Surplus revenues
above expenditure limit

How "50-30-20" and "ERP" Work -- SSSJR 5

Prepared by Senator Ian Faife

6.5% Spending
Decrease Each Year:

96
2275.8

97
FY 92

98
FY 93

99
FY 94

00
FY 95

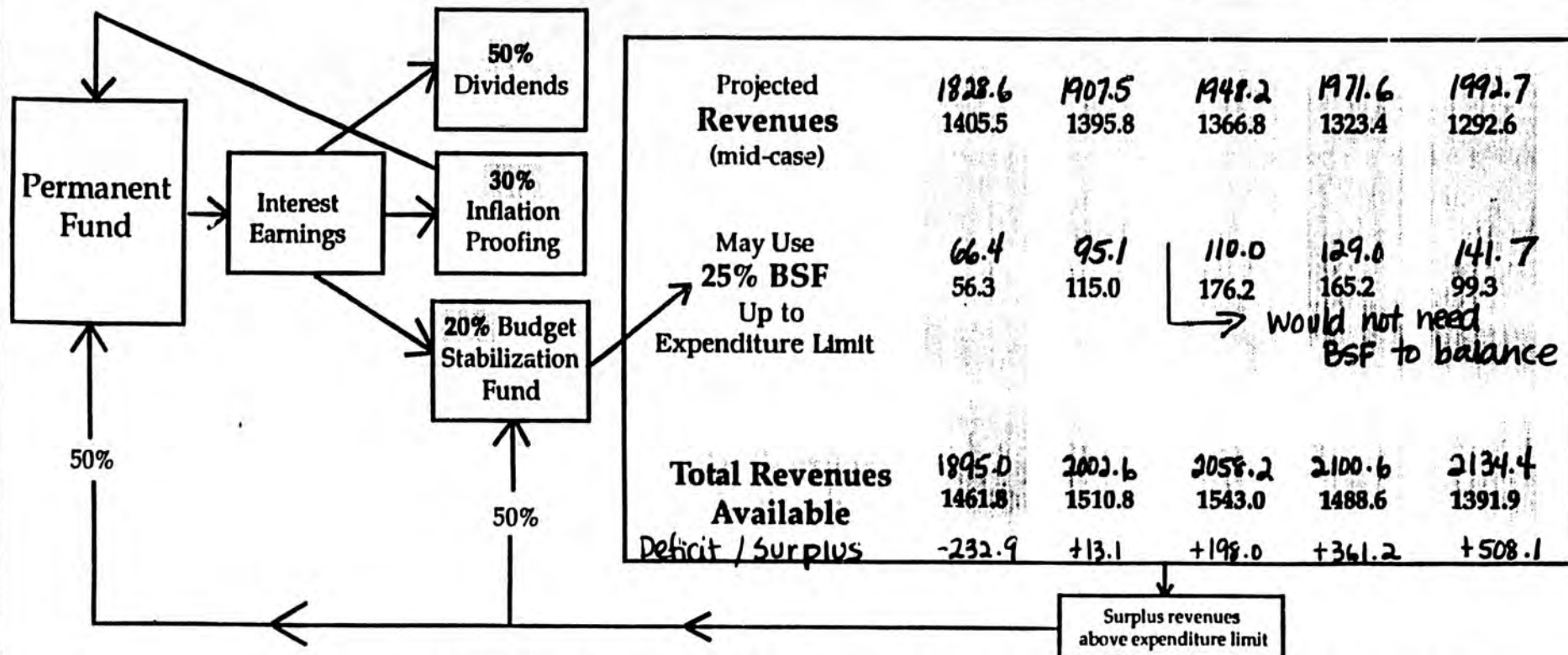
01
FY 96

GOAL

The Budget

1/91 Legislature Establishes	2127.9	1989.6	1860.2	1739.3	1626.3
Expenditure Limit	1821.2	1702.8	1592.1	1488.6	1391.9

Can be exceeded by
3/4 vote each House, voter approval or for natural disaster



How "50-30-20" and "ERP" Work -- SSSJR 5

Prepared by Senator Ian Failes

Addendum "40-30-30"

SJR 40

- Passed Senate 15 - 4 on April 28, 1987

Version was similar to original except eliminated 25% limit on amount could appropriation from Budget Reserve Fund

- Died in House State Affairs

SJR 5

- Passed Senate 15 - 5 on April 18, 1990
Senate approved version:

Permanent Fund Earnings

- Eliminated distribution of PF earnings

Appropriation Limit

- For FY 92, the limit was set a \$2.3 billion; it decreased by 5% for each of Fiscal Years 93 - 96.

Budget Reserve Fund

- All revenues exceeding the amount that could be spent under the Appropriation Limit went into the Budget Stabilization Fund (as opposed to 50/50 split with Permanent Fund)
- Could spent from the Budget Reserve Fund an amount up the Appropriation Limit, or 25% of the Fund's balance
- Proceeds from disputed oil and gas taxes would be deposited into the Budget Reserve Fund.
- Upon a 2/3 vote, the Legislature could appropriate from the Budget Reserve Fund for a natural disaster

House Finance Version:

Budget Reserve

-- Two-thirds of Budget Reserve Fund could be appropriated; could exceed that limit upon a 3/4 vote

Appropriation Limit

-- If inflation was greater than 5%, the limit could be adjusted upward by that amount upon a 2/3 vote by the Legislature.

- Passed House by 38 - 2 on May 8, 1989

House Approved Version:

-- Created Budget Reserve Fund consisting of deposits of disputed oil and gas tax settlements.