

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

3099 SCOMM 142: HOUSE SPECIAL COMMITTEE ON WAYS & MEANS 2005-2006

SCOMM

142:27

Representative Mike Hawker

Alaska State Legislature



Session:

State Capitol
Juneau, AK 99801
907 465-4949 direct
800 478-4950 toll free
907 465-4979 fax

Interim:

716 W 4th Avenue
Anchorage, AK 99501
907 269-0244 office
907 269-0248 fax

Member:

*House Finance Committee
Legislative Budget
& Audit Committee*

Representing

House District 32:

*Eagle River
Anchorage
Rainbow
Indian
Bird
Girdwood
Portage
Whittier
Sunrise
Hope*

House Joint Resolution No. 2

Sponsor Statement

**"Proposing a constitutional amendment creating
a gas revenue endowment fund"**

HJR 2 answers the Alaskan prayer,

"Lord, please grant me another Prudhoe Bay;
I promise not to fritter this one away."

Representative Mike Hawker

Alaska State Legislature



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Whittier
Summit
Hope

Fact Sheet for House Joint Resolution No. 2

Short Title: CONST. AM: GAS REVENUE ENDOWMENT FUND

Current Version: SS HJR 2

Contact: Juli Lucky 465-4949

Summary:

- Section 1 amends Article IX, Section 7 of the Alaska Constitution to allow dedication of future North Slope gas revenues to a "Gas Revenue Endowment Fund", similar to the Alaska Permanent Fund.
- Section 2 adds a new Section 18(a) to Article IX of the Alaska Constitution creating the Gas Revenue Endowment Fund where all revenues received by the state from natural gas produced on the North Slope are deposited. Other than described below, money in the fund may only be used for income-producing investments designated by law.
- Section 2 also adds a new Section 18(b) Article IX of the Alaska Constitution limiting appropriations from the Gas Revenue Endowment Fund to a 5% Percent Of Market Value (POMV) calculation and allows that appropriation to be made for any public purpose except the payment of dividends or other payments to all State residents.
- Section 3 places this constitutional amendment proposal before the voters in the next general election.

Background:

This constitutional amendment assures that as Alaska sells our non-renewable natural gas resource, the value of that resource is permanently preserved and converted to a renewable financial resource benefiting Alaska forever. Further, this amendment provides stable and predictable cash contributions to future state budgets mitigating the extraordinary price volatility inherent in monetizing Alaska's North Slope gas resources.

Pro-forma Operating Model (in millions unless noted)

Assumptions (production and tax estimates provided by DOR with full disclaimer)

Chicago gas price (\$/mmBtu)	varies
Sale volume (bcf)	4.5
Lease volume (bcf)	4.712
Royalty	12.5%
Severance	10.0%

First production
Full production
POMV
GREF Earnings
ELF

2012
2013
5.0% 5 year average
8.0%
80% - 90%

[illegible]

Representative Mike Hawker

Alaska State Legislature



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Members:

House Finance Committee
Legislative Budget
& Audit Committee

House District 32:

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Portage
Whittier
Sunrise
Hope

To: Representative Bruce Weyhrauch
Chairman, House Ways and Means Committee

From: Representative Mike Hawker

A handwritten signature in black ink, appearing to read "Mike".

Date: April 13, 2005

Re: Sponsor Substitute for House Joint Resolution 2

I request that the Sponsor Substitute for House Joint Resolution 2, proposing a constitutional amendment establishing a gas revenue endowment fund, be scheduled for a hearing in the House Ways and Means Committee at your earliest convenience.

With approval of a contract for construction of a natural gas pipeline on the horizon, this proposal assures that revenue from non-renewable natural resources becomes a perpetually sustainable financial resource. This proposal creates a fund similar to the Permanent Fund to preserve all future income from development of our natural gas, with one important difference: the income would be made available under a POMV concept for any public purpose except dividends.

I would appreciate your scheduling SS HJR 2 and providing the opportunity to bring this discussion into the public process. I am considering bringing forward two amendments. One making clear that "natural gas" includes products other than methane and another to clarify that this constitutional amendment applies only to product delivered through a dedicated gas pipeline, excluding incidental natural gas shipped through TAPS. We will get the proposals to you soon for your contemplation.

Please feel free to contact my policy aide, Juli Lucky, or me if you need any additional information.

SCOMM

142:28

HOUSE COMMITTEE REPORT

(3)

Date Referred to Committee: January 10, 2005

FURTHER REFERRALS: Judiciary
Finance

Date of Committee Action: April 18, 2005

The HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS considered:

HJR 3

HOUSE JOINT RESOLUTION NO. 3

CONST AM: BUDGET RESERVE FUND APPROPS.

Proposing amendments to the Constitution of the State of Alaska relating to appropriations from the budget reserve fund.

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

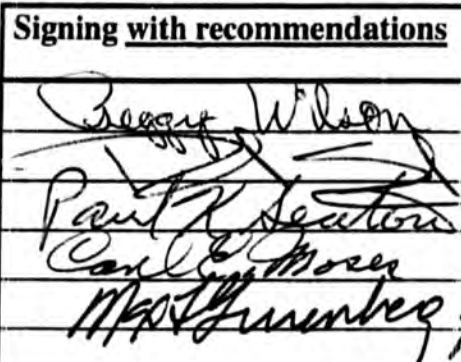
☐ attach amendments

[] add new referral to _____Committee

[] Letter of Intent_____Committee

**List of
Abbrev
for
Depts.:**
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

[illegible][illegible]

Signing <u>with recommendations</u>		Printed Last Name	DP	DNP	NR	AM
		WILSON	✓			
		SAMUELS			X	
		SEATON			X	
		MOSES			X	
		Gumbert		✓		AM
Chair:	Weyhrauch	Weyhrauch			X	
Chair:						

ALASKA STATE LEGISLATURE

House of Representatives

COMMITTEE ASSIGNMENTS:

RULES COMMITTEE, CHAIRMAN
LABOR & COMMERCE COMMITTEE, MEMBER
LEGISLATIVE COUNCIL, MEMBER
SPECIAL COMMITTEE ON OIL & GAS, MEMBER
SPECIAL COMMITTEE ON WAYS & MEANS, MEMBER

website: <http://www.akrepublicans.org/rokeberg/index.php>



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ANCHORAGE, AK 99501
PHONE: (907) 269-0117
FAX: (907) 269-0119

SESSION:
ALASKA STATE CAPITOL
JUNEAU, AK 99801-1182
PHONE: (907) 465-4968
FAX: (907) 465-2040

Representative Norman Rokeberg

e-mail: Representative_Norman_Rokeberg@legis.state.ak.us

SPONSOR STATEMENT FOR HJR 3

By: Representative Norman Rokeberg

Title: Proposing amendments to the Constitution of the State of Alaska relating to appropriations from the budget reserve fund.

Blackmail: Unlawful demand of money or property under threat to do bodily harm, to injure property, to accuse of crime or to expose disgraceful defects. This crime is commonly included under extortion or criminal coercion statutes. Blacks Law Dictionary, Sixth Edition, 1990.

House Joint Resolution 3 repeals Sections (b) and (c) of Article IX, Section 17 of the Alaska Constitution. Article IX, Section 17 is the Budget Reserve Fund.

In 1990, the 16th Legislature established the Constitutional Budget Reserve Fund. Every year since 1994, the legislature has needed a $\frac{3}{4}$ vote to pass the budget, with the single exception of FY 2004.

HJR 3 repeals the need for a $\frac{3}{4}$ vote. The $\frac{3}{4}$ vote provides the minority the ability to control the budget, the effect of which has been to increase the budget each year. While the $\frac{3}{4}$ vote enhances the power of the minority, it works most effectively if they want to increase the budget. If those in the minority have the goal of budget reduction, the $\frac{3}{4}$ vote provides them with little or no power.

The requirement of a $\frac{3}{4}$ vote has done nothing more than increase the budget and therefore should be repealed.

I urge your support for this legislation.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____

Bill Version: HJR3

() Publish Date: _____

Revision Date/Time (Note if correction): _____

Dept. Affected: OOG

Title Constitutional Amendment relating

RDU Elections

to appropriations from the budget reserve fund

Component Elections

Sponsor Representative Rokeberg

Requester (H) W & M

Component No. 21

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual	0.0	1.5				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	1.5	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES

CHANGE IN REVENUES ()

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	1.5				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	1.5	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

If this amendment appears on the 2006 ballot, the cost of providing information about this issue in the Official Election Pamphlet, as required by AS 15.58 is \$1.5 (in thousands). Should the addition of this question require printing an 8 1/2 by 18 inch ballot the cost will increase to \$22.0.

Prepared by: Lauri Allred, Admin Assistant Supervisor

Division: Division of Elections

Approved by: Laura A. Glaiser, Director

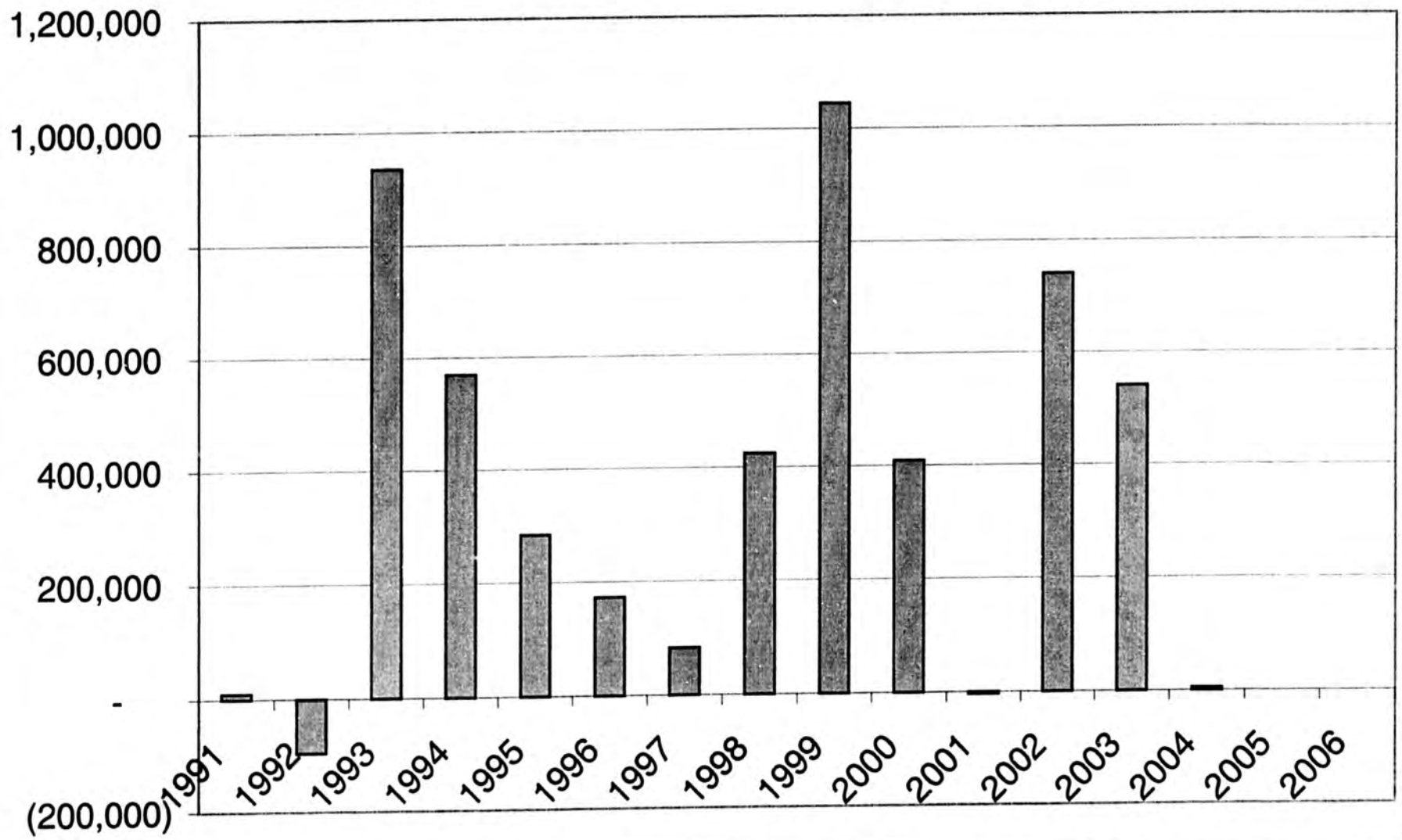
Agency: Office of the Lt. Governor, Division of Elections

Phone 465-4611

Date/Time 4/15/05 9:52 AM

Date 4/15/2005

CBR Draw



Constitutional Budget Reserve Fund

Fiscal Year	Beginning Balance	Total Contributions and other Earnings	Contributions	Interest	Investment Earnings (2)	Draw from (deposit to) the CBR	GF liability
Total		7,280,484	2,784,162	3,510,410	985,912	5,117,960	
1991	-	297,475	291,511	-	5,964	10,059	10,059
1992	236,488	326,659	203,994	104,167	18,498	(96,094)	(86,035)
1993	562,403	812,717	400,423	388,809	23,485	935,366	849,331
1994	1,597,302	423,243	154,286	241,763	27,194	569,443	1,418,774
1995	2,013,383	1,594,033	792,919	679,131	121,983	284,204	1,702,979
1996	3,696,871	696,527	219,621	366,041	110,865	172,835	1,875,814
1997	4,394,960	735,656	196,294	371,936	167,426	82,687	1,958,501
1998	5,130,598	731,452	149,577	212,716	369,159	423,829	2,382,330
1999	5,862,050	150,583	30,658	190,766	(70,841)	1,044,799	3,427,129
2000	6,012,633	562,603	238,395	361,336	(37,128)	408,834	3,835,963
2001	6,575,236	251,935	35,633	188,368	27,934	(3,480)	3,832,484
2002	6,827,171	212,503	54,785	175,088	(17,370)	740,273	4,572,756
2003	7,039,674	166,819	12,060	154,759	-	540,181	5,112,937
2004	7,206,493	61,627	4,006	75,530	(17,909)	5,023	5,117,960
2005	7,268,120	124,709	-	-	124,709	-	5,117,960
2006	7,392,829	131,942	-	-	131,942	-	5,117,960

SCOMM

142:29

HOUSE COMMITTEE REPC T

Date Referred to Committee: February 18, 2005

FURTHER REFERRALS: State Affairs
Judiciary
Finance

Date of Committee Action: Apr. 11, 2005

HJR 12

CONST. AM: BUDGET RESERVE FUND REPEAL

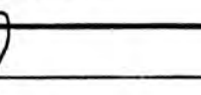
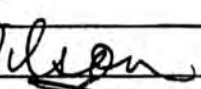
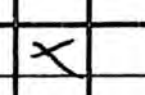
Proposing amendments to the Constitution of the State of Alaska relating to the repeal of the budget reserve fund.

Recommends it be replaced with ☐ HCS or ☒ CS for HJR 12 (W & M)
For Senate Bills with new title: ☐ Technical Title ☐ New Title: HCR _____ ☐ Same Title ☒ New Title

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

*List of
Abbrev
for
Depts.:*
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

[illegible][illegible]

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
	SAMUEL J			X	
 	WILSON SEATON	✓ ✓			
Chair:					
Chair: 		X			

24-LS0485VF

Cook

4/11/05

CS FOR HOUSE JOINT RESOLUTION NO. 12()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE HARRIS

A RESOLUTION

1 **Proposing amendments to the Constitution of the State of Alaska relating to the capital**
2 **construction permanent fund and to the repeal of the budget reserve fund.**

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

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

6 **Section 18. Capital Construction Permanent Fund.** (a) There is
7 established as a separate fund in the State treasury the capital construction permanent
8 fund. Money in the fund shall be invested so as to yield competitive market rates to
9 the fund. Income of the fund shall be retained in the fund unless appropriated as
10 provided under (b) of this section.

11 (b) Money may only be appropriated from the capital construction permanent
12 fund for construction and maintenance of facilities of the State or a subdivision of the
13 State. Appropriations from the fund made during a fiscal year may not exceed five
14 percent of the average of the fiscal year-end market values of the fund for the first five
15 of the preceding six fiscal years.

16 * **Sec. 2.** Article XV, Constitution of the State of Alaska, is amended by adding a new

1 section to read:

2 **Section 30. Budget Reserve Fund Transition.** (a) On the effective date of
3 the repeal of Section 17 of Article IX, the unencumbered, unappropriated balance in
4 the budget reserve fund (art. IX, sec. 17) is transferred to the capital construction
5 permanent fund (art. IX, sec. 18).

6 (b) Notwithstanding Section 18(b) of Article IX, appropriations during each of
7 fiscal years 2007 - 2012 from the capital construction permanent fund may equal, but
8 not exceed, five percent of the year-end market value of the fund for the immediately
9 preceding fiscal year. No appropriation may be made from the fund during fiscal year
10 2006.

11 * **Sec. 3.** Article IX, sec. 17, Constitution of the State of Alaska, is repealed.

12 * **Sec. 4.** The amendments proposed by this resolution shall be placed before the voters of
13 the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the
14 State of Alaska, and the election laws of the state.

24-LS0485\G

Cook

4/4/05

CS FOR HOUSE JOINT RESOLUTION NO. 12()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY**Offered:****Referred:****Sponsor(s): REPRESENTATIVE HARRIS**

A RESOLUTION

1 **Proposing amendments to the Constitution of the State of Alaska relating to the capital**
2 **construction fund and to the repeal of the budget reserve fund.**

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

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

6 **Section 18. Capital Construction Fund.** (a) There is established as a
7 separate fund in the State treasury the capital construction fund. Money in the fund
8 shall be invested so as to yield competitive market rates to the fund. Income of the
9 fund shall be retained in the fund unless appropriated. Money may be appropriated
10 only as provided under (b) of this section.

11 (b) Money may be appropriated from the capital construction fund for
12 maintenance of facilities of the State or a subdivision of the State. Money may be
13 appropriated from the fund for payment of the principal and interest on general
14 obligation or revenue bonds issued for the construction of capital projects by the State
15 or a subdivision of the State, including a public corporation.

16 * **Sec. 2.** Article XV, Constitution of the State of Alaska, is amended by adding a new

1 section to read:

2 **Section 30. Budget Reserve Fund Transition.** On the effective date of the
3 repeal of Section 17 of Article IX, the unencumbered, unappropriated balance in the
4 budget reserve fund (art. IX, sec. 17) is transferred to the capital construction fund
5 (art. IX, sec. 18).

6 * **Sec. 3.** Article IX, sec. 17, Constitution of the State of Alaska, is repealed.

7 * **Sec. 4.** The amendments proposed by this resolution shall be placed before the voters of
8 the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the
9 State of Alaska, and the election laws of the state.

Alaska State Legislature

Session: (Jan-May)
State Capitol, Room 208
Juneau, AK 99801-1182
(907) 465-4859
Fax (907) 465-3799



Interim: (June-Dec)
716 West 4th Avenue, Suite 300
Anchorage, AK 99501-2133
(907) 269-0129
Fax (907) 269-0128

John Harris
Speaker of the House

SPONSOR STATEMENT

HOUSE JOINT RESOLUTION 12 ***CONSTITUTIONAL AMENDMENT: BUDGET RESERVE FUND REPEAL***

In 1990, the Constitutional Budget Reserve was established to provide cash to fund state government during times when low oil prices caused revenues to fall short of expenditures. It was funded by proceeds of settlements of tax and royalty disputes with the oil companies. Most of these large disputes have been settled and little additional dedicated revenue is expected anytime in the future.

Theoretically, the CBR should grow in size because the account is to be repaid when revenues exceed expenditures. To date, this has not occurred. The cumulative draw has been over \$6 million.

By repealing this amendment, there is no longer a need for a three-quarter vote whenever additional funds are needed to balance our budget. Also, elimination of this amendment will help facilitate the development of a fiscal plan that will allow the legislature to balance a budget on a year-to-year basis with known anticipated revenues.

Funds from the CBR could be placed into the Permanent Fund as suggested by this resolution. The CBR funds could also be placed into other accounts as well such as the general fund, a statutory budget reserve account, a capital construction account or any other account chosen by the legislature.

The state needs a long term fiscal plan and the first step should be the repeal of the constitutional budget reserve fund amendment.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HJR12
() Publish Date: _____

Revision Date/Time (Note if correction):
Title Constitutional amendment relating to
to the repeal of the budget reserve fund
Sponsor Representative Harris
Requester (H) Ways and Means Committee

Dept. Affected: OOG
RDU Elections
Component Elections
Component No. 21

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual		1.5				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	1.5	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF		1.5				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	1.5	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

If this amendment appears on the 2006 ballot, the cost of providing information about this issue in the Official Election Pamphlet, as required by AS 15.58 is \$1.5. Should the addition of this question require printing an 8 1/2 by 18 inch ballot the cost will increase to \$22.0.

Prepared by: Lauri Allred, Admin. Assistant Supervisor
Division Division of Elections
Approved by: Laura A. Glaiser, Director
Agency Office of the Lt. Governor, Division of Elections

Phone 465-4611
Date/Time 3/29/05 9:52 AM
Date 3/29/2005

F. Budget Gap and the Constitutional Budget Reserve

The table below reflects the amount needed to make up the difference between the Department of Revenue's forecast of Unrestricted General Purpose Revenue and the annual general fund budget, shown here as a flat \$2.2517 billion (the Governor's proposed budget) for all operating, capital, debt service, lease payments and supplemental appropriations. ⁽¹⁾

Table 2-9. Difference Between Unrestricted General Purpose Revenue and General Fund Budget "The Gap"⁽¹⁾
\$ Million

Fiscal Year	Total Unrestricted General Purpose Revenue	Transfer from Alaska Science & Technology	(1) General Fund Appropriation	Difference
Actual 2003	1,947.6	95.0	2,496.2 ⁽²⁾	453.6 ⁽²⁾
2004	2,245.3	.	2,300.6	55.3
2005	1,961.1	.	2,251.7	290.6
2006	1,770.5	.	2,251.7	481.2
2007	1,465.8	.	2,251.7	785.9
2008	1,450.7	.	2,251.7	801.0
2009	1,393.6	.	2,251.7	858.1
2010	1,390.2	.	2,251.7	861.5
2011	1,328.7	.	2,251.7	923.0
2012	1,277.0	.	2,251.7	974.7
2013	1,214.8	.	2,251.7	1,036.9
2014	1,156.0	.	2,251.7	1,095.7
2015	1,099.9	.	2,251.7	1,151.8

(1) The projected FY 2005-2015 budget of \$2.2517 billion is simply a reference point for analysis. Any budget estimate used to determine "The Gap" will have its detractors — some will contend spending should be cut, while others will argue just as strongly that spending should be increased to reflect inflation and population growth.

(2) The "Gap", or draw on the CBRF for FY 2003, is shown as the actual cash withdrawal.

(1) http://www.gov.state.ak.us/omb/04_OMB/fy04fiscal_summary.pdf



Rainy Day Funds

Appendix A. State Budget Stabilization Funds

The states of Arkansas, the District of Columbia, Hawaii, Illinois, Montana, and Oregon do not have budget reserve funds.

Alabama

Education Proration Prevention Fund (Statutory)

Method for deposit: Automatic appropriation of \$21M in the first year (following the fund's depletion) and \$8M thereafter up to \$75M. Automatic appropriation can be waived via emergency resolution.

Method for withdrawal: Declaration of proration by governor, or declaration of emergency by legislature with a 2/3 vote.

Alaska

Budget Reserve Fund (Statutory)

Method for deposit: By appropriation.

Method for withdrawal: By appropriation.

Constitutional Budget Reserve Fund (Constitutional)

Method for deposit: Mineral litigation/dispute settlements.

Method for withdrawal: 1) If the amount available for appropriation for a fiscal year is less than the amount appropriated for the previous fiscal year; 2) for any public purpose with a 3/4 vote.

Arizona

Budget Stabilization Fund (Statutory)

Method for deposit: By appropriation (amount determined by formula comparing real, adjusted Arizona personal income growth to 7 year trend); fund capped at 5 percent of prior year GF revenue.

Method for withdrawal: By appropriation (amount determined by formula); 2/3 vote is required to waive formula-determined withdrawal.

California

Special Fund for Economic Uncertainties (Statutory)

Method for deposit: Year-end surplus or by appropriation.

Method for withdrawal: 1) Transfer by controller to cover revenue shortfall or other GF deficiency; 2) Director of finance can allocate funds for disaster relief (with notification to the Joint Legislative Budget Committee).

Colorado

Required Reserve (Statutory)

Method for deposit: 4 percent of GF appropriations.

Method for withdrawal: Automatic expenditure when revenue estimates fall below targets; fund can only be used to cover appropriations already authorized. (If

Contents

- Alabama, Alaska, Arizona, California, Colorado
- Connecticut, Delaware, Florida, Georgia
- Idaho, Indiana, Iowa, Kansas, Kentucky
- Louisiana, Maine, Maryland, Massachusetts, Michigan
- Mississippi, Missouri, Nebraska, Nevada, New Hampshire
- New Jersey, New Mexico, New York, North Carolina, North Dakota
- Ohio, Oklahoma, Pennsylvania, Puerto Rico, Rhode Island
- South Carolina, South Dakota, Tennessee, Texas, Utah
- Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming

economic conditions require expenditures from the fund, the governor must develop a plan that would maintain the reserve at no less than 2 percent. The plan is subject to legislative modification.)

Connecticut

Budget Reserve Fund (Statutory)

Method for deposit: Year-end surplus; fund capped at 5 percent of net GF appropriations for the fiscal year in progress.

Method for withdrawal: Automatic appropriation to cover budget deficit to the extent that funds are available.

Delaware

Budget Reserve Account (Constitutional)

Method for deposit: Automatic deposit from previous year's unencumbered funds; fund capped at 5 percent of estimated GF revenues.

Method for withdrawal: By appropriation to cover budget deficit or to compensate for revenue reductions; requires 3/5 vote.

Florida

Working Capital Fund (Statutory)

Method for deposit: Year-end surplus until fund reaches minimum level of 5 percent of net GF revenue for the previous fiscal year; fund capped at 10 percent.

Method for withdrawal: By appropriation when governor declares an emergency.

Budget Stabilization Fund (Statutory)

Method for deposit: Automatic deposit beginning in FY 1995 equal to 1 percent of previous year's GF revenue collections, increasing each year until the reserve reaches minimum level of 5 percent (in FY 1999); principal fund balance capped at 10 percent.

Method for withdrawal: By executive transfer when revenue collections in the general revenue fund will be insufficient to meet general revenue fund appropriations.

Georgia

Revenue Shortfall Reserve (Statutory)

Method for deposit: Year-end surplus; fund capped at 3 percent of net revenue collections.

Method for withdrawal: By appropriation.

Idaho

Budget Reserve Account (Statutory)

Method for deposit: By appropriation.

Method for withdrawal: By appropriation.

Indiana

Counter-Cyclical Revenue and Economic Stabilization Fund (Statutory)

Method for deposit: Statutory formula triggered when the annual growth rate in adjusted personal income exceeds 2 percent; fund capped at 7 percent of state GF revenue.

Method for withdrawal: Statutory formula triggered when the annual growth rate in adjusted personal income is less than a negative 2 percent.

Iowa*Cash Reserve Fund (Statutory)*

Method for deposit: By appropriation when there is a year-end GF surplus; fund capped at 5 percent of the adjusted GF revenue estimate for the current fiscal year.

Method for withdrawal: By appropriation for non-recurring emergency expenditures; requires 3/5 vote if the fund's balance drops to less than 3 percent of the adjusted revenue estimate for the year in which the appropriation is made.

Economic Emergency Fund (Statutory)

Method for deposit: By appropriation when there is a year-end GF surplus; fund capped at 5 percent of the adjusted revenue estimate for the current fiscal year.

Method for withdrawal: By appropriation for emergency expenditures.

Kansas*Budget Stabilization Fund (Statutory)*

Method for deposit: Funded by a one-time federal dispro-portionate share windfall; fund expected to be depleted by the end of FY 1996.

Method for withdrawal: By appropriation.

Kentucky*Budget Reserve Trust Fund (Statutory)*

Method for deposit: By appropriation; fund capped according to provisions in the biennial budget act.

Method for withdrawal: Allotted by governor to meet a revenue shortfall; 2 governor must notify legislature. (Conditions governing the use of the fund are attached to its appropriation every two years. At the end of the biennium, the fund lapses and has to be recreated. The state also has created in the general fund the Surplus Fund Account. No expenditures may be made from the account unless appropriated by the legislature, or unless required by the budget reduction provisions of the budget bill.)

Louisiana*Revenue Stabilization - Mineral Trust Fund (Constitutional)*

Method for deposit: Automatic deposit of revenues exceeding \$750M from taxes on the production of, or exploration for, minerals. With some limitations, the \$750M base may be increased every 10 years, beginning in the year 2000, by a law enacted by a 2/3 vote.

Method for withdrawal: By appropriation, not to exceed one-third of the fund and requiring a 2/3 vote when: 1) the official forecast for a fiscal year is less than revenues received by the state in the preceding fiscal year; 2) if a deficit for the current fiscal year is projected due to a decrease in the official forecast.

Maine*Rainy Day Fund (Statutory)*

Method for deposit: Transfer from the GF unappropriated surplus; fund capped at 4 percent of total GF revenues received in the immediately preceding fiscal year.

Method for withdrawal: Subject to annual legislative deliberations. (According to statute, appropriations may be made by a 2/3 vote of the legislature upon recommendation of the governor, but only for prepayment of outstanding GF bonds or for major construction. In practice, however, the legislature has enacted exceptions to the statute to use the funds as needed for emergencies, disasters, or other expenditures deemed necessary.)

Maryland

Revenue Stabilization Account (Statutory)

Method for deposit: By appropriation. Beginning in FY 1995, the governor shall include in the budget bill an appropriation equal to at least the lesser of \$50M or the amount necessary for the fund balance to exceed 5 percent of estimated GF revenues for the fiscal year.

Method for withdrawal: Transferred by governor if authorized by an act of the General Assembly or specifically authorized in the state budget bill as enacted; amount of transfer is reduced by amount of general fund budget reductions made by legislature.

Massachusetts

Commonwealth Stabilization Fund (Statutory)

Method for deposit: After the year-end GF consolidated net surplus is determined, a portion can be used as general revenue in the current fiscal year. Of the remaining surplus, 60 percent is transferred to the stabilization fund; fund capped at 5 percent of current fiscal year revenues.

Method for withdrawal: By appropriation: 1) to make up any difference between actual state revenues and allowable state revenues when actual revenues fall below the allowable amount; 2) to replace the state and local loss of federal funds; 3) for any event that threatens the health, safety or welfare of the people or the fiscal stability of the state.

Michigan

Countercyclical Budget & Economic Stabilization Fund (Statutory)

Method for deposit: Statute requires appropriation of an amount equal to (annual growth rate in real personal income in excess of 2 percent) X (total GF revenues for the fiscal year ending in the current calendar year).

Method for withdrawal: If annual growth rate in real personal income is negative, withdrawal equals deficiency multiplied by the total GF revenues for the fiscal year ending in the current calendar year, but no more than needed to balance the budget.

Minnesota

Budget & Economic Stabilization Fund (Statutory)

Method for deposit: By surplus until the total amount in the account equals 5 percent of total GF appropriations for the current biennium. Restoration of the reserve should occur when objective measures, such as increased growth in total wages, reflect upturns in the state's economy. (Beginning July 1, 1993, forecast unrestricted budgetary GF balances were first appropriated to restore the budget reserve and cash flow account to \$500M. As of July 1, 1995, \$180M of the account was dedicated to elementary and secondary education.)

Method for withdrawal: By transfer authorized by the commissioner of finance, with approval of the governor and in consultation with the Legislative Advisory Commission, when: 1) a negative budgetary balance is projected and when objective measures (such as reduced growth in total wages) reflect downturns in the state's economy; 2) probable receipts for the GF will be less than anticipated and the amount available for the rest of the biennium will be insufficient.

Mississippi

Working Cash Stabilization Reserve Fund (Statutory)

Method for deposit: Year-end surplus until the fund reaches \$40M; thereafter, 50 percent of the unencumbered GF cash balance until the fund reaches 7.5 percent of GF appropriations.

Method for withdrawal: Transfer by the executive director of the Department of Finance & Administration: 1) to meet cash-flow needs (borrowed funds must be repaid within the same fiscal year); 2) to cover deficits (up to \$50M in any one fiscal year); 3) to provide funds for disaster assistance.

Missouri

Budget Stabilization Fund (Statutory)

Method for deposit: By appropriation; fund is not to exceed 5 percent of the receipts into the GF for the proceeding fiscal year.

Method for withdrawal: By appropriation to the governor to meet budget shortfalls. (The General Assembly may appropriate to the governor any portion of the existing balance to cover budget shortfalls. Also, in any year in which the governor finds it necessary to withhold appropriated funds, the governor may order the commissioner of administration to make transfers from the fund to fulfill expenditures authorized by appropriation. The governor must notify the General Assembly of his intent to make such an authorization; and, if not disapproved by concurrent resolution within 30 days of the receipt of such notice by the General Assembly, the authorization is considered valid. Further, the General Assembly shall not appropriate money from the fund without authorization from the governor.)

Nebraska

Cash Reserve Fund (Statutory)

Method for deposit: Transfer by state treasurer when actual GF net receipts for the preceding 3 months exceed estimated receipts for the 3-month period.

Method for withdrawal: Transfer is made to the GF when the cash balance in the GF is inadequate to meet current obligations.

Nevada

Fund to Stabilize Operation of State Government (Statutory)

Method for deposit: Transfer by controller of 40 percent of revenues in excess of required fund balance, which is 10 percent of GF appropriations; fund capped at \$100M.

Method for withdrawal: By appropriation only if: 1) the total actual revenue of the state falls short by 5 percent or more of the total anticipated revenue for the biennium in which the appropriation is made; 2) the legislature and governor declare a fiscal emergency.

New Hampshire

Revenue Stabilization Reserve Account (Statutory)

Method for deposit: With some limitations, transfer by comptroller of any surplus at the end of each biennium; fund capped at 5 percent of actual GF unrestricted revenues for the most recently completed fiscal year.

Method for withdrawal: Transfer by comptroller with the approval of fiscal committee and governor when: 1) GF operating deficit occurred for most recently completed fiscal year; and 2) unrestricted GF revenues in the most recently completed fiscal year were less than budget forecast. Fund cannot be used for any other purpose without a 2/3 vote and governor's approval.

New Jersey

Surplus Revenue Fund (Statutory)

Method for deposit: 50 percent of actual revenue collections in excess of governor's certification of revenues; fund capped at 5 percent of anticipated revenues.

Method for withdrawal: By appropriation only: 1) upon certification by the governor that anticipated GF revenues are estimated to be less than those certified upon approval of appropriations act; 2) upon findings by the legislature that to offset anticipated GF revenue declines, an appropriation from the fund is more prudent than a tax increase; 3) when the governor declares an emergency and notifies the Joint Legislative Budget Oversight Committee.

New Mexico

Operating Reserve Fund (Statutory)

Method for deposit: Transfer from GF.

Method for withdrawal: By specific authorization of the legislature only in the event that GF revenues and balances are insufficient to meet authorized levels of appropriations.

New York

Tax Stabilization Reserve Fund (Statutory)

Method for deposit: Year-end surplus up to 0.2 percent of aggregate GF disbursements; reserve fund cannot exceed 2 percent of GF disbursements for the fiscal year.

Method for withdrawal: By transfer at the end of a fiscal year when GF receipts fall below the aggregate amount disbursed from the GF. (Once borrowed, fund must be paid back within six years in three equal installments. Repayments to the Tax Stabilization Reserve Fund shall be stipulated in annual budget bills.) The fund also can be temporarily loaned to the GF to assist with cash flow.

North Carolina

Savings Reserve Account (Statutory)

Method for deposit: Transfer of one-fourth of any unreserved credit balance at the end of the fiscal year; fund capped at 5 percent of previous year's GF appropriations.

Method for withdrawal: The fund cannot be tapped unless approved by an act of the General Assembly.

North Dakota

Budget Stabilization Fund (Statutory)

Method for deposit: Transfer of GF surplus in excess of \$70M at the end of the biennium.

Method for withdrawal: Governor may transfer for revenue shortfall in excess of 2-1/2 percent of the estimate made by the most recently adjourned Assembly.

Ohio

Budget Stabilization Fund (Statutory)

Method for deposit: Transfer from GF by the director of Budget & Management; a written report on the transfer must be submitted to the Controlling Board; fund capped at 4 percent of GF revenues for the preceding fiscal year.

Method for withdrawal: By appropriation.

Oklahoma

Constitutional Reserve Fund (Constitutional)

Method for deposit: Transfer by the state treasurer of surplus GF revenue; fund is capped at 10 percent of GF revenue for the preceding fiscal year.

Method for withdrawal: Up to 1/2 of the balance may be appropriated if: 1) forthcoming fiscal year GF revenue is certified to be less than that of current fiscal year certification; or 2) emergency declaration by governor with concurrence by Legislature with a 2/3 vote; 3) joint emergency declaration by speaker and president pro tempore with concurrence by Legislature with a 3/4 vote.

Pennsylvania

Tax Stabilization Reserve Fund (Statutory)

Method for deposit: By appropriation; fund capped at 3 percent of GF revenue estimates.

Method for withdrawal: By appropriation with 2/3 vote when governor declares an emergency or to counterbalance downturns in the economy that will result in significant unanticipated revenue shortfalls.

Puerto Rico

Budgetary Fund (Statutory)

Method for deposit: Not less than 1/3 percent of the Budget Joint Resolution (the governor or director of OMB may order depositing a larger amount); fund capped at 6 percent of the appropriated funds of the Budget Joint Resolution in any year.

Method for withdrawal: OMB director may transfer funds to cover appropriations when resources are insufficient, to provide for payment of public debt service, to address any unexpected situation in the public service, or to honor obligations of programs funded with contributions or grants from the U.S. government that have not been received.

Rhode Island

Budget Reserve and Cash Stabilization Account (Statutory)

Method for deposit: By transfer; fund capped at 3 percent of total fiscal year resources.

Method for withdrawal: By appropriation when the budget officer declares that actual GF revenue will not equal the original estimates upon which appropriations were based, (State statutes call for the fund to be repaid in the second fiscal year following the fiscal year in which a transfer was made from the fund and, when necessary, in subsequent fiscal years.)

South Carolina

Capital Reserve Fund (Statutory)

Method for deposit: By appropriation an amount equal to 2 percent of GF revenue of the latest completed fiscal year.

Method for withdrawal: By appropriation when revenues at the end of the fiscal year are projected to be less than expenditures authorized by appropriation for that year. If the fund is not tapped for that reason, it can be used for other purposes with 2/3 vote of members present and voting, but not less than 3/5 vote of total membership. (If the Capital Reserve Fund is not tapped to address a budget deficit, the Legislature--with a 2/3 vote of members present and voting, but not less than 3/5 of the total membership--can appropriate money from the fund: 1) to finance in cash previously authorized capital improvement bond projects; 2) to retire interest or principal on bonds previously issued; or 3) for capital improvements or other non-recurring purposes.

General Reserve Fund (Constitutional)

Method for deposit: Transfer of GF revenues in excess of annual operating expenditures; fund is capped at 3 percent of GF revenue of the latest completed fiscal year. (Funds withdrawn from the General Reserve Fund must be restored annually at a rate of not less than 1 percent of the general fund revenue of the latest completed fiscal year until the fund is restored to 3 percent.)

Carnell-Felder Set-Aside Account (Statutory)

Method for deposit: By appropriation for non-recurring purposes.

Method for withdrawal: By appropriation to prevent a year-end deficit. (The Carnell-Felder Set-Aside Account was authorized beginning in FY 1995 to cushion the state's budget against unforeseen revenue shortfalls stemming from inaccurate revenue estimates.)

South Dakota

Budget Reserve Fund (Statutory)

Method for deposit: Transfer of prior year unobligated cash balance; fund capped at 5 percent of GF appropriations for the prior fiscal year.

Method for withdrawal: By appropriation.

Tennessee

Reserve for Revenue Fluctuations (Statutory)

Method for deposit: By appropriation.

Method for withdrawal: By transfer by the commissioner of Finance and Administration to offset revenue shortfalls, with notification to the chairs of the Finance, Ways & Means Committees of the Senate and House. (The statute declares legislative intent to be that, to the extent possible, revenue shortfalls will be offset by reductions in expenditures before using amounts in the reserve fund.)

Texas

Economic Stabilization Fund (Constitutional)

Method for deposit: Transfer of 1/2 of any unencumbered general revenue fund balance at end of each biennium plus portions of oil and natural gas production tax collections. The Legislature also may appropriate additional funds; fund capped at 10 percent of general revenue fund deposits (excluding interest and investment income) during the preceding biennium. (The constitutional amendment creating the fund mandates the following revenue transfers to it: 1) one-half of any unencumbered general revenue fund balance at the end of each fiscal biennium; 2) an amount of general revenue equal to 75 percent of the amount by which oil production tax collections in any future fiscal year exceed oil production tax collections in fiscal year 1987; 3) an amount of general revenue equal to 75 percent of the amount by which natural gas production tax collections in any future fiscal year exceed oil production tax collections in the fiscal year 1987. For purposes of calculating the transfer, natural gas tax collections would be adjusted to reflect 12 months of collections in each fiscal year.)

Method for withdrawal: By appropriation with a 3/5 vote of members present if: 1) the comptroller certifies that appropriations from general revenue made by the preceding legislature for the current biennium exceed available general revenues for the remainder of the biennium; 2) an estimate of anticipated revenues for a succeeding biennium is less than the revenues estimated to be available for the current biennium; 3) for any purpose with 2/3 vote of members present.

Utah

Budget Reserve Account (Statutory)

Method for deposit: 25 percent of GF surplus; fund capped at 8 percent of the GF appropriation for the fiscal year in which the surplus occurred. **Method for withdrawal:** By appropriation to cover operating deficits or retroactive tax refunds.

Vermont*Budget Stabilization Trust Fund (Statutory)*

Method for deposit: Undesignated GF surplus; fund is capped at 5 percent of GF appropriations for the prior fiscal year; also any additional amounts as may be authorized by the General Assembly.

Method for withdrawal: Transfer by the commissioner of Finance and Management to the extent necessary to offset a GF deficit.

Virginia*Revenue Stabilization Fund (Constitutional)*

Method for deposit: By formula as specified in the state's constitution; fund capped at 10 percent of the average annual tax revenues for the three fiscal years immediately preceding.

Method for withdrawal: By appropriation (up to 1/2 of the fund's balance) with specific provisions. (The General Assembly may appropriate an amount for transfer from the fund to compensate for no more than one-half of the difference between the total general fund revenues appropriated and a revised general fund revenue forecast presented to the General Assembly prior to or during a subsequent regular or special legislative session. However, no transfer shall be made unless the general fund revenues appropriated exceed such revised general fund revenue forecast by more than 2 percent of certified tax revenues collected in the most recently ended fiscal year.)

Washington*Budget Stabilization Account (Statutory)*

Method for deposit: By appropriation based on statutory formula.

Method for withdrawal: By appropriation, with 60 percent vote, to provide of continuation of agency programs when revenues fall below forecast, for labor force training, or for any purpose the Legislature determines would reduce unemployment caused by the state's economic cycle.

Emergency Reserve Fund (Statutory)

Method for deposit: Beginning in FY 1996, transfer by state treasurer of all state revenues in excess of the state expenditure limit for that fiscal year; fund capped at 5 percent of biennial GF state revenues.

Method for withdrawal: By appropriation, with 2/3 vote required, only if the appropriation does not cause total expenditures to exceed the state expenditure limit.

The Budget Stabilization Account was repealed effective July 1, 1995, by Laws 1994, ch.2, Sect. 9 (Initiative Measure No. 601, approved November 2, 1993). The Emergency Reserve Fund was created (via Initiative 601) effective July 1, 1995.

West Virginia*Revenue Shortfall Reserve Fund (Statutory)*

Method for deposit: Beginning in FY 1995, transfer of the first 50 percent of all surplus revenues accrued during the fiscal year just ended; fund capped at 5

percent of GF appropriations for the fiscal year just ended.

Method for withdrawal: By appropriation to meet any anticipated revenue shortfall.

Wisconsin

Budget Stabilization Fund (Statutory)

Method for deposit: By appropriation.

Method for withdrawal: By appropriation.

Wyoming

Budget Reserve Account (Statutory)

Method for deposit: Year-end surplus plus appropriations.

Method for withdrawal: By appropriation.

The states of Arkansas, the District of Columbia, Hawaii, Illinois, Montana, and Oregon do not have budget reserve funds.

States Broaden the Scope of Rainy Day Funds

Posted August 1997; reviewed March 2004.

Email statebudget-info@ncsl.org for more information.

[Visitor counts for this page.](#)

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Denver Office: Tel: 303-364-7700 | Fax: 303-364-7800 | 7700 East First Place | Denver, CO 80230 | [Map](#)

Washington Office: Tel: 202-624-5400 | Fax: 202-737-1069 | 444 North Capitol Street, N.W., Suite 515 | Washington, D.C. 20001

Available Balance in Constitutional Budget Reserve Fund

in thousands

	FY 2002	FY 2003	FY 2004	FY 2005
Beginning balance as of July 1	3,110,104	2,466,918	2,093,556	2,155,078
Cash flow (borrowing) and repayment:				
	(100,000) 8/10	(100,000) 7/12	(100,000) 7/23	(100,000) 8/12
	(100,000) 8/15	(100,000) 8/12	(100,000) 8/12	(100,000) 8/17
	(100,000) 11/13	(50,000) 9/17	(100,000) 9/11	100,000 11/14
	(100,000) 12/10	(100,000) 10/11	100,000 1/6	100,000 12/7
	(100,000) 12/13	(100,000) 11/14	100,000 4/12	
	(100,000) 1/25	(50,000) 2/18	100,000 6/28	
	(100,000) 2/15			
	(100,000) 5/13			
	50,000 6/27	85,000 6/27		
Net cash flow borrowing	(750,000)	(415,000)	-	-
Additional (deficit borrowing) or repayment	(134,312)	(83,120)	(10,785)	
Subfunds swept per Article IX, section 1	130,695	88,755	94,627	
Subfund balances appropriated back	(101,947)	(130,695)	(88,755)	
Direct appropriations:				
Treasury operations	(125)	(121)	(109)	
New revenues	212,503	166,819	61,627	
Appropriated fund transfer from GF			4,917	
Ending balance as of June 30 (audited)	<u>2,466,918</u>	<u>2,093,556</u>	<u>2,155,078</u>	

Please direct any questions about this information to Lisa Pusich, State Accountant at 465-5616.

POLICIES AND PROCEDURES APPLICABLE
TO THE TREASURY DIVISION,
DEPARTMENT OF REVENUE,
STATE OF ALASKA

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APPENDIX V

**Constitutional Provisions and Statutes Pertaining to
the Constitutional Budget Reserve Fund**

*Constitutional
amendment adopted
in 1990 election.*

Article IX, Section 17. Budget Reserve Fund. (a) There is established as a separate fund in the State treasury the budget reserve fund. Except for money deposited into the permanent fund under Section 15 of this article, all money received by the State after July 1, 1990, as a result of the termination, through settlement or otherwise, of an administrative proceeding or of litigation in a State or federal court involving mineral lease bonuses, rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments or bonuses, or involving taxes imposed on mineral income, production, or property, shall be deposited in the budget reserve fund. Money in the budget reserve fund shall be invested so as to yield competitive market rates to the fund. Income of the fund shall be retained in the fund. Section 7 of this article does not apply to deposits made to the fund under this subsection. Money may be appropriated from the fund only as authorized under (b) or (c) of this section.

(b) If the amount available for appropriation for a fiscal year is less than the amount appropriated for the previous fiscal year, an appropriation may be made from the budget reserve fund. However, the amount appropriated from the fund under this subsection may not exceed the amount necessary, when added to other funds available for appropriation, to provide for total appropriations equal to the amount of appropriations made in the previous calendar year for the previous fiscal year.

(c) An appropriation from the budget reserve fund may be made for any public purpose upon affirmative vote of three-fourths of the members of each house of the legislature.

(d) If an appropriation is made from the budget reserve fund, until the amount appropriated is repaid, the amount of money in the general fund available for appropriation at the end of each succeeding fiscal year shall be deposited in the budget reserve fund. The legislature shall implement this subsection by law.

POLICIES AND PROCEDURES APPLICABLE
TO THE TREASURY DIVISION,
DEPARTMENT OF REVENUE,
STATE OF ALASKA
• • • • •

*Statutes defining key
terms in
Constitutional Budget
Reserve Fund.*

AS 37.10.410. "Administrative proceedings involving taxes" defined. (a) The following money received by the state is considered to be received as a result of the termination of an administrative proceeding for purposes of applying art. IX, sec. 17(a), Constitution of the State of Alaska:

(1) past due taxes that are received by the state for each tax year for which a request for an informal conference under AS 43.05.240(a) is made to the Department of Revenue, together with penalties and interest on the taxes;

(2) past due taxes that are received by the state after a request for a formal hearing under AS 43.05.240(b)(1) is made to the Department of Revenue, together with penalties and interest on the taxes.

(b) Money received by the state under the following conditions is not considered to be received as the result of the termination of an administrative proceeding for purposes of applying art. IX, sec. 17(a), Constitution of the State of Alaska:

(1) taxes that are not due at the time the request for the proceeding was made under AS 43.05.240(a) or (b)(1);

(2) taxes set out in a return not audited by the Department of Revenue at the date of collection; or

(3) taxes collected for a tax year for which the taxpayer did not give notice of appeal of an assessment made by the Department of Revenue. (§1 ch 5 SLA 1994)

*Statutes defining key
terms in
Constitutional Budget
Reserve Fund
(continued).*

Section 37.10.420. "Money available for appropriation" defined. (a) For purposes of applying art. IX, sec. 17(b), Constitution of the State of Alaska,

(1) "the amount available for appropriation" or "funds available for appropriation" means

(A) the unrestricted revenue accruing to the general fund during the fiscal year;

(B) general fund program receipts as defined in AS 37.05.146;

(C) the unreserved, undesignated general fund balance carried forward from the preceding fiscal year that is not subject to the repayment obligation imposed by art. IX, sec. 17(d), Constitution of the State of Alaska; and

(D) the balance in the statutory budget reserve fund established in AS 37.05.540;

(2) "the amount appropriated for the previous fiscal year" means the amount appropriated from the

(A) constitutional budget reserve fund under the authority granted in art. IX, sec. 17, Constitution of the State of Alaska; and

(B) same revenue sources used to calculate the money available for appropriation for the current fiscal year; and

(3) "the amount of appropriations made in the previous calendar year for the previous fiscal year" means appropriations made from sources identified in (2) of

● ● ● ● ● ● ● ● ● ● ● ● ● ●

(d) An appropriation under art. IX, sec. 17(b), Constitution of the State of Alaska, requires an affirmative vote of the majority of the members of each house of the legislature. An appropriation under art. IX, sec. 17(c) requires an affirmative vote of three-fourths of the members of each house of the legislature.

*Department of
Revenue must report
annually on
comparative
performance of fund.*

(b) By March 15 of each year, the Department of Revenue shall, after consulting with the Alaska Permanent Fund Corporation, prepare a report setting out the balance in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) on January 1 and on December 31 of the previous calendar year. The report shall state the nominal, real, and realized return on the budget reserve fund compared to the nominal, real, and realized return on the permanent fund and the general fund during the previous calendar year.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____

Bill Version: HJR 12

() Publish Date: _____

Revision Date/Time (Note if correction): _____

Title Const. AM: Budget Reserve Fund Repeal

Dept. Affected: Revenue

RDU AK Permanent Fund Corporation

Component AK Permanent Fund Corporation

Sponsor Representative Harris

Requester House Ways & Means Committee

Component No. 109

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual		1,500.0	3,000.0	3,240.0	3,499.0	3,779.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING		1,500.0	3,000.0	3,240.0	3,499.0	3,779.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1105 Pfund Rcpt.		1,500.0	3,000.0	3,240.0	3,499.0	3,779.0
TOTAL		1,500.0	3,000.0	3,240.0	3,499.0	3,779.0

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HJR 12 would place a measure on the 2006 general election ballot that, if approved, would transfer the balance of the CBR to the principal of the Permanent Fund.

Assuming approximately \$2 billion transferred into the principal of the Fund following the general election in FY07, APFC estimates investment management fees for the corporation will initially increase by approximately \$1.5 million for the remainder of FY07, and then \$3 million for the first full year of management (FY08). As the principal grows at the expected rate of return, the corresponding management fees will increase over time.

Prepared by: Michael Burns, Executive Director/CEO

Division: Alaska Permanent Fund Corporation

Approved by: _____

Agency: _____

Phone 907-465-2047

Date/Time 03/30/05

Date 3/30/2005

SCOMM

142:30



ALASKA STATE LEGISLATURE

WAYS AND MEANS COMMITTEE

Representative Bruce Weyhrauch, Chair

April 22, 2005

On this date, Representative Norman Rokeberg requested that the public record for HJR 26 - Const. Am. POMV (23rd Legislature, be included as part of the public record for HJR 19 - Const. Am. POMV (24th Legislature). HJR 19 is the same as the version of HJR 26 which passed out of the House in 2004.

Heavy debate of HJR 26 took place in the House Ways and Means Committee in 2004.

The request was accepted.

A handwritten signature in cursive script that reads "Ginny Austerman".

Ginny Austerman
Ways & Means Committee Aide

HOUSE COMMITTEE REPORT

Date Referred to Committee: April 19, 2005

FURTHER REFERRALS: Judiciary
Finance

Date of Committee Action: April, 22, 2005

HJR 19

CONST. AM: PERMANENT FUND P.O.M.V.

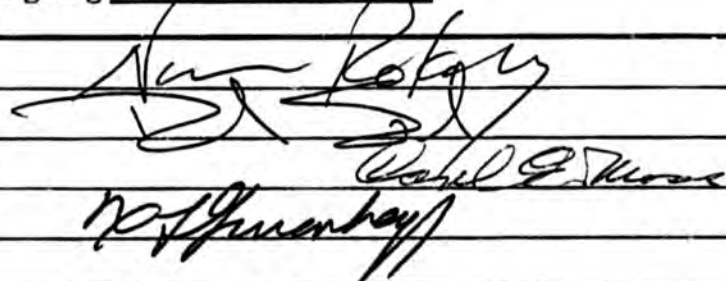
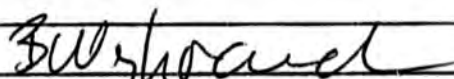
Proposing amendments to the Constitution of the State of Alaska relating to and limiting appropriations from the Alaska permanent fund based on an averaged percent of the fund market value.

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

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

**List of
Abbrev
for
Depts.:
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
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Signing with recommendations		Printed Last Name	DP	DNP	NR	AM
		ROCKEBAUGH	X			
		SAMUELS	X			
		MOSES	✓			✓
Chair:		W. J. Moore	X			
Chair:						



ALASKA STATE LEGISLATURE

WAYS AND MEANS COMMITTEE

Representative Bruce Weyhrauch, Chair

Sponsor Statement for HJR 19

House Joint Resolution 19 proposes changing Alaska's Constitution to require inflation proofing of the entire Permanent Fund and to limit the payouts from the fund.

Many large endowments and public funds use a system known as "percent of market value" payouts, or POMV, to provide payouts while still protecting both the principal and earnings of a fund. POMV limits payouts to a set percentage of the fund's market value, often 5 percent. This has shown to be the maximum sustainable payout rate that will still maintain a fund's real value over time.

However, under current law only the principal of the Permanent Fund is protected and inflation-proofed. The earnings reserve account is not considered part of the principal, is not inflation-proofed and is open to appropriation. In addition, payouts are computed as a portion of the Fund's earnings. This means that if the Fund were to have little or no earnings in a single year, a payout for dividends or other State spending would not be allowed.

Moving to a POMV system and adding the earnings reserve to the Fund would not only provide inflation proofing of the entire fund, but would provide a more reliable and predictable payout each year, regardless of the Fund's performance in an individual year. This would make it more likely that the State could continue the Permanent Fund Dividend program in the future, an outcome that is heartily supported by many Alaskans.

Making these changes in the Constitution, rather than in Alaska Statutes adds an additional layer of protection to the fund because the Constitution can only be changed with a vote of the people.

If passed, HJR 19 would place an initiative on the next statewide election ballot that would propose the following three changes to Alaska's Constitution:

- Remove the provision that "all income be deposited in the general fund unless otherwise provided by law"
- Add a provision that would not allow appropriations for the Fund to exceed 5 percent of the average market value of the Fund over five years
- Add a provision that would consider the money in the earnings reserve account to be part of the Permanent Fund



ALASKA STATE LEGISLATURE

WAYS AND MEANS COMMITTEE

Representative Bruce Weyhrauch, Chair

*Revised
4/22*

Sponsor Statement for HJR 19

House Joint Resolution 19 proposes changing Alaska's Constitution to require inflation proofing of the entire Permanent Fund and to limit the payouts from the fund. This resolution was introduced at the request of the Permanent Fund Corporation's Board of Trustees.

Many large endowments and public funds use a system known as "percent of market value" payouts, or POMV, to provide payouts while still protecting both the principal and earnings of a fund. POMV limits payouts to a set percentage of the fund's market value, often 5 percent. This has shown to be the maximum sustainable payout rate that will still maintain a fund's real value over time.

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FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HJR 19
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Const. Am: Permanent Fund P.O.M.V RDU AK Permanent Fund Corporation
 Component AK Permanent Fund Corporation
 Sponsor House Ways and Means
 Requester House Ways and Means Component No. 109

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HJR 19 would ask voters in the next general election whether to approve a constitutional amendment that would limit annual appropriations to no more than 5% of the average year-end market value of the Fund for the preceding five years.

HJR 19 would not affect the budgeted costs to manage and invest the Permanent Fund, nor would it change the amount of income earned by Permanent Fund investments.

Prepared by: Michael Burns, Executive Director/CEO Phone 907-465-2047
 Division Alaska Permanent Fund Corporation Date/Time 04/20/05
 Approved by: _____ Date 4/20/2005
 Agency _____

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HJR19
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: OOG
Title Proposing amendments to the RDU Elections
Constitution of the State of Alaska Component Elections
Sponsor House Ways and Means
Requester House Ways and Means Component No. 21

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual	0.0	1.5				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	1.5	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	1.5				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	1.5	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

If this amendment appears on the 2006 ballot, the cost of providing information about this issue in the Official Election Pamphlet, as required by AS 15.58 is \$1.5 (in thousands). Should the addition of this question require printing an 8 1/2 by 18 inch ballot the cost will increase to \$22.0.

Prepared by: Gumesindo Rosales, Elections Special Assistant Phone 465-4611
Division: Division of Elections Date/Time 4/21/05 1:38 PM
Approved by: Laura A. Glaiser, Director Date 4/21/2005
Agency: Office of the Lt. Governor, Division of Elections



Alaska Permanent Fund Corporation

Financial projection comparison of the Alaska Permanent Fund (median case) under status quo versus POMV spending limit beginning in FY05. Under each scenario only the dividend (under current statutory calculation) is paid out.

All \$ values in millions except the per person dividend

Current Statutes	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY05 - FY15 Totals
Contributions & appropriations (after payouts)	24,654	25,680	26,690	27,658	28,640	29,647	30,684	31,742	32,821	33,921	35,040	
Unrealized gains (losses) on invested assets	2,548	2,717	2,895	3,084	3,282	3,489	3,707	3,934	4,173	4,423	4,685	
Realized earnings account (after payouts)	2,113	2,772	3,337	3,799	4,258	4,806	5,387	6,006	6,664	7,366	8,111	
Total market value end of year (after payouts)	<u>29,316</u>	<u>31,169</u>	<u>32,923</u>	<u>34,541</u>	<u>36,180</u>	<u>37,942</u>	<u>39,777</u>	<u>41,682</u>	<u>43,659</u>	<u>45,710</u>	<u>47,836</u>	<u>47,836</u>
Total lump sum dividend appropriation	607	691	886	1,082	1,170	1,168	1,229	1,290	1,352	1,417	1,484	12,378
Per person dividend under current statute	\$950	\$1,080	\$1,380	\$1,680	\$1,800	\$1,780	\$1,860	\$1,930	\$2,000	\$2,070	\$2,150	\$18,680
Transfer status quo inflation proofing (realized earnings to Principal)	624	650	676	700	725	751	777	804	831	859	887	8,283
POMV spending limit information												
POMV 5% spending limit	1,309	1,332	1,384	1,464	1,551	1,620	1,682	1,743	1,805	1,867	1,930	17,689
less AFPC management costs	48	50	51	53	55	56	58	60	61	63	65	620
Net 5% POMV limit available for appropriation	1,261	1,282	1,333	1,411	1,497	1,564	1,624	1,684	1,744	1,804	1,865	17,068
Total lump sum dividend payout (current formula)	607	691	886	1,082	1,170	1,168	1,229	1,290	1,352	1,417	1,484	12,378
% of dividend to the POMV payout limit	46%	52%	64%	74%	75%	72%	73%	74%	75%	76%	77%	69%
Per person dividend under current statute	\$950	\$1,080	\$1,380	\$1,680	\$1,800	\$1,780	\$1,860	\$1,930	\$2,000	\$2,070	\$2,150	\$18,680

Assumptions:

1. POMV assumes a 5% payout limit, which is first used to fund APF administrative costs; and then only the dividend (current statutory calculation) is paid out.
2. Additional POMV monies above the dividend to the 5% limit is not spent, but left in the Fund to earn additional income.
3. POMV payout assumes calculation methodology is 5% of the ending market value (pre payout) for the first five of the last six fiscal years.
4. Callan Associates 2004 Capital Market Assumptions, APFC 2004 asset allocation, Fall 2004 revenue forecast and APF financial statements through 6/30/04. All payouts are assumed to happen at fiscal year end, all dollar values in millions except the per person dividend.



Alaska Permanent Fund Corporation

Financial projection of the Alaska Permanent Fund (median case) under the POMV spending limit beginning in FY05.

All \$ values in millions except the per person dividend

POMV - 5% (beginning in FY05)	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY05 - FY15 Totals
Total Market Value End of Year (after payouts)	28,662	29,876	31,084	32,234	33,370	34,523	35,703	36,904	38,126	39,368	40,630	40,630
5 year average market value lagged one year	26,189	26,637	27,683	29,275	31,027	32,403	33,635	34,869	36,103	37,348	38,609	
POMV 5% spending limit	1,309	1,332	1,384	1,464	1,551	1,620	1,682	1,743	1,805	1,867	1,930	17,689
less AFPC management costs	48	50	51	52	55	56	58	60	61	63	65	620
Net 5% POMV limit available for appropriation	1,261	1,282	1,333	1,411	1,497	1,564	1,624	1,684	1,744	1,804	1,865	17,068
Split 50/50												
50% of net POMV approp for public services	631	641	666	705	748	782	812	842	872	902	933	8,534
50% of net POMV approp for dividend program	631	641	666	705	748	782	812	842	872	902	933	8,534
equates to per person dividend	\$990	\$1,000	\$1,030	\$1,080	\$1,130	\$1,170	\$1,210	\$1,240	\$1,270	\$1,300	\$1,330	\$12,750
Split 60/40												
40% of net POMV approp for public services	504	513	533	564	599	626	650	674	698	722	746	6,827
60% of net POMV approp for dividend program	757	769	800	846	898	938	974	1,010	1,046	1,083	1,119	10,241
equates to per person dividend	\$1,202	\$1,209	\$1,245	\$1,305	\$1,372	\$1,420	\$1,460	\$1,498	\$1,536	\$1,573	\$1,609	\$15,429
Split 70/30												
30% of net POMV approp for public services	378	385	400	423	449	469	487	505	523	541	560	5,121
70% of net POMV approp for dividend program	883	897	933	988	1,048	1,095	1,137	1,179	1,221	1,263	1,306	11,948
equates to per person dividend	\$1,411	\$1,419	\$1,461	\$1,532	\$1,610	\$1,666	\$1,712	\$1,757	\$1,801	\$1,844	\$1,887	\$18,098

Assumptions:

1. POMV assumes lump sum available for appropriation is paid out after accounting for APF expenses.
2. POMV payout assumes calculation methodology is 5% of the ending market value (pre payout) for the first five of the last six fiscal years.
3. Callan Associates 2004 Capital Market Assumptions, APFC 2004 asset allocation, Fall 2004 revenue forecast and APF financial statements through 6/30/04. All payouts are assumed to happen at fiscal year end, all dollar values in millions except per person dividend.



Alaska Permanent Fund Corporation

"The need for change"

1969: The boom begins



September 1969—Alaska receives \$900 million from the Prudhoe Bay oil lease sale.

The Operating Budget for that fiscal year (FY70) was \$173 million.

Using the information and testimony gathered during meetings held across the state, the Legislature decided to invest in Alaska, through capital projects and state programs.

By 1975 people were asking, "What happened to the \$900 million?" The implication was that the money had been wasted, and Alaskans began to accept the idea of saving for the future.

1974: Start of pipeline construction

With the promise of more oil money on the horizon, Alaska's leaders brought a plan before the people of Alaska to save a portion of the State's oil wealth.

"Just as a wise and prudent family sets aside money in a savings account for the future, so should Alaska's state government set aside a rainy day fund to benefit this and future generations of Alaskans."



*1976 Voter's Guide
Statement in favor of the proposed constitutional amendment*

1976—1980: What should we do with the Fund?

~~Development
Bank~~

or

Investment
Fund

Alaska Permanent Fund Growth and Stability for Alaska's Future

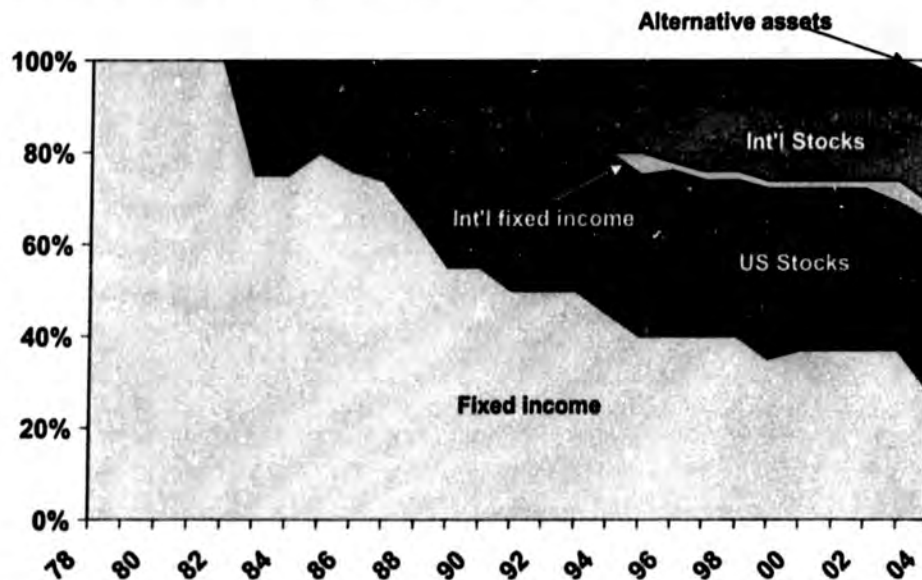
"... to benefit all generations..."

AS 37.13.020(1)

... the Fund should provide a means of conserving a portion of the state's revenue from mineral resources to benefit all generations of Alaskans.

As the Trustees manage the Fund, they must balance the rights of current generations against those of future generations. Neither the protection of the Fund for the future nor the payouts to current generations should take precedence.

The Fund, then and now



1980

2005

Investments:

Bonds

Bonds, stocks, real estate, and alternative investments

Payout method:

Based on realized income

Still based on realized income

Inflation proofing:

Statutory calculation and transfer to principal

Still use statutory calculation and bookkeeping transfer

Return and income calculations

Recognized method

Total return
- Inflation

Real return

Alaska method

Total Return
- Unrealized gains/losses

Realized income
- Amerada Hess income

Statutory income

The need for change

As the markets have changed over the last 25 years, so have the Fund's investments. As a result, the payout structure that worked in 1980 no longer fits with how the Fund is managed today.

It made sense to base payouts on realized income when the fund was invested entirely in bonds. But now that a significant portion of the Fund's assets accumulate unrealized gains, this current payout structure does not allow current generations of Alaskans to take full advantage of the Fund's growth.

At the same time, the Legislature may expend all of the Fund's accumulated earnings. In some years this has left the Fund vulnerable to overspending. As the Legislature contemplates the use of earnings for government services, the Fund's Board of Trustees believe that it is important to limit spending within sustainable yield to preserve the Fund's value over time.

What is POMV?

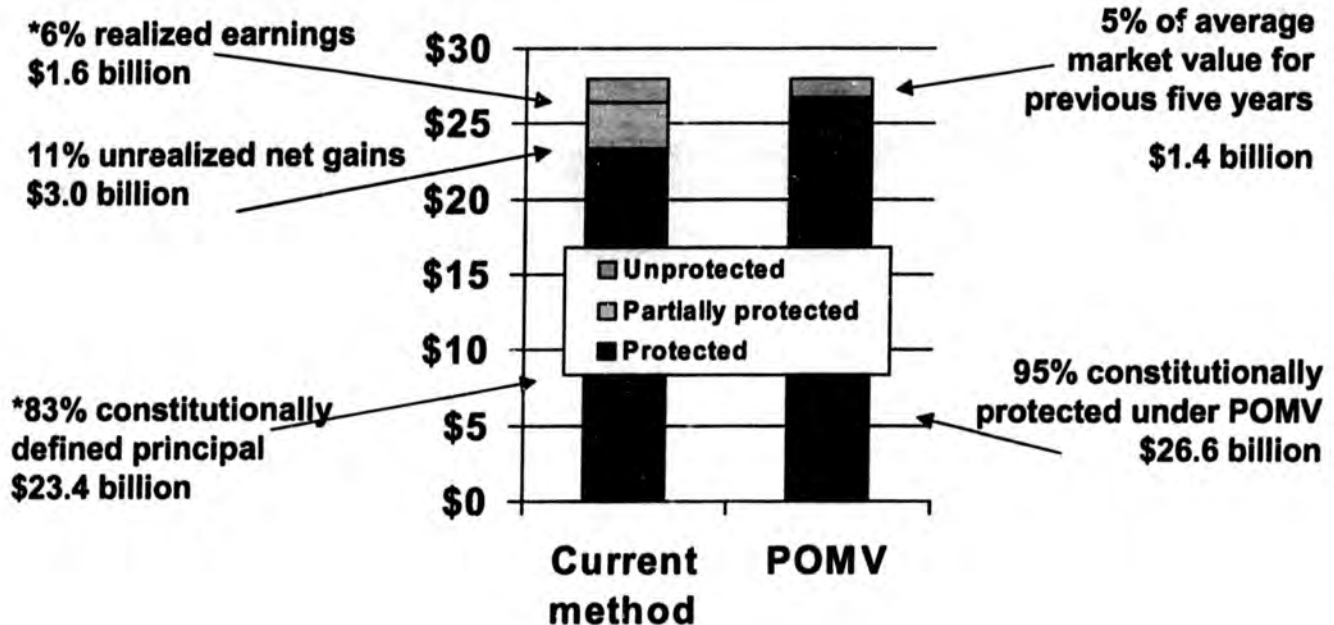
POMV is a spending limit for the Permanent Fund that is compatible with the Fund's investments. It is not a fiscal plan for the state.

Under POMV, no more than 5 percent of the Fund's market value, averaged over five years, may be withdrawn each year.

Under the current system, all realized earnings are available for spending from the Fund.

POMV v Status quo in FY2004

POMV protects more of the Fund from overspending than is protected under the current structure.



* Values as of June 30, 2004 and do not reflect \$581 million PFD payment or \$170 million inflation proofing transfer from realized earnings to principal.

What about inflation proofing?

Currently a transfer is made each year to offset the effect of inflation on the Fund's principal. The earnings of the Fund (17% of the Fund on June 30, 2004) are not inflation-proofed.

	FY94 to FY03 actual	FY05 to FY14 projected
Total return	7.8%	7.6%
Inflation rate	2.5%	2.6%
Real rate of return	5.3%	5.0%

If no more than 5% is withdrawn from the Fund each year, the gains that result from inflation will remain in the Fund. This will inflation proof the entire Fund, and preserve its purchasing power for future generations.

Who Uses POMV?

- Anchorage, Fairbanks, North Slope Borough and Sitka residents voted to use POMV for municipal trust accounts.
- Private foundations such as the Rasmuson Foundation and the Ford Foundation are required by the IRS to pay out at least 5% of their market value.
- 83% of colleges and universities polled by the National Association of College and University Business Officers use some form of a POMV payout method.

What are Alaskans asking?

- **Will this change leave the principal unprotected?**

If the markets were to perform poorly for several years in a row, it is possible that a small part of what used to be known as principal would be available for appropriation by the Legislature. However, the Legislature is not obligated to withdraw the full 5 percent available under POMV. In addition, POMV would provide better protection when the Fund rises in value, as it has for 25 of the last 28 years.

- **How will POMV affect my dividend?**

It is up to the Legislature to determine whether a new dividend calculation is appropriate under POMV, and if so what that dividend amount would be.

- **Is POMV a raid on the Permanent Fund?**

No. The Legislature already has the authority to spend the Fund's realized earnings, and does spend a portion of the earnings each year when for Permanent Fund Dividends. POMV would change how the amount available for spending is determined.

- **Why fix the Permanent Fund if it isn't broken?**

The Trustees believe that the current structure is broken. Earnings are not inflation-proofed, the Fund is vulnerable to overspending and the payout structure is not compatible with the standard asset allocation for an institutional fund. POMV would address all of these issues.