

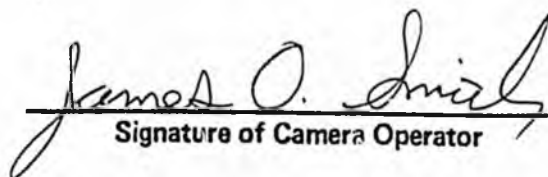
ALASKA LEGISLATURE COMMITTEE FILES 1900-1900 00/2

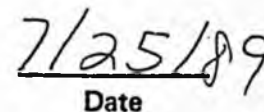
3392 HJUD HJR 12 - HJR 26



RECORDS CERTIFICATION

I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.


Signature of Camera Operator


Date

H J R

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STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: HJR 12
 Title: Constitutional Amendment
Affecting Taxes
 Sponsor: Martin
 Requestor: _____
 Date of Request: _____

FISCAL DETAIL

Agency Affected: Revenue
 Program Category Affected: Revenue
Collection & Management
 BRU, Program or Subprogram(s) Affected:
Petroleum Revenue Operations

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
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	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME	-0-	-0-	-0-	-0-	-0-	-0-
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: Attach a separate page if necessary

This resolution proposes a constitutional amendment which would require that voters approve ad valorem taxes (among others) before they take effect. It has no impact on current tax programs or revenues.

Prepared By: [Signature] Phone: 276-1363
 Division: Petroleum Revenue Date: Feb. 1, 1985
 Approved by Commissioner: [Signature] Date: 2/11/85
 Agency: _____

Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
Requestor
 Office of Management and Budget
 Impacted Agency(ies)

7/1/84

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST -----	Revision Date: _____
	FISCAL DETAIL _____

Bill/Resolution No.: HJR12	Agency Affected: Revenue _____
Title: Amend Constitution prohibiting imposition of income tax, property tax or sales tax	Program Category Affected: _____
Sponsor: Martin et al _____	ERU, Program or Subprogram(s) Affected _____
Requestor: House Judiciary _____	
Date of Request: Jan 30, 1985 _____	

EXPENDITURES/REVENUES: (Thousands of Dollars)

not evaluated by this agency

FUNDING: (Millions of Dollars)

	FY85	FY86	FY87	FY88	FY89	FY90
GENERAL FUND	0	-148	-183	-204	-220	-220
FEDERAL FUNDS	0	0	0	0	0	0

POSITIONS:

not evaluated by this agency

ANALYSIS:

No revenues have been projected from personal income taxes or retail sales taxes so no change is anticipated from the passage of this resolution.

Voter approval of this resolution, if held to apply to previously established real property taxes could make the oil & gas property tax unconstitutional. Assuming that the resolution was approved by the voters, the Constitutional change was effective for FY86, and that the change was held to apply to previously established taxes (of the noted types) the loss of tax revenue would be as reflected above.

Prepared By: Mary Ellen Frank *M. E. Frank* Phone: 465-2174
Division: Revenue Research Date: ~~1/30/85~~ 2/11/85

Approved by Commissioner: *Stacy K. Sturdale* Date: 2/11/85
Agency: _____

Distribution (by Agency preparing fiscal note):

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

Alaska State Legislature

OFFICE OF THE MINORITY



POUCH V
JUNEAU, ALASKA 99811

House of Representatives

MEMORANDUM

To: Representative Mike Miller, Chairman
House Judiciary Committee

From: Representative Terry Martin, Sponsor

Re: HJR 12

"Proposing an amendment to the Constitution of the State of Alaska prohibiting the imposition of state personal income taxation, state ad valorem taxation or real property, or state retail sales taxation without the approval of the voters of the state."

This bill would put to the voters of this state an amendment to the Alaska Constitution. The amendment would require that any state income, property or sales tax be approved by the voters before going into effect. I see this bill as a protection of our voters' rights.

With declining oil revenues, various methods of taxation will be considered to supplement the state budget. Already we see bills being introduced to reinstate personal income tax. It seems inevitable that more and more taxation options will be looked at in the near future.

However, voters have very little say in whether or not taxes should be imposed. Under our constitution, if the legislature should pass a taxation bill, the public's only recourse to rescind such an action is the referendum process. However, this option is so narrowly defined as to be almost impossible to carry through. According to our Constitution:

A referendum petition may be filed only within ninety days after adjournment of the legislative session at which the act was passed.

That gives voters three months to collect all the necessary signatures to repeal the measure--this same action took the Libertarian party nearly a year to do, when they collected signatures under the initiative process to repeal the Alaska Transportation Commission.

The option may exist that, if the 90 day deadline is not met, the initiative process could be used, allowing a longer time. This is questionable.

In addition, there is some question as to whether a taxation bill could be repealed even then. Under Article XI, Section 7, Restrictions, the

Constitution states that "the initiative shall not be used to . . . repeal appropriations. . . .The referendum shall not be applied to dedications of revenue, to appropriations

So, if a taxation measure is considered an appropriation or dedication of revenue, even this relief is denied the public. I have asked the Attorney General for an opinion in this regard.

Many states require a large majority vote of the legislature to enact or increase taxes. I have attached a report by the House Research Agency showing which states require "super-majority" votes for these measures. In Alaska, however, a simple majority of the full house is all that is required to impose taxes.

In regard to the revenues that would be lost according to the Department of Revenue fiscal note, I am looking into the possibility of "grandfathering" in existing taxes should this Constitutional Amendment be passed. As you may know, when our State Constitution was written, we grandfathered in revenues dedicated before statehood (see Article IX, Section 7). I have asked the House Research Agency to check other states to find out whether similar situations may have existed and what their resolution was. For instance, one state enacted a tax "cap", but excepted existing taxation from the measure. I am awaiting that information.

For these reasons, to protect our public, I strongly urge the House Judiciary Committee to give its most serious consideration to HJR 12. Additionally, I ask that the Committee delay action on this measure until I receive and forward to you the information I am awaiting from the Attorney General and the House Research Agency.



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

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

February 11, 1985

MEMORANDUM

TO: Representative Terry Martin

FROM: Mark Torgerson *MKT*
Legislative Analyst

RE: Voter Approval of Taxation in Other States
Research Request 85-132

Joan Mathews of your staff requested information on states which require voter approval of taxation. Specifically, she wanted a report on which types of taxes, e.g., income or property taxes, require voter approval in each state. The information compiled so far shows:

1. Currently, one of the states have constitutional or statutory provisions which require voter approval of all state tax increases. Two states--California and Missouri--have constitutional amendments which require voter approval of all local tax and fee increases. In California, special taxes need a two-thirds vote while general tax increases need a majority approval vote. The Missouri provision requires a majority vote for either tax, but property taxes cannot be increased by more than \$3.50 per \$100 value without a two-thirds vote.
2. Some state constitutions require voter approval for specific types of tax increases. For example, California's electorate must approve any increase in property or insurance company taxes. In Michigan, any state sales tax increase must be submitted to the voters. In 1984, the voters there defeated a proposal which would have required voter approval to raise any tax. Likewise, Oregon voters defeated a proposal to limit property taxes. Currently, Oregon's constitution does not require voter approval for any tax increase. Their legislature has the full power of state taxation, but tax increases may be referred to the voters for approval or rejection. Alaska's constitution does not require voter approval of tax provisions. In Washington, the constitution limits real and personal property tax levies to one percent of fair market value. In addition, special local levies must be approved by a three-fifths vote. The constitutions of Arkansas and Idaho

Representative Martin
February 11, 1985
Page Two

limit property tax levies to one percent of the assessed valuation. Hawaii's constitution does not limit property taxes, but the power to tax real property there lies exclusively with the counties.

3. Voters in a number of states have recently passed constitutional amendments that mandate a super-majority vote of each house of the legislature to increase state taxes. Table 1 lists those states, the percent vote needed for passage, and the type of tax affected.
4. Voters and legislatures in 19 states have recently adopted measures which impose ceilings on the growth of state spending or revenue. Some of these measures could affect tax increases. For example, in Colorado and Hawaii, spending limitations have resulted in tax refunds. Missouri's revenue restriction will probably create a similar tax refund this year. Table 2 describes these state limitation measures.
5. Voters in 24 states can essentially write their own tax law via the initiative process. However, citizen-initiated proposals have recently been submitted for tax limitation purposes only. Voters can reject legislatively created tax increases through the referendum process.

Please let me know if you need additional information.

MT

Attachments

TABLE 1

States That Require a Super-Majority Legislative Vote
to Pass Major Tax Increases

<u>State</u>	<u>Percent of Votes Required for Passage in Each House</u>	<u>Notes</u>
Arkansas	three-fourths	Required only for taxes levied since 1934. (Primarily pertains to sales and alcohol beverage taxes.)
California	two-thirds	Applies to all tax increases. Constitutional requirement adopted in 1978.
Delaware	three-fifths	Applies to all tax increases. Constitutional requirement adopted in 1980 and 1981.
Florida	three-fifths	Applies only to changes in corporate income tax. Adopted in 1971.
Louisiana	two-thirds	Applies to all tax increases.
Mississippi	two-thirds	Applies to all tax increases.
South Dakota	two-thirds	Required to increase any existing tax rate or base. (Simple majority if a new tax is adopted.) Adopted in 1978.

TABLE 1 (Continued)

States that Require Super-Majority Legislative Vote
for Tax Increases in Special Circumstances

<u>State</u>	<u>Percent of Votes Required for Passage in Each House</u>	<u>Notes</u>
Arizona	two-thirds	Required only if an emergency clause is attached which would enact the tax change immediately rather than 90 days after legislative adjournment.
Maine	two-thirds	Required only if an emergency clause is attached which would enact the tax change immediately rather than 90 days after legislative adjournment.
North Dakota	two-thirds	Required only for modification of tax changes in the first seven years after approval by electorate in an initiative or referendum.
Oklahoma	two-thirds	Required only if an emergency clause is attached that would enact a tax change immediately after the governor signs a bill. Invoking an emergency clause when passing a tax change prohibits future changes by citizen initiatives.

Source: Advisory Commission on Intergovernmental Relations. Information compiled from 1984 fiscal survey of legislative and executive state budget officers.

Prepared by the House Research Agency, February 1985.

TABLE 2

Description of State Limitation Measures

<u>State</u>	<u>Year Adopted</u>	<u>Constitutional or Statutory</u>	<u>Expenditures or Revenues</u>	<u>Nature of Limitations</u>
Alaska	1982	Statutory	Expenditures	Inflation and population growth
Arizona	1978	Constitutional	Expenditures	7 percent of personal income
California	1979	Constitutional	Expenditures	Inflation and population growth
Colorado	1979	Statutory	Expenditures	7 percent annual increase
Hawaii	1978	Constitutional	Expenditures	Growth of personal income
Idaho	1980	Statutory	Expenditures	5-1/3 percent of personal income
Louisiana	1979	Statutory	Revenues	Growth of personal income
Michigan	1978	Constitutional	Revenues	Ratio of revenue to personal income in base year
Missouri	1980	Constitutional	Revenues	Ratio of revenue to personal income in base year
Montana	1981	Statutory	Expenditures	Growth of personal income
Nevada	1979	Statutory	Expenditures	Inflation and population growth*
New Jersey	1975	Statutory	Expenditures	Growth of personal income per capita
Oregon	1979	Statutory	Expenditures	Growth of personal income
Rhode Island	1977	Statutory	Expenditures	8 percent annual increase*
South Carolina	1980	Statutory	Expenditures	Growth of personal income
Tennessee	1978	Constitutional	Expenditures	Growth of personal income
Texas	1978	Constitutional	Expenditures	Growth of personal income
Utah	1979	Statutory	Expenditures	Growth of personal income x .85
Washington	1979	Statutory	Revenues	Growth of personal income

Source: National Conference of State Legislatures.

Prepared by the House Research Agency, February 1985.

*Limitation applies to governor's budget request, not to legislative action.

Alaska State Legislature

OFFICE OF THE MINORITY

POUCH V
JUNEAU, ALASKA 99811

House of Representatives

MEMORANDUM

To: Representative Mike Miller, Chairman
House Judiciary Committee

From: Representative Terry Martin, Sponsor

Re: HJR 12

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This bill would put to the voters of this state an amendment to the Alaska Constitution. The amendment would require that any state income, property or sales tax be approved by the voters before going into effect. I see this bill as a protection of our voters' rights.

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For these reasons, to protect our public, I strongly urge the House Judiciary Committee to give its most serious consideration to HJR 12. Additionally, I ask that the Committee delay action on this measure until I receive and forward to you the information I am awaiting from the Attorney General and the House Research Agency.



RECORDS CERTIFICATION

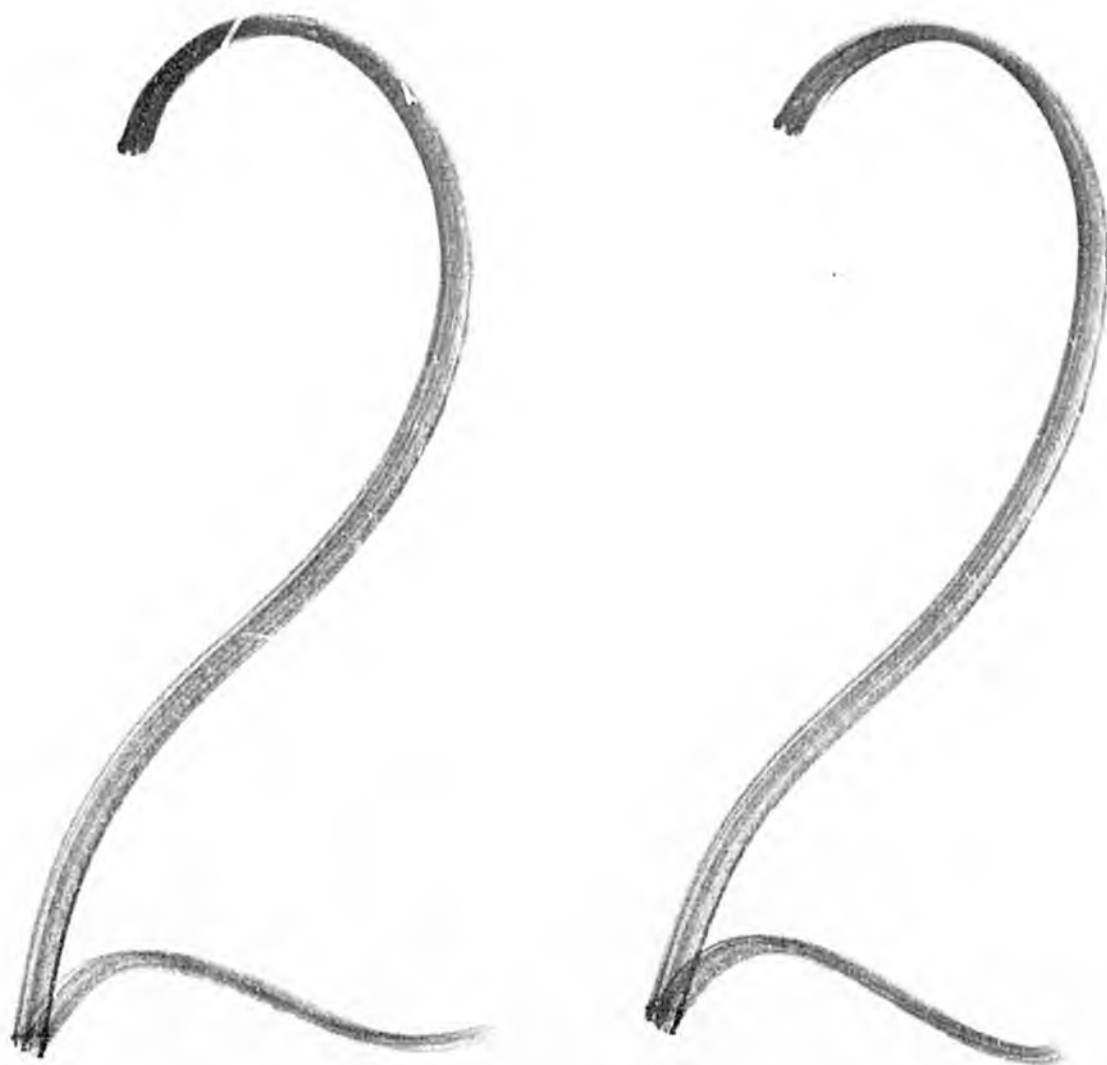


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James O. Smith
Signature of Camera Operator

7/25/89
Date

HJR



STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY
LEGISLATIVE REFERENCE LIBRARY

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JUNEAU, ALASKA 99811
907-465-3800

May, 1986

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS date base CM 14. In order to save space copies of minutes have not been left in the files.

Jeanie Henry

House Judiciary 2-6-86
" " 2-27-86

1:30 pm

1:30 pm

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST
 Bill/Resolution No: HJR 22
 Title: Appropriation Reserve Fund and
Limitations

 Sponsor: M. W. Miller
 Requestor: House Judiciary
 Date of Request: February 27, 1986

FISCAL DETAIL
 Agency Affected: Department of Revenue
 BRU: Treasury

 Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

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

ANALYSIS: This fiscal note addresses the budgetary impact on the Treasury Division. It does not address the effect on amounts available for appropriation or limits on appropriations.

Prepared By: Milt Barker *MB*
 Division: Treasury

Phone: 465-2350
 Date: February 27, 1986

Approved by Commissioner: *George G. Stankale*
 Agency: Department of Revenue

Date: 2/27/86

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget

Impacted Agency(ies)

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SSHJR22
 Title: Proposing amendments to the
Constitution creating an appropriation
reserve fund.
 Sponsor: M. W. Miller et.al.
 Requestor: House Judiciary
 Date of Request: February 1986

FISCAL DETAIL

Agency Affected: _____
 BRU: _____

 Components: _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL						
REVENUE		(see attached)				

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

The revenue impacts of this legislation vary significantly with assumptions made about spending and investment decisions. The attached analysis examines one of many possible options for disposition of windfall revenues.

Prepared by: David Tonkovich ^{FRT} Phone: 465-2173
 Division: Revenue/Research Date: 2/18/86
 Approved by Commissioner: *Mary G. Skudale* Date: 2/27/86
 Agency: _____

Distribution (by Agency preparing fiscal note):

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

Analysis:

1. This note is based on the 30 percent, revenue projections prepared in January, 1986 (see Revenue Sources, FY 1985-88). Using FY 87 as a base year general fund unrestricted revenues decline by an average of 5.8 percent per year over the period FY 87-93. This means that unrestricted revenues rather than an appropriation base adjusted for cumulative population and inflation will be the effective limit on state expenditures for that period.
2. In this analysis these revenues are contributed to the Appropriation Reserve Fund.

<u>FY</u>	<u>ARCO</u>	<u>TAPS Tariff Adjustment</u>	<u>TAPS Legal and Refunds</u>	<u>Total</u>
86	243.0	88.6	239.3	570.9
87		238.0		238.0
88		203.5		203.5
89		160.0		160.0
90		135.9		135.9
91		124.6		124.6
92		123.9		123.9
93		109.2		109.2

Note: Adjustments will have to be made as these figures are audited and the effects of later signees to the settlement are computed. This primarily effects the figures for FY 89 and beyond.

3. The analysis assumes that the Appropriation Reserve Fund begins operation at the beginning of FY 88 with an initial deposit of \$808.9 million. The fund grows each year by additional contributions and

earnings on fund balances. An interest rate of 9 percent per year is assumed with earnings computed on a balance calculated as the FY starting balance plus one-half of the annual contributions. Prior to FY 88 interest on these monies goes to the General Fund.

4. Calculations: (Figures in millions of nominal dollars)

<u>FY</u>	<u>Beginning Balance</u>	<u>Contributions</u>	<u>Earnings</u>	<u>Ending Balance</u>
88	808.9	203.5	82.0	1094.4
89	1094.4	160.0	105.7	1360.1
90	1360.1	135.9	128.5	1624.5
91	1624.5	124.6	151.8	1900.9
92	1900.0	123.9	176.7	2001.5
93	2201.5	109.2	203.0	2513.7

It appears that in 1993 the ending balance of \$2513.7 million would be 1.5 times the FY 92 appropriations. This assumes FY 92 appropriations for purposes or the legislation are equal to unrestricted revenues less monies contributed to TAPS less FY 92 debt service.

It needs to be emphasized that these figures are subject to significant change as revenue forecasts are updated.

5. The net revenue impacts of this legislation depend on alternative uses which might be made of the money contributed to the Appropriation Reserve Fund. If the money is spent as it is received and interest earnings are negligible then the revenue impact would equal the earnings shown above.

6. It appears that the intent of this bill is to deposit into the Appropriation Reserve Fund that portion of future petroleum revenues due to reduced pipeline tariffs. While this seems straightforward the actual computation raises some problems. For instance, if a marginal field is only economically viable at the lower rate, is that revenue attributable to the TAPS settlement? Also, a lower tariff has some feedback on property and income taxes. Is the net increase in revenues deposited or are these considerations ignored?

7. The language excluding both the proceeds and debt service on general obligation bonds from the limit needs to be carefully examined. It is appropriate that debt service be excluded. However, there is a danger that the language would bias the funding of capital projects away from general funds and toward general obligation bonds.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date _____

REQUEST

Bill/Resolution No: hJR 22
 Title: Appropriation Reserve Fund and Limitations
 Sponsor: M. W. Miller
 Requestor: House Judiciary
 Date of Request: March 11, 1985

FISCAL DETAIL

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

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
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: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

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

ANALYSIS: This fiscal note addresses the budgetary impact on the Treasury Division. It does not address the effect on amounts available for appropriation or limits on appropriations.

Prepared By: Milt Barker MB

Division: Treasury

Phone: 465-2350
 Date: March 12, 1985

Approved by Commissioner: [Signature]

Agency: Department of Revenue

Date: 4/22/85

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor

Office of Management and Budget
 Impacted Agency(ies)

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date _____

REQUEST

Bill/Resolution No: HJR 22
 Title: Amendments creating an appro-
 priation reserve fund and limiting
 increases in appropriations
 Sponsor: Miller, Pearce, et. al.
 Requestor: House Judiciary
 Date of Request: March 11, 1985

FISCAL DETAIL

Agency Affected: Revenue
 Program Category Affected: _____

 BRU, Program of Subprogram(s) Affected:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
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: (Thousands of Dollars)

GENERAL FUND	-	-	-	(186,150)	(179,780)	(173,780)
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	186,150	179,780	173,780
TOTAL	-	-	-	-	-	-

POSITIONS:

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

ANALYSIS: Attach a separate page for analysis.

Prepared By: David Tonkovich
 Division: Department of Revenue, Research Section

Phone: 465-2173
 Date: April 12, 1985

Approved by Commissioner: Mary H. Sturdale
 Agency: Revenue

Date: 4/12/85

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
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Analysis

1. 7.5 percent contribution of unrestricted revenues to appropriation reserve fund begins in FY 88.
2. Given the decreasing pattern of revenues it appears that available revenues rather than a limit based on population and price level increase is the effective constraint on spending throughout the period of analysis.
3. Inflation over the period ranges between 4.0 and 6.7 percent with a real rate of return on appropriation reserve fund balances of 4.0 percent.

Conclusion

1. The balance in the appropriation reserve fund exceeds 1.5 times the appropriation of unrestricted general fund revenues in FY97. The spending limit in Section 1 of the bill would become operative in FY 93. Appropriations in a fiscal year would be limited to 95% of the unrestricted revenue for the previous fiscal year.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465 3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

January 17, 1986

SUBJECT: Appropriation Reserve Fund
TO: Representative Mike W. Miller
FROM: Tamara Brandt Cook
Acting Director
Division of Legal Services

Here is the sectional analysis of the draft SS HJR 22 dated January 13, 1985 that you requested.

Section 1 amends the section of the constitution prohibiting the dedication of state funds by adding as an exception to the prohibition a reference to Article XV, Section 29. That section is added under Section 4 of this draft and identifies (and dedicates) money from certain sources to go into the appropriation reserve fund.

Section 2 amends the section of the constitution that establishes an appropriation limit so that appropriations during a fiscal year may not exceed the lesser of the amount appropriated in the fiscal year the provision 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 of the previous calendar year. The existing provision prohibits appropriations from exceeding \$2,500,000,000 by more than the cumulative change in population and inflation since July 1, 1981. It also requires that one-third of the appropriations be reserved for capital projects and loans, with certain exceptions. This restriction has been eliminated.

Section 3 establishes the appropriation reserve fund. Money from the fund may only be used in certain emergency situations until June 30 of the year in which the balance exceeds 1.5 times the appropriations of unrestricted revenue in the preceding fiscal year. At that time the balance of the fund lapses into the treasury and no more deposits will be made into the fund after it has lapsed. Until then, the

Representative Mike W. Miller

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January 17, 1986

fund is to be invested at competitive rates and earnings become part of the fund.

Section 4 adds several sections to the article on transitional measures in the constitution. Under Section 29 money from certain sources received by the state before the appropriation reserve fund has lapsed that is not appropriated on July 1, 1985 and is otherwise unrestricted at the time of receipt is transferred to the appropriation reserve fund established under this draft. The money is to come from the conclusion of certain law suits involving oil and gas matters, including the TAPS case, from funds the state will receive under a provision of the Outer Continental Shelf Lands Act, and from back taxes owed to the state from various oil and gas sources and paid after December 31, 1985. A temporary appropriation limit is established in Section 30 to be in effect from the beginning of fiscal year 1988 until the beginning of the fiscal year in which the appropriation reserve fund lapses into the treasury. Under the temporary limitation, with certain exceptions, appropriations during a fiscal year may not exceed the amount appropriated during the year in which the temporary limitation section becomes effective by more than the cumulative inflation and population growth or decline as prescribed by law. Seventy-five percent of the unrestricted revenue of the state that is not appropriated as allowed by this section is transferred from the general fund to the appropriation reserve fund each fiscal year and the remaining 25 percent goes to the Alaska permanent fund. While this temporary spending limitation is in effect, the spending limit contained in Section 16 of Article IX is superseded. Section 31 provides that the amendment to Section 16, Article IX contained in this draft takes effect at the beginning of the fiscal year during which the appropriation reserve fund lapses.

Section 5 requires the constitutional amendments proposed in this draft to be presented to the voters.

TBC:mkr

M2:040

Appendix A

LEGISLATIVE INTEREST IN CASH-BASED BUDGETING

Legislative interest in cash-based budgeting in recent years has centered around two bills: HB 477 (1979) and HJR 39 (1983). These initiatives came in response to considerable legislative concern over the turmoil surrounding the budgetary process resulting from unprecedented volatility in revenue forecasts.

HB 477 1979

As early as 1979, legislation was introduced to implement a forward funding plan. The bill would have established a "budget and appropriations reserve account" and required annual appropriations to this account equal to 15 percent of the average gross receipts of the General Fund. These appropriations would have been required from 1980 until 1986, when the budget and appropriations reserve account would have been roughly equal to the prior year's budget. Beginning with FY 87, this account would lapse into the General Fund and the budget from that point on would have been based on revenues collected during the previous fiscal year.

HB 477 made little progress during the 1979 session, but by FY 82, interest in forward funding had revived when nearly 90 percent of the State's revenues were generated by levies on oil and gas production and the volatility of oil prices resulted in substantial uncertainty over future State revenues. In the three-month period from December 1981 to March 1982, the Department of Revenue forecast of FY 83 petroleum revenues fell nearly 40 percent from \$3.6 billion to \$2.2 billion. This unexpected, large drop in forecast revenues forced the legislature and the administration to make major, rapid revisions and spending reductions in the FY 83 budget. In addition, \$1 billion in FY 82 special Permanent Fund contributions was deferred to avoid a deficit in that year.

The unexpected decline in revenues and uncertainty over future income at the State level was in turn felt throughout Alaska. Local governments, school districts and other organizations which receive major State support found their funding levels difficult to predict until the FY 83 budget was finally enacted.

CASH BASED BUDGETING
PAST ATTEMPTS

LEGISLATIVE INTEREST

In order to provide more certain revenue forecasts for budget purposes, the Department of Revenue modified its forecast presentation for FY 84 so that there would be only a 30 percent chance of revenues falling lower than their forecasts. Before this change, the department had issued forecasts which had a 50 percent chance of being too high. The more conservative estimates are termed the "risk-adjusted forecast" by the department, recognizing the substantial risk of lower oil prices and revenues and the negative effects that unexpected revenue declines have on the State budget process.*

In spite of the efforts of the administration to deal with the revenue uncertainty problem, the legislature continued to search for a solution which insures stability in the budgetary process.

HJR 39 (Cash-Based Budgeting)

The most recent legislative activity dealing with revenue uncertainty came with the introduction of HJR 39 in March 1983. HJR 39 would place a constitutional amendment to establish a cash-based budgeting system on the November 1984 ballot. If approved by the voters, two new sections would be added to the Alaska Constitution. The first section would establish an "appropriation reserve fund" and specify how the reserve fund is to be used. The second section would require the legislature to appropriate 15 percent of the General Fund revenues to the appropriations reserve fund each year for seven years, from FY 86 to FY 92. At the end of the seven-year period, the reserve would be large enough to fund the State's entire budget for the following year.

On July 1, 1992 (the start of FY 93), the transition to cash-based budgeting would be made, and only the amount of money contained in the appropriations reserve fund as of this date could be spent during the fiscal year (certain exceptions would be made for wars, natural disasters and other cases). After this date, all State revenues would be placed in the reserve fund, and at the end of each succeeding fiscal year the balance of the reserve fund would lapse into the treasury. HJR 39 made no mention of the investment of reserve fund holdings or of the disposition of interest earnings resulting from the investments.

Using the Department of Revenue January 1984 revenue projections, the provisions of HJR 39 are translated into dollar terms on Table A1.

Two projections of the implications of HJR 39 are shown; one for the 30th percentile revenue projection and another for the mean revenue

*Most other governments rely on 50th percentile revenue projections for budget purposes.

projection. Notice that the cash-based budgeting (CBB) reserve contributions are shown in the far right column, with the reserve fund totals indicating the funds available for expenditure when cash-based budgeting commences in FY 93. Specifically, under the provisions of HJR 3C, \$3.779 billion will be available for expenditure in FY 93 assuming a 30th percentile revenue forecast, while \$4.249 billion would be available in the CBB reserve fund assuming a mean revenue forecast.

CHAPTER FOUR

THE FISCAL MANAGEMENT BENEFITS AND LIMITATIONS OF CASH-BASED BUDGETING

The original intent of legislation proposing cash-based budgeting was to create a budgeting system in which the revenues available for appropriation were known in advance of preparing the budget. With sufficient revenues in the CBB reserve fund, appropriations can be limited, under cash-based budgeting, to the total revenues actually collected in the previous calendar year. In this way, the legislature will know by the start of the session precisely how much money can be appropriated in the budget that they will prepare. However, cash-based budgeting is more than a simple mechanism for dealing with revenue uncertainty.

Prohibition Against Deficit Spending

At present, State law does not prohibit deficit spending in the manner of the various "balanced budget" laws enacted recently in other states.¹⁸ Nevertheless, if cash-based budgeting were enacted by a constitutional amendment, a very specific prohibition against deficit spending would become part of State law. Deficit spending under cash-based budgeting is prohibited because appropriations are limited to cash on hand. The only exception to this prohibition against deficit spending (which also applies to the contraction of State debt) would be "for the purpose of repelling invasion, suppressing insurrection, defending the state in war, meeting natural disasters,..."

Fiscal Restraint

Cash-based budgeting is a device for instituting fiscal restraint in the budgetary process in two ways. In the first case, because annual appropriations of between \$300 and \$420 million would effectively be taken off the top of the revenue stream, fewer funds would be available for appropriation for other purposes during the years when contributions

¹⁸The Alaska Constitution (Article IX, Section 8) does prohibit the State from incurring debt except for the purposes of funding capital improvements which have been approved by a majority of qualified voters. Furthermore, The Executive Budget Act (AS 37.07.020 c) states that "proposed expenditures may not exceed estimated revenues for the succeeding fiscal year."

BENEFITS AND LIMITATIONS

or debt service payments were being made.¹⁹ Relative to Governor Sheffield's recommended capital budget for FY 85 totaling about \$1 billion (including the \$300 million major projects fund), CBB reserve fund contributions would represent roughly one-third of this annual capital budget figure.

A second form of fiscal restraint provided by cash-based budgeting relates to the delay between the time that a major revenue fluctuation might occur and the point at which those revenues might be appropriated. For example, if a major oil field would be expected to begin production in the coming fiscal year, this might substantially increase the revenues projected for that fiscal year. Unlike present budgeting practices, however, the legislature would be prohibited from raising appropriations for the coming fiscal year in anticipation of these revenues, since under cash-based budgeting, appropriations are limited to revenues collected in the prior calendar year.

Of course, one year later, the increased revenues caused by higher oil production levels could be rolled into the budget for the following fiscal year. Consequently, the form of fiscal restraint imposed by cash-based budgeting has only a temporary effect created by delaying access to revenues for one year.

CBB Effects On Declining Revenues

It is important to view cash-based budgeting in the larger context of the long-term financial prospects of the State. The central question from this perspective is how would cash-based budgeting affect State finances in view of a projected revenue decline?

- Although 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.

¹⁹On the other hand, it should be realized that in addition to the capital projects potentially foregone as a consequence of annual contributions to the CBB reserve, there are the opportunity costs associated with these foregone appropriations. Examples of these opportunity costs include lost momentum in accelerating sectors of the fisheries, mining, timber, coal, or tourism industries that might have come with new harbors, highways, railroad spurs, and airports, or increased loans for businesses or resource enhancement. A slowing of efforts to upgrade health standards across the State through upgraded water and sewage systems, are other potential opportunity costs of funding a cash-based budgeting system.

BENEFITS AND LIMITATIONS

- On the other hand, cash-based budgeting would mitigate the impact of declining revenues by supplementing total revenues with interest earnings on the CBB reserve balance. After cash-based budgeting begins, the General Fund would be increased by the transfer of the CBB reserve fund (projected to be about \$4.5 billion by FY 94). Assuming an average investment earnings rate of 10 percent, the General Fund should generate an additional \$450 million each year as a consequence of this transfer.
- During the period when contributions are being made to the CBB reserve fund (FY 86 through FY 93), revenues available for appropriation would be diminished by the amount of annual contributions (between \$300 and \$420 million). This effective reduction in revenues potentially makes government growth more difficult. To the extent that government growth is curbed during the CBB contribution period, the adjustment to a period of declining revenues should require somewhat less drastic measures than would be necessary if further growth were permitted.
- Should a dramatic drop in revenues occur during a single year, cash-based budgeting would provide a one-year delay in the impact of that decline before a fiscal adjustment would have to be made. Under cash-based budgeting, revenues must accumulate in the General Fund over a full calendar year before they are made available for appropriation, thus providing a cushion of time in which to react to changes in revenue trends. However, the effect of a dramatic fall in revenues cannot be avoided under cash-based budgeting, only deferred for one year.
- As a savings account to mitigate the impact of declining revenues in the future, cash-based budgeting offers little that is not offered by the Permanent Fund. Moreover, the earnings rate on funds set aside by cash-based budgeting may not match the rate possible on investments of the Permanent Fund. In the event that revenues fell sharply over a period of a few years, funds reserved under cash-based budgeting would have to be readily available to cover previously made appropriations of these funds. Consequently, investments of cash-based budgeting reserve funds must remain fairly liquid for this purpose, which means that the investment options of CBB funds and possible rates of return would be somewhat limited in comparison to Permanent Fund investments.
- The only advantage of cash-based budgeting over the Permanent Fund for this purpose is that the budgetary support function would presumably be more clearly spelled out in the enacting Constitutional provisions of cash-based budgeting.

BENEFITS AND LIMITATIONS

Uncertainty In The Allocation 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, which 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.

The Constitutional provision (Article IX, Section 16) which stipulates that no less than one-third of the total annual appropriation must be reserved for capital projects and loans introduces additional allocation uncertainty under cash-based budgeting. During the years when General Fund contributions are being transferred into the CBB reserve fund, the remaining revenues available for appropriation are consequently diminished by the amount of the contribution. As total State revenues begin to decline around 1990, it is possible that the Constitutional constraints on the allocation of total appropriations may cause part of the burden of funding the CBB contribution to be borne by the Operating Budget since one-third of the total funds are reserved for the Capital Budget and loans.

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 will 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 in which they were received 18 months earlier.

The cash-based budgeting program outlined in this report could be modified so that appropriation levels would follow smooth trends. The appropriation level could be tied to an average of revenues estimated for several years into the future. On the other hand, the appropriation level could be a function of the average appropriations over the past several years. Unfortunately, both smoothing techniques present substantial problems:

- When tied to an estimated average of future revenues, the smoothing technique defeats the purpose of cash-based budgeting, which is to eliminate the need to base budget preparation plans on forecasts of future revenues.

- When based on the average of past appropriation levels, the smoothing feature of cash-based budgeting fails to be effective under declining revenues. During a period of declining revenues, the average of past appropriations will always be higher than the amount of revenues available for appropriation in the coming budget year (if one assumes that all revenues are appropriated each year). In this instance, no smoothing will occur since the appropriation level each year will exactly track the revenues received.

Cash-Based Budgeting As An Expenditure Limitation²⁰

The expenditure limitation concept inherent in cash-based budgeting is simply that appropriations are limited to cash on hand (revenues actually collected during the prior calendar year). Therefore, cash-based budgeting does not limit expenditures in the conventional sense. Expenditure limitation measures normally constrain appropriations to a level adjusted to account for changes in demand for government services (changes in population) and for changes in the cost of goods and services used by government (inflation). By contrast, the expenditure limit imposed by cash-based budgeting is simply bound to increases or declines in total State revenues which are in turn predominately dependent on changes in the price and production level of petroleum.

The Role of Cash-Based Budgeting in Fiscal Management

The potential for cash-based budgeting to serve as a fiscal management tool for addressing the concerns of deficit spending, fiscal restraint, expenditure limitation, revenue stability and the uncertainty of budgeting in a period of declining revenues has been outlined in this chapter. However, the concept of fiscal management requires an analysis of long-term budgeting considerations that should be a companion to this analysis of cash-based budgeting.

A conclusion which can be drawn from this report is that a comprehensive fiscal management analysis which examines all of the management tools at the State's disposal should be undertaken.

²⁰The concept of cash-based budgeting as an expenditure limitation mechanism discussed here relates only to those characteristics inherent in the concept of cash-based budgeting. CS HJR 39 contains two expenditure limitation provisions which differ from the concept described here. One of these provisions addresses the conventional link to population and inflation changes.

ARTICLE IX

Section 16

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 project 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 government shall cause any unexpended and unappropriated balance to be invested so as to yield competitive market rates to the treasury.

CURRENT CONSTITUTIONAL
SPENDING LIMIT



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

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

September 21, 1984

MEMORANDUM

TO: Representative Joe Hayes

FROM: O. Alexander Hoke
Legislative Analyst *O. Alexander Hoke*

Re: Cash-Based Budgeting Update and Review of OMB Report
Research Request 85-010

As requested by Neil Phelps-Munson of your staff, this memorandum contains: 1) an analysis of the revenue requirements of Cash-Based Budgeting using current Department of Revenue forecasts; and 2) a review of the April 1984 report on Cash-Based Budgeting prepared by the Office of Management and Budget.

Four computer printouts showing alternatives for the development of a Cash-Based Budgeting (CBB) reserve fund are attached to this memorandum. All four cases are designed to use the smallest annual percentage contribution of General Fund unrestricted revenues that permit Cash-Based Budgeting to begin in FY 95. These printouts are similar to those used in our 1983 interim report on Cash-Based Budgeting. All four scenarios are based on the July 1984 revenue projections issued by the Department of Revenue. A new set of revenue projections is anticipated to be released by the Department of Revenue within the next few weeks. I have been informed that forecasts of petroleum revenues for the next few years may increase slightly in the new projections, but the long-range forecast should closely parallel those used in this analysis.

Tables 1 and 2 are based on the Department of Revenue 30th percentile forecast, while Tables 3 and 4 are based on mean revenue projections. Tables 2 and 4 differ from 1 and 3 in that a front-end "grubstake" contribution is assumed in FY 87. The size of the front-end contribution (\$675 million) is equivalent to the FY 87 forecast of the Permanent Fund undistributed income account balance. The four scenarios are summarized in the following table.

C.B.B. UPDATE AND
REVIEW OF O.M.B. REPORT

<u>Table</u>	<u>Front-End Contribution</u>	<u>Revenue Forecast</u>	<u>Percentage Contribution of General Fund Unrestricted Revenues Required to Completely Fund the CBB Reserve for the Start of Cash-Based Budgeting in FY 95</u>
1	none	30th %	13.3
2	\$675 million	30th %	11.3
3	none	Mean	14.4
4	\$675 million	Mean	12.5

You will note that the percentage contributions shown in these projections are higher than those presented in our interim project report on Cash-Based Budgeting. The higher contribution percentages are a consequence of the delay in the start of the contribution period until FY 88. This delay is predicated on the assumption that the constitutional amendments necessary to implement Cash-Based Budgeting cannot be approved by the voters until the 1986 general election.

A second factor contributing to the higher contribution percentages is the arbitrary choice of FY 95 for the start of Cash-Based Budgeting. This start-up date was selected in response to the concerns you have expressed previously that the reserve be funded before State revenues decline too dramatically. Of course, I can execute the computer programs using any set of assumptions that you desire.

To give you a better feel for how the minimum percentage of General Fund revenues required to fund the CBB reserve relates to a compressed contribution period, I have included Table 5. This table shows a spread of contribution percentages which will fund the reserve for fiscal years ranging from 1993 to 1996. In general, as the contribution period becomes more compressed, a larger percentage contribution of General Fund revenues is required annually to fund the CBB reserve. A front-end contribution will effectively allow a shorter contribution period or a smaller contribution percentage.

Review of OMB Report on Cash-Based Budgeting

The Office of Management and Budget released a report on Cash-Based Budgeting in April of 1984.¹ This report contained three major

¹The OMB report was the third major study on Cash-Based Budgeting released during the 1984 legislative session. "Cash-Based Budgeting: A Response To Revenue Uncertainty" was published by the House Research Agency in January 1984. "Background Report: Forward Funding Budget System" was issued in March 1984 by the University of Alaska Institute of Social and Economic Research under contract with the Senate Advisory Council.

sections covering: 1) advantages and limitations of Cash-Based Budgeting; 2) alternatives for financing Cash-Based Budgeting; and 3) implementation issues. This report presented substantially the same issues and arguments that were presented in the House Research Agency study. Rather than point out areas of agreement in these two reports, we will focus our comments on the relatively few differences in our findings.

The OMB report begins by justifying Cash-Based Budgeting on the grounds that Alaska is "unusually susceptible to revenue uncertainty" and this uncertainty "results in a variety of budget-related problems and disruptions" (page 6-7). The report finds that Cash-Based Budgeting "would eliminate only some of the many interruptions in the budget process...probably would not contribute to shorter legislative sessions, and it probably would not provide any meaningful certainty for the recipients of State funds." (page 10) We agree that knowledge of the amount of revenues for appropriation is only one of many factors that can contribute to a smooth flow in the legislative deliberations of the State budget. There is some disagreement, however, on the potential for increased efficiency in budget preparation and ultimately shorter sessions. Certainly, time can be saved if all members of the legislature know from the outset exactly what amount of revenues are available for appropriation. There are a number of recent examples of mid-session adjusted forecasts causing a flurry of legislative discussions on alternatives for fine tuning the budget given the new revenue estimates. Cash-Based Budgeting would eliminate these disturbances and the time lost in reworking the budget.

We agree that much of the uncertainty over legislative appropriations among recipients of State funds would remain in spite of Cash-Based Budgeting. The difficult legislative process of setting priorities and allocating resources would be relatively unchanged by Cash-Based Budgeting. On the other hand, municipalities and school districts would likely have a better feel for formula-based allocations early in the session if total available funds were known at the outset.

The OMB report finds that "cash based budgeting would have no lasting effects on State savings,...would exert no lasting influence over State spending,...and imposes no restrictions on lawmaker's appropriation authority" (pages 11 and 12). The report argues that the savings function ends when the last contribution is made to the CBB reserve fund. As regards the influence on State spending, the OMB report explains that Cash-Based Budgeting limits spending only to available revenues, a restriction that essentially exists in the Executive Budget Act prohibition against deficit spending. Finally, the OMB report explains that Cash-Based Budgeting offers no restrictions to lawmaker's appropriation authority.

Although similar arguments are made in the House Research Agency report, we feel that the OMB findings overstate the limitations of Cash-Based Budgeting both as a savings instrument and as a restriction on State spending. It is quite true that the savings function of Cash-Based Budgeting occurs only while contributions are being made to the reserve fund. The significance of Cash-Based Budgeting as a savings device, however, lies in the timing of the savings function relative to projected State revenues. Cash-Based Budgeting, as it has been proposed, is designed to perform a savings function while State revenue surpluses are projected to exist. It would be counter-productive for Cash-Based Budgeting to continue the savings function during a period when State government may run short on revenues available to meet the costs of its operations. Continued diversion of revenues into a savings account (reserve fund) would only compound the problems of adjusting to diminished resources.

The OMB findings that Cash-Based Budgeting has no lasting influence on State spending misses two important considerations. First, Cash-Based Budgeting potentially permits an increase in State spending above the level that would be possible without Cash-Based Budgeting. Because Cash-Based Budgeting has the effect of maintaining a perpetual appropriation reserve (in the General Fund) equal to 1.5 times the level of annual revenue collections, the interest earnings on the reserve provide additional revenues available for expenditure each year. In other words, revenues available for appropriation each year would be augmented by the increased General Fund interest earnings that result from Cash-Based Budgeting.

The second point overlooked by the OMB findings is that the annual contributions of General Fund unrestricted revenues during the CBB reserve fund development period potentially has a long-term impact on State expenditure habits. Without this diversion of general funds during years of surplus revenues, the State could conceivably acquire an appetite for revenues sufficient to absorb any surpluses. With the diversion of surplus revenues into a CBB reserve fund, the State's appetite for increased appropriations would be limited to a level determined by the amount of the annual reserve fund contributions. Once Cash-based Budgeting begins and revenues start to decline, a habit of reduced expenditures and a lower expectation level of State government services would have been established. Consequently, a more disciplined government would emerge into the period of revenue declines than might otherwise have been the case.

The OMB report raises a concern that special and supplemental appropriations could present a problem under Cash-Based Budgeting (page 73). If, under Cash-Based Budgeting, all available revenues were appropriated in a given fiscal year, any special or supplemental appropriations

Representative Hayes
September 21, 1984
Page 5

measures would be prohibited, since Cash-Based Budgeting does not permit appropriations beyond the total revenues collected during the preceding calendar year. As suggested in the OMB study, this problem could be resolved by the creation of a contingency fund of sufficient size to handle special and supplemental appropriation requirements. For similar reasons, the OMB report suggests that an additional contingency fund (perhaps an augmented "rainy day fund") would be advisable in order to stabilize government expenditure levels during a year in which unusually low revenues were received. Current budgeting practices allow a little more flexibility in dealing with sporadic revenue shortages than is allowed under Cash-Based Budgeting.

The OMB report concludes (page 76) that when weighing benefits against costs, Cash-Based Budgeting probably fails to meet its two major objectives efficiently. Those objectives are: 1) to mitigate the budgetary problems associated with revenue uncertainty; and 2) to save surplus revenues in the near term in order to supplement revenues in a period of revenue decline. As a savings device, the OMB study suggests that the Permanent Fund is superior to Cash-based Budgeting. This finding relates to the expectation of somewhat lower interest earnings on CBB reserve (or General Fund) investments as compared to Permanent Fund investments due to the requirement that revenues under Cash-Based Budgeting be invested in liquid, short-term investments which generally yield lower rates of interest. As a device for addressing problems relating to revenue uncertainty, the OMB report finds "a well considered spending limitation" to be a less costly and more appropriate alternative to Cash-Based Budgeting.

The answer to these charges against Cash-Based Budgeting lies with the political probability that one or the other of these approaches would be implemented. Although the combination of increased contributions to the Permanent Fund (up to \$400 or \$500 million per year) coupled with consistent legislative restraint or an effective constitutional spending limit would be more efficient at achieving the above goals, what is the likelihood that this approach will be successful? Proponents of Cash-based Budgeting contend that the probability for political acceptance of Cash-Based Budgeting as a means of accomplishing these goals is greater than the likelihood that consistent Permanent Fund appropriations and conservative spending habits can be achieved year after year without Cash-Based Budgeting.

If you have any questions regarding this memorandum, or would like additional information, please call.

GAH

Attachments



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y. State Capitol
Juneau, Alaska 99811
(907) 465-1991

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

CASH BASED BUDGETING
ACCELERATED START-UP PLAN

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 CRB 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.

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.

54-27

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 3.8 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 3.8 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.

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."

FINANCE CS HJR 39
COMPARISON TO EXISTING 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."

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".

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.

SECTION 1

Section one amends the Constitution of the State of Alaska to allow the creation of a dedicated fund called the Appropriation Reserve Fund.

SECTION 2

Section two establishes a new constitutional appropriation limit that goes into effect in the same fiscal year that cash-based budgeting is implemented. The year that this new limit goes into effect is established as a base year that future budgets will be compared to. The new appropriation limit allows for growth in the state budget equal to the base year plus adjustments for population growth and inflation OR 95 percent of the unrestricted revenue from the previous calendar year, whichever is less. This new limit can only be broken if the governor uses his authority to declare a state of emergency.

SECTION 3

Section three creates the Appropriation Reserve Fund. Appropriations can only be made from the fund for emergency purposes or pay the principal and interest of general obligation bonds. During the accumulation period, the balance of the reserve fund is to be invested at competitive national market rates with all earnings being deposited back into the fund. On June 30th of the year that the reserve fund is greater than or equal to 1.5 times the previous fiscal years expenditure, the balance of the fund will be transferred to the general fund; no deposits shall be made into the fund after that date.

SECTION 4

Section four identifies the funding sources for the appropriation reserve fund. All funds generated by the settlement of the following litigations and disputes, that are unencumbered and unrestricted on or after July 1, 1985, will be deposited in the appropriation reserve fund.

- 1) TAPS pipeline tariff case
- 2) State of Alaska v. Amerada Hess
- 3) U.S. v. Alaska (Dinkum Sands)
- 4) State of Alaska v. U.S. (OCS case)

In addition to these sources, disputed oil and gas taxes for a tax year prior to January 5, 1985 that are paid after December 31, 1985 shall be deposited in the appropriation reserve fund.

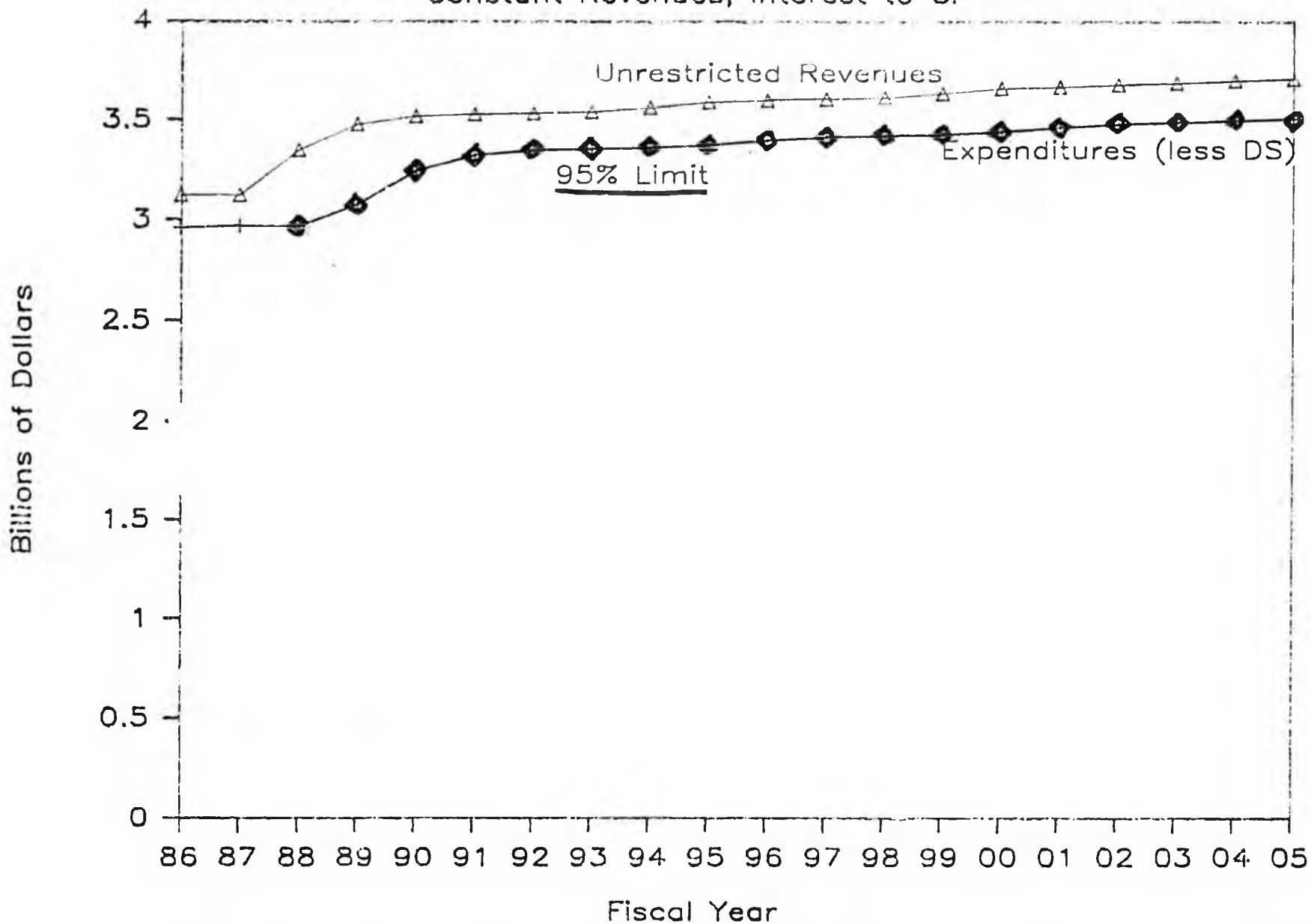
Section four also establishes a temporary appropriation limit that is in effect during the deposit period of the appropriation reserve fund. The temporary limit establishes FY 88 as a base year to compare future budgets against. During the deposit period of the reserve fund, growth of the state budget is restricted to the base year plus allowances for population growth and inflation. At the end of each fiscal year if there are any unencumbered, unrestricted revenues left, 75 percent of them will be deposited in the appropriation reserve fund and the remaining 25 percent are to be deposited into the Alaska permanent fund. This temporary appropriation limit is in effect until the switch to CBB is made; at that time the spending limit established in section two is implemented.

SECTION 5

Section five places the constitutional amendments proposed by this resolution before the voters on the 1986 general election ballot.

EXPENDITURES UNDER HJR 22

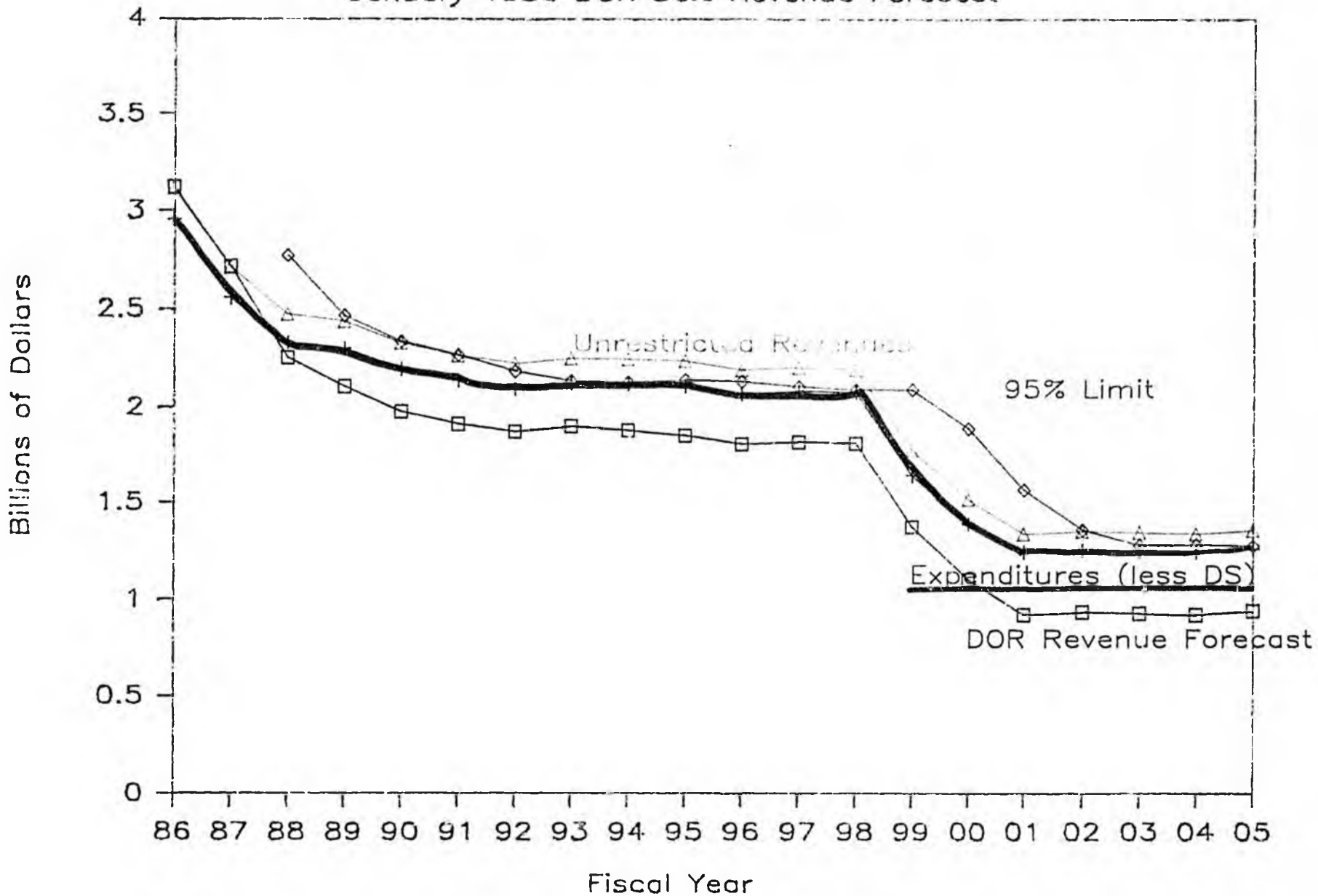
Constant Revenues, Interest to G.



NOTE: Assumes that cash-based budgeting begins in FY 88 with an initial General Fund balance of \$4.4 billion.

EXPENDITURES UNDER HJR 22

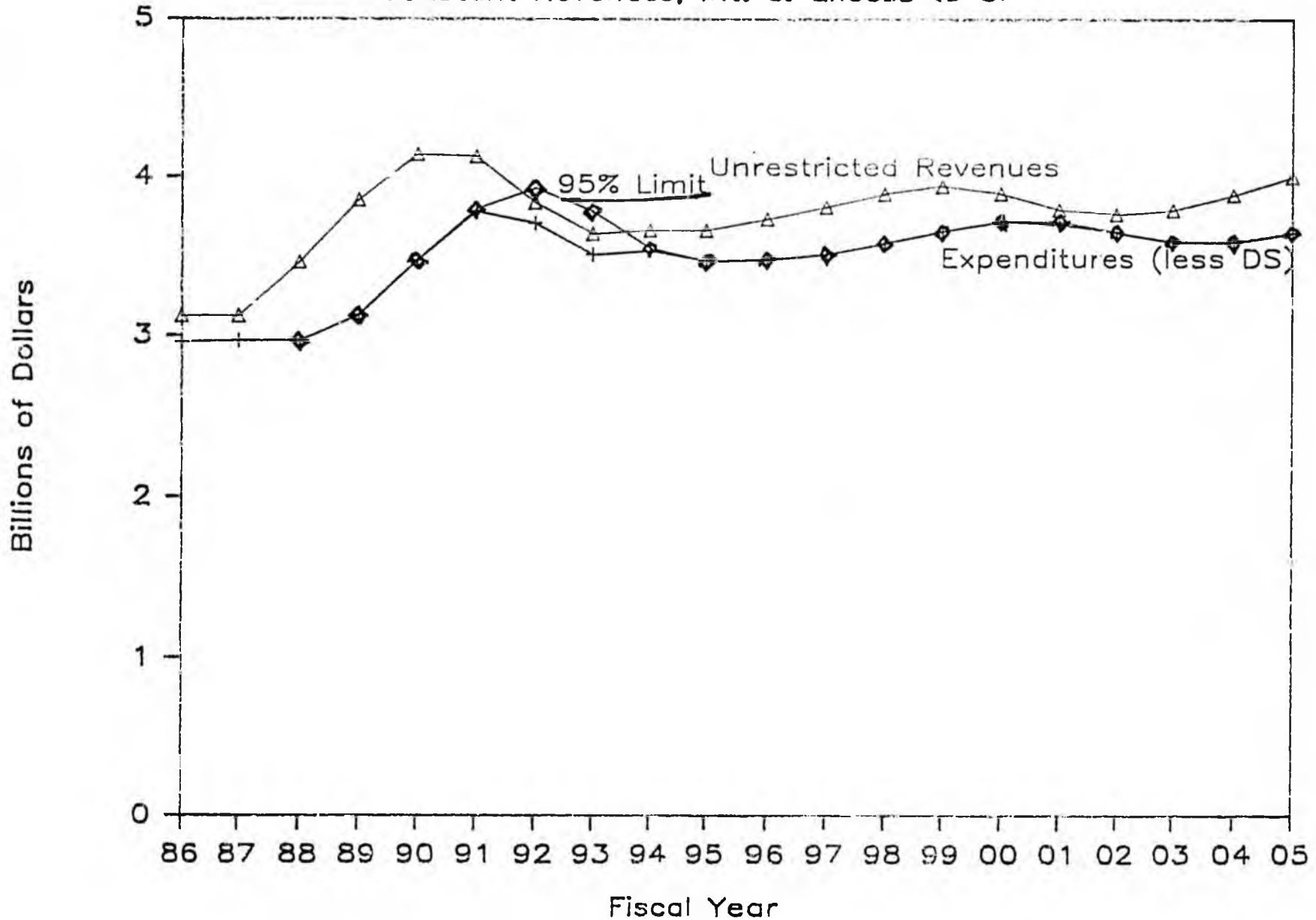
January 1986 DOR 30% Revenue Forecast



NOTE: Assumes that cash-based budgeting begins in FY 88 with an initial General Fund balance of \$4.4 billion.

EXPENDITURES UNDER HJR 22

Constant Revenues, Int. & Excess to GF



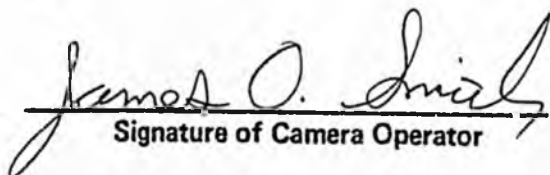
NOTE: Assumes that cash-based budgeting begins in FY 88 with an initial General Fund balance of \$4.4 billion.

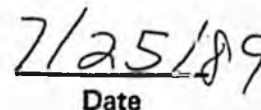


RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.


Signature of Camera Operator


Date

H J R



April 9, 1985

Honorable Gentlemen,

This letter is in regard to HJR 26 and HJR 27.

Since the Federal Reserve Act of 1913 it is apparent that our money supply and our United States economy has been controlled by a consortium of private bankers.

The Federal Reserve System was established to end the boom and bust cycles, stabilize the currency, end farm foreclosures, and expand the money supply when necessary." Since its inactment the Federal Reserve has not done any of the above (with the exception of expanding the money supply) and has only caused more boom and bust cycles. The present situation with the farmers in this country more than proves this fact.

There were many warnings about the Federal Reserve Act before and after its passage. Henry Cabot Lodge, an opponent of the bill stated December 17, 1913,

"The powers vested in the Federal Reserve Board seem to me highly dangerous especially where there is political control of the Board. I should be sorry to hold stock in a bank subject to such dominations. The bill as it stands seems to me to open the way to a vast inflation of the currency."

"I had hoped to support this bill, but I cannot vote for it as it stands, because it seems to me to contain features and to rest upon principles in the highest degree menacing to our prosperity, to stability in business, and to the general welfare of the United States."

Congressman Louis T. McFadden, a later critic of the Federal Reserve and an authority on the subject (as he served as chairman of the Banking and Currency Committee for more than tens years) stated on the floor of the House of Representatives in 1934:

"Mr. Chairman, we have in this country one of the most corrupt institutions the world has ever known. I refer to the Federal Reserve Board and the Federal Reserve Banks, hereinafter called the Fed. The Fed has cheated the Government of these United States out of enough money to pay the national debt."

and

"Meanwhile and on account of it, we ourselves are in the midst of the greatest depression we have ever known. From the Atlantic to the Pacific, our Country has been ravaged and laid waste by the evil practices of the Fed and the interests which control them. At no time in our history, has the general welfare of the people been at a lower level or the minds of the people so full of despair."

"Recently in one of our states 60,000 dwelling houses and farms were sold and their erstwhile owners dispossessed. The people who have thus been driven out are the wastage of the Fed. They are the victims of the Fed. Their children are the new slaves of the auction blocks in the revival of the institutions of human slavery."

These comments were made over 50 years ago and hold true today. The Federal Reserve and the International Bankers are on their way to a one world government and a world monetary system. If this happens, we shall all surely be slaves. It is your responsibility to prevent this from happening.

I am a devout supporter of HJR 26 and HJR 27. These could prove to be some of the most important bills in over 50 years. Why don't you make history by acting upon them.

Please answer these questions:

1. Does the Congress have power over the Federal Reserve?
2. Is it lawfull for the Federal Reserve to charge the American people interest on the money borrowed?
3. Has the Fed ever been audited? If the answer is no, why not?
4. Is our present money system in compliance with Article 1, Sections 8 and 10 of our U.S. Constitution.
5. Are the federal reserve notes used today lawfull money as set forth in the U.S. Constitution?
6. Can anyone tell me what a dollar is? If you can and I have some I'll give you one for the answer!

Please answer my question as I would like to know more about the Federal Reserve. I have a great concern for the economic problems facing our Nation today and the Nation our posterity will live in.

In conclusion, the facts as they are evident warrant a thorough investigation and reform of the Fed as we know it. In light of

that, I urge you to bring forth HJR 26 and HJR 27 for discussion.
This could at least be a start in the right direction.

Sincerely,

Michael Agen

Michael J. Bruner
Box 168
Palmer, Alaska, 99642

April 6, 1985

Representative Mike Miller
Chairman: Judiciary Committee
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska, 99811

Dear Chairman,

HJR 26 & 27 have been referred
to your committee.

Your consideration of these bills
would be greatly appreciated:
so that they can be delivered
to the Rules Committee.

Do you support these bills?
Hope you had a Happy Easter.

"Via Con Dios Amigos"
Michael J. Bruner

P.S. On 4/4/85 I spoke in favor of these
bills on Herb Shaindlin's K.F.Q.D. Talk
Show; am going to be speaking about
them on Fred James K.A.R.N. Talk Show.
Hope you can tune in & call in when
I support them across Alaska on
K.F.A.R. Steve Agaba's talk show
statewide. Thankyou...

JAMES ABDNOR
SOUTH DAKOTA

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COMMITTEES
APPROPRIATIONS
ENVIRONMENT AND
PUBLIC WORKS
JOINT ECONOMIC

United States Senate

WASHINGTON, D. C. 20510

January 25, 1985

Michael J. Bruner
Box 168
Palmer, Alaska 99645

Dear Michael:

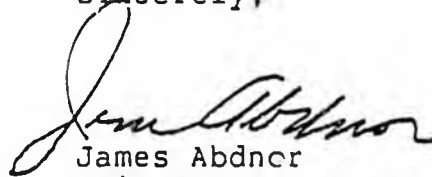
Thank you for conveying to me your concerns about the Federal Reserve System.

As you know, the Fed has been under considerable criticism in recent years. Its influence over the economy is considered by many to be too powerful, and its authority to control the monetary system has been challenged as well. As a member of the Joint Economic Committee, I have been involved in studying the role of the Federal Reserve in our economy. It is apparent that some changes should be made to make the Fed more responsive to the interests of the nation.

Thanks again for expressing your views to me. I shall keep them in mind as the Senate deliberates the issue further.

With best wishes,

Sincerely,



James Abdnor
United States Senator

JÄ/jt

In exchange for stock: member banks of each of the twelve Federal Reserve Banks, capitalized them, with six per cent of their deposits/assets. "Member banks are owned by private stockholders!"

LEWIS v. UNITED STATES

1239

Cite as 680 F.2d 1239 (1982)

Anchorage Daily News

Wednesday, March 20, 1985

Tax The Fed, retire our debt

Mr. Bruner's elucidation of the workings of the Federal Reserve laid bare an issue more critical than communism facing this nation. By these tactics it is estimated they have accumulated around \$200 billion to line their own pockets, a sum equal to the entire annual federal deficit! This money, of course, does not return to the treasury, because, as a federal judge recently ruled, the misnamed Federal Reserve is a cabal of private bankers enriching themselves at public expense.

One bold stroke by Congress could retire our national deficit in short order and that would be a 50 percent tax on this usury. But The Fed is so powerful and the publicity so circumscribed that all previous attempts to return control of "making money out of thin air" to Congress have failed. This way, the interest on money borrowed by the government, apart from that on real, earned money put up by honest investors which constitutes half our present debt, would be returned to the people. But The Fed has so much money it can destroy the careers of any politician involved in such "meddling."

— Ian B. Patten



John L. LEWIS, Plaintiff/Appellant,

v.

UNITED STATES of America,
Defendant/Appellee.

No. 80-5905.

United States Court of Appeals,
Ninth Circuit.

Submitted March 2, 1982.

Decided April 19, 1982.

As Amended June 24, 1982.

Plaintiff, who was injured by vehicle owned and operated by a federal reserve

bank, brought action alleging jurisdiction under the Federal Tort Claims Act. The United States District Court for the Central District of California, David W. Williams, J., dismissed holding that federal reserve bank was not a federal agency within meaning of Act and that the court therefore lacked subject-matter jurisdiction. Appeal was taken. The Court of Appeals, Poole, Circuit Judge, held that federal reserve banks are not federal instrumentalities for purposes of the Act, but are independent, privately owned and locally controlled corporations.

Affirmed.

1. United States ⇐78(4)

There are no sharp criteria for determining whether an entity is a federal agency within meaning of the Federal Tort Claims Act, but critical factor is existence of federal government control over "detailed physical performance" and "day to day operation" of an entity. 28 U.S.C.A. §§ 1346(b), 2671 et seq.

2. United States ⇐78(4)

Federal reserve banks are not federal instrumentalities for purposes of a Federal Tort Claims Act, but are independent, privately owned and locally controlled corporations in light of fact that direct supervision and control of each bank is exercised by board of directors, federal reserve banks, though heavily regulated, are locally controlled by their member banks, banks are listed neither as "wholly owned" government corporations nor as "mixed ownership" corporations; federal reserve banks receive no appropriated funds from Congress and the banks are empowered to sue and be sued in their own names. 28 U.S.C.A. §§ 1346(b), 2671 et seq.; Federal Reserve Act, §§ 4, 10(a, b), 13, 13a, 13b, 14, 14 (a-g), 16, 12 U.S.C.A. §§ 301, 341-360; 12 U.S.C.A. § 361; Government Corporation Control Act, §§ 101, 201, 31 U.S.C.A. §§ 846, 856.

3. United States ⇐78(4)

Under the Federal Tort Claims Act, federal liability is narrowly based on tradi-

Exchange of gold notes for bonds.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes herein provided for.

Bank reserves.

BANK RESERVES.

THE CONSTITUTION OF THE UNITED STATES

Article 6, Sec. 2: "THIS CONSTITUTION, ... SHALL BE THE SUPREME LAW of the Land; and the Judges... shall adhere to ANYTHING... CONTRARY NOTWITHSTANDING"

Article 1, Sec. 10: "SHALL MAKE ANYTHING BUT GOLD and SILVER COIN" Tender in Payment of Debts

Article 1, Sec. 8: THE CONGRESS SHALL HAVE POWER... to COIN Money, REGULATE the Value thereof...

Question: Can you make Gold and Silver out of NOTHING?

Answer: NO!

Timothy 6:10

John 2: 14 & 15

Proverbs 20: 10 & 11

Is Federal Reserve dishonest?

This letter concerns an act of the 63rd Congress, "The Federal Reserve Act of 1913." More specifically, it refers to the eighth paragraph of section B under bank reserves:

"A bank in a reserve city, as now or hereafter defined, shall hold and maintain reserves equal to fifteen percent of the aggregate amount of its checking account deposits and five per cent of its saving account deposits."

In other words: if you deposit \$10,000 into your savings account, the bank has to keep \$500, leaving \$9,500 to loan.

If I borrow that \$9,500 and redeposit it into a savings account of another bank, that bank has to hold \$475 and has \$9,025 to loan.

Can you see that from an original deposit of \$10,000 we now have a total of \$975 in reserves and \$18,535 in loans? Following Federal Reserve guidelines, we have created \$19,510 out of \$10,000.

In short, money is created out of nothing and secured by good real estate mortgages paying high rates of (usury) interest.

If you feel the Federal Reserve system is dishonest, then let your legislator know your opinion and ask him for his opinion. Phone Sen. Stevens (271-5915), Sen. Murkowski (271-3735), or Congressman Young (271-5978).

- Michael J. Bruner Box 168 Palmer, Alaska, 99645

Sec. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, and all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment.

When the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the establishment of a Federal reserve bank in any district, every subscribing member bank shall establish and maintain reserves as follows:

(a) A bank not in a reserve or central reserve city as now or hereafter defined shall hold and maintain reserves equal to twelve per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date five-twelfths thereof and permanently thereafter four-twelfths.

In the Federal reserve bank of its district, for a period of twelve months after said date, two-twelfths, and for each succeeding six months an additional one-twelfth, until five-twelfths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period said reserves, other than those hereinbefore required to be held in the vaults of the member bank and in the Federal reserve bank, shall be held in the vaults of the member bank or in the Federal reserve bank, or in both, at the option of the member bank.

(b) A bank in a reserve city, as now or hereafter defined, shall hold and maintain reserves equal to fifteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date six-fifteenths thereof, and permanently thereafter five-fifteenths.

In the Federal reserve bank of its district for a period of twelve months after the date aforesaid at least three-fifteenths, and for each succeeding six months an additional one-fifteenth, until six-fifteenths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period all of said reserves, except those hereinbefore required to be held permanently in the vaults of the member bank and in the Federal reserve bank, shall be held in its vaults or in the Federal reserve bank, or in both, at the option of the member bank.

(c) A bank in a central reserve city, as now or hereafter defined, shall hold and maintain a reserve equal to eighteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults six-eighteenth thereof. In the Federal reserve bank seven-eighteenth.

United States Statutes Volume: 38

"Anchorage Daily News Wednesday, March 6, 1985"

63rd Congress, Session 2, Chapter 6, Pg # 270 on Dec. 23, 1913.

Introduced: 3/29/85
Referred: Judiciary and
Finance

1 IN THE HOUSE

BY MARROU

2

HOUSE JOINT RESOLUTION NO. 26

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

Declaring the intention of the State of

6

Alaska to join the State of Washington

7

in a court action to challenge the

8

constitutionality of the Federal Reserve

9

System and to obtain an audit of the

10

Federal Reserve System.

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

12 WHEREAS a sound monetary system is absolutely vital to a free people;

13 and

14 WHEREAS inflation, exorbitant interest rates, and monetary instability

15 have historically been proof of an unsound monetary system and, thus, a

16 danger to the well-being of the citizens and the governments of the State

17 of Alaska and the United States of America; and

18 WHEREAS art. I, sec. 8, Constitution of the United States grant to

19 Congress the exclusive power "to coin money" and to "regulate the value

20 thereof"; and

21 WHEREAS the Federal Reserve Act of 1913 (38 Stat. 251) and subsequent

22 acts of Congress purport to delegate to a federally-chartered banking

23 consortium power over the lives and well-being of every citizen of the

24 United States without effective supervision by an elected body or official;

25 and

26 WHEREAS the powers of the Federal Reserve System to create and issue

27 money and to create and loan money at interest to the government of the

28 United States, are clearly beyond the authority contemplated by those who

29 wrote and ratified the United States Constitution; and

1 WHEREAS the United States Constitution does not authorize Congress to
2 make this delegation of power; and

3 WHEREAS there has never been a complete and independent audit of the
4 Federal Reserve System;

5 BE IT RESOLVED that the Alaska State Legislature urges the Governor to
6 direct the Attorney General to join the State of Washington in filing in
7 the Supreme Court of the United States:

8 (1) an action challenging the constitutionality of the delega-
9 tion to the Federal Reserve System of the power to create money; and

10 (2) an action requiring a complete and independent audit of the
11 Federal Reserve System.

12 COPIES of this resolution shall be sent to the Honorable Ted Stevens
13 and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don
14 Young, U.S. Representative, members of the Alaska delegation in Congress;
15 the Honorable Booth Gardner, Governor of the State of Washington; the
16 Honorable Ken O. Eikenberry, th. Attorney General of the State of Washing-
17 ton; and to the Western Legislative Conference of the Council of State
18 Governments.

Introduced: 3/29/85
Referred: Finance

1 IN THE HOUSE

BY MARROU

2

HOUSE JOINT RESOLUTION NO. 27

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

Urging the United States Congress to

6

study and reform the Federal Reserve

7

System.

8

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

9

WHEREAS a sound, stable monetary system is vital to a free nation to
10 protect the economic and political liberty of its people; and

11

WHEREAS the Federal Reserve System, the present monetary system in the
12 United States, was established to end "boom and bust" cycles, stabilize the
13 currency, end farm foreclosures, and expand the money supply when
14 necessary; and

15

WHEREAS since the introduction of the Federal Reserve System, the
16 United States and its people have suffered recurring recession cycles, a 90
17 percent loss of the purchasing power of the dollar, and farm foreclosures
18 during the Great Depression of the 1930's and the 1981-83 depression; and

19

WHEREAS the Federal Reserve System has expanded the United States
20 money supply, but the system charges the United States citizen interest on
21 every Federal Reserve dollar in circulation; and

22

WHEREAS few other issues affect the United States and its people as
23 directly as the operation of the Federal Reserve System, because labor,
24 farmers, and businesses are absolutely dependent on the nation's monetary
25 system and may be in grave danger in the near future unless major reforms
26 to the system are made; and

27

WHEREAS serious charges have been made that the Federal Reserve System
28 has failed to achieve the objectives laid down when it was established,
29 that the present debt-money system works to the disadvantage of the public

1 and results in ever-higher interest rates for individuals, business, and
2 government, that violations of prudent bank management practice by large
3 United States banks in making worldwide loans have placed this nation, its
4 banking system, and the taxpayers in jeopardy, and that Congress has been
5 unwilling or unable to face this issue squarely and take action to protect
6 the United States from further abuses;

7 BE IT RESOLVED by the Alaska State Legislature that it urges the
8 Western Legislative Conference of the Council of State Governments to study
9 the elements of the nation's present monetary system and design reforms to
10 protect the people and their economic security; and be it

11 FURTHER RESOLVED by the Alaska State Legislature that it urges the
12 Western Legislative Conference to request Congress to study and hold hear-
13 ings to examine the nation's monetary system and to consider reforming the
14 system to protect the people of the United States and their economic
15 security.

16 COPIES of this resolution shall be sent to the Honorable Ted Stevens
17 and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don
18 Young, U.S. Representative, members of the Alaska delegation in Congress;
19 and the Western Legislative Conference of the Council of State Governments.

The following table shows the relationship between the budget deficits and the interest paid by government. If there were no interest payments, there would be no deficits.

YEAR	DEFICIT	INTEREST PAID
1972	\$ 23,373 (Billions)	\$ 20,563 (Billions)
1973	14,849	22,762
1974	4,688	28,032
1975	45,154	30,911
1976	66,413	34,511
adj.	12,945	7,216
1977	44,948	38,009
1978	48,807	43,966
1979	27,694	52,556
1980	59,563	64,504
1981	57,932	82,537
1982	98,578*	99,537*
Total	\$504,955	\$524,682

It is a POWER unto itself: it is not answerable to the President or the Congress...

**Federal Reserve:
A Monopoly on Money**

Dear Editor:

The Federal Reserve System is an intelligent subject for people to investigate and reflect upon. There is an illegal relationship between the Federal Reserve Act of 1913 and the Government!

Article I, Section 8-5 of the Constitution of the United States: "The Congress shall have the power to coin money and regulate the value thereof..."

The U.S. Constitution gave this duty to Congress. There has never been a constitutional convention to propose (or ratify) a legal amendment to allow Congress to delegate this power to someone else! Therefore: the congressional legislation delegating this authority to regulate the value of money to the Federal Reserve Board is against the law!

The Federal Reserve is comprised of 12 regional Federal Reserve Banks. The stock of these 12 regional Federal Reserve banks is privately owned. It is a privately held corporation. It is a special interest group with a monopoly on money. It is the privately held central bank of the United States of America.

The Federal Reserve Board issues laws as to what the interest rate shall be. The Federal Reserve Board exercise daily control over the volume of money in the United States by buying and selling government securities. The U.S. Treasury gets its orders to print money from them...not our Congress!

The Federal Reserve operates on the fractional reserve principles that only requires banks to keep approximately 5% on a savings account deposit, and 20% on a checking account deposit.

By depositing \$100 in a checking account, a bank is required to keep only \$20 in reserves, and can loan \$80. The borrower can deposit that \$80 in another bank. That bank has to keep \$16 in reserves, and has \$64 to loan.

Can you see that from an original deposit of \$100, that we now have a total of \$36 in reserves, and \$144 in loans? Following Federal Reserve guidelines we have created a total of \$180 out of \$100. (When you borrow that additional \$80, you have to pay interest on something the banker got for nothing!)

The Federal Reserve creates money out of nothing—thin air—to obtain government securities. By using their own clever banking principle, the Federal Reserve buys U.S. Government bonds, and then uses these securities as reserves to increase their lending capacity to buy more bonds. Literally, U.S. debts have become their assets (money?) to purchase more U.S. debts. (How can you use a debt to pay for a debt?)

If you do nothing with this information then you can expect to have all of your freedoms, and your wealth legislated away. Do you know your rights? Wake up! Our present civilization may collapse unless the Federal Reserve System becomes widely understood and corrected. All that is necessary for evil to triumph is for good men to do nothing...

99 Co. 1984

MANHATTAN

Federal Rent-A-TV Corp 1588 Yrk Av. 734-5777	FEDERATION OF AMER CONTROLLED SHIPPING 30 Bway 344-1483
Federal Reserve Bank Of New York 23 Liberty 791-5000	Federation Of Apparel Mfrs Inc 4507 Av. 594-0810
Treasury Bill Note & Bond Offerings 791-7773	Federation Of Catholic Teachers 342 West Av. 953-1194
Treasury Bill Note & Bond Auction Results 791-5822	Federation Of City Wide Black Assn 51 Chambers 564-0253
Savings Bond Information 791-5965	FEDERATION OF COOPERATIVES INC 445 Gram 677-1050
Public Information 791-6130	Federation Of French Alliances 22 E 60 355-6100
Guided Tours 791-6130	Federation Of French War Veterans INC 325 Gram 620-7549
Publications 791-6134	Federation Of Greater N Y R & P C 225 Inc 3102 Kensington Av Bx 568-4200
Employment Office 791-6040	FEDERATION OF JEWISH PHILANTHROPIES OF N Y 130 E 59 920-1800
All Other Information 791-5000	Federation Of N Y Homeing Cooperatives 138-10 Fresh Av Flt 718 333-5080
FEDERAL RESTRNT SUPL CO INC 202 Bway 226-0442	Federation Of National Assn
FEDERAL SAMPLE CARD 45-20 83 Elm 718 438-1344	
Federal Sandwich Shop 92 Duane 732-4680	
Federal Savings & Loan Insurance Corp 1 World Trade Ctr 432-2000	
Federal Scientific Corp 245 Livingston Av Haddon H.H. 201 747-7100	
Federal Screw & Supt Corp 525 Broome 966-5760	

The Federal Reserve is not listed under U.S. Government. It is not owned by the people of the United States for their benefit.

It is owned by private stock holders of its member banks for their benefit.

As of 11:05 Tuesday, July 26, 1983, the list of member banks holding Federal Reserve Bank of New York stock includes twenty-seven New York City banks. Listed below are the number of shares held by ten of these banks, amounting to 66% of the total outstanding number of shares, namely 7,005,700:

Bank Name	Shares	Percent
Bankers Trust Company	438,831	(6%)
Bank of New York	141,482	(2%)
Chase Manhattan Bank	1,011,862	(14%)
Chemical Bank	544,962	(8%)
Ciubank	1,090,813	(15%)
European American Bank & Trust	127,800	(2%)
J. Henry Schroder Bank & Trust	37,493	(.5%)
Manufacturers Hanover	509,852	(7%)
Morgan Guaranty Trust	655,443	(9%)
National Bank of North America	105,600	(2%)

Federal Reserve Act violates law

What about the U.S. Constitution? Article VI, Section 2 says, "This constitution and the laws of the United States which shall be made in Pursuance thereof... shall be the Supreme Law of the Land; and the Judges in every state be bound thereby; anything in the Constitution or Laws of any State to the contrary notwithstanding."

It is impossible for both the Constitution and a law violating it to be valid: One must prevail!

Michael J. Bruner
Box 168
Palmer, Alaska 99645

Congress of the United States
House of Representatives
Washington, D.C. 20515

January 10, 1985

Mr. Michael J. Bruner
Box 168
Palmer, Alaska 99645

Dear Mr. Bruner:

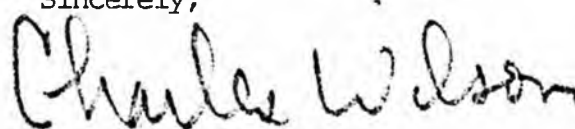
Thank you for your letter concerning the constitutionality of the Federal Reserve and for your suggestion for the Congress to set interest rates at 3%.

With 435 members in the House of Representatives and 100 members in the Senate, all representing diverse interests, don't you think it would create fiscal chaos for this body to be the fiscal regulatory authority?

I do anticipate a move to some sort of flat tax in the near future which may offer a more equitable umbrella for the average taxpayer.

Please continue to keep in touch.

Sincerely,



Charles Wilson

CW:pw

Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game



Andre Marrou
Representative

District 5

Kenai	Sterling
Soldotna	Anchor Point
Homer	Port Graham
Seldovia	English Bay
Kachemak	Nikolaevsk
Kasilof	Halibut Cove
Ninilchik	Clam Gulch

April 18, 1985

To: Mike Miller, Chairman House Judiciary
From: Andre Marrou 

Subject: HJR 26 Federal Reserve System, Audit and Legal Suit

Here is some background information regarding HJR 26. Available literature addressing this problem is enough to fill a library. People have been talking about the role of the Federal Reserve system for decades. Some states, as you will see by reading the attached material, have taken action.

The "Fed." was originally created in 1913 for the expressed purpose of regulating an expanding and contracting money supply that would cater to the currency needs of the country. The explicit reason it was formed was to avoid things like recession, depression and inflation. To this end, they have failed miserably. It was the "Fed." which led us into our great depression; the very calamity they were suppose to protect us from!¹ They also can be held directly or indirectly responsible for every gyration our economy has taken since².

Of a particular concern is the constitutionality of the Fed. The U.S. Constitution clearly states, Article I, Sec. 8, "The Congress shall... coin money, regulate the value thereof...". No provision to delegate this authority to another body is provided for. Article I, Sec. 10: "No state shall...make anything but gold or silver coin a tender in payment of debts...". If we are to throw out and ignore these provisions of our constitution, which section will be next? The power to coin currency and control economies has been abused many times throughout history. This is why the drafters of our constitution specifically refer to gold and silver.

I respectfully request a hearing on this bill. Please call if you have any questions.

1. Free to Choose, by Milton Friedman, (1976 Nobel Laureate in Economics)
2. Bright Promises, Dismal Performance, by Milton Friedman

Washington State Senate

RECEIVED MAR 0 5 1985

METCALF

Jack Metcalf
10th District



January, 1985

Dear Fellow Legislator:

Idaho and Virginia, Arizona and Alabama have already acted. Washington State has acted. The national organizations of legislators and legislatures - the Western State Conference of the Council of State Governments and the National Conference of State Legislatures - have also taken a stand and studies are underway.

Action is pending or has been introduced and passed in one house of several state legislatures. Is your state one of those?

The subject: national economic policy as practiced by the Federal Reserve and its affect on our ability as legislators to find adequate funding for state programs or to balance our own state budgets.

Don't stop reading here with a shrug and a thought, "there's nothing we can do about federal economic policies." There is much we can do - and much that has already been done.

The recent recession (depression in Washington State and many others) with its high unemployment, monetary instability, usurious interest rates and disastrous trade deficits spurred many to action and to the realization that state legislators DO have a stake in this problem and DO have a constitutional responsibility to spur a reluctant Congress to action. It's our problem - as individuals and as legislators. It has been encouraging to see the mounting evidence that states accept this responsibility - and in concert have begun to take action.

Idaho and Virginia voted to ask Congress for an independent audit of the Fed; Arizona and Alabama passed memorials asking Congress to abolish the Fed. Similar measures have passed one house in several other states.

The National Conference of State Legislatures held two hearings (December, 1982 and May, 1984) and at their Boston meeting last July passed a resolution similar to the one enclosed and requested further hearings at the 1985 summer annual meeting in Seattle.

The Western States Conference of the Council of State Governments passed the enclosed resolution at their Phoenix meeting last September.

The purpose of this letter is (1) to alert you to these state actions urging reform of our present unsound money system; (2) to urge you support these efforts in your state legislatures and at our national legislative meetings and (3) to urge you and your state to join Washington in a first step that can decisively impact the effort for monetary reform.

Let me explain #3: Any understanding of the intent of the founders would render the present money system clearly unconstitutional. Those who wrote and ratified the Constitution understood the need for an honest money system that would serve the people and could not be manipulated for special interest advantage. They would have been appalled at the idea of delegating total monetary power to any group not constitutionally established or specifically committed to the people's interest.

Yet today, such total power is held by the Federal Reserve, a body which operates in secret, publishes no precise minutes and is not subject to control or oversight by the representatives of the people or by any elected body or official. Frankly, it is no more "Federal" than the "Federal Express", but is a body controlled by the multinational banking interests.

Understanding this and reacting to the devastation caused our state by the 1981-83 recession, the Washington State Legislature passed Senate Concurrent Resolution #127, which contained this language:

"NOW, THEREFORE, BE IT RESOLVED, That it is hereby the declared intent of the State of Washington to cause to be filed in the U. S. Supreme Court (1) an action challenging the constitutionality of the delegation of the power to create money to the Federal Reserve; and (2) an action to require an independent audit of the Federal Reserve."

It is now Washington State policy to bring the suit - but one state has not the "clout" of several states acting together. Because this is obviously an issue of monumental importance to each state and to the nation, it is vital that as many states as possible join with us.

I thought of enclosing a great deal of background material on this crucial issue - but I've kept that to a minimum. I have enclosed a sheet of suggested material. If you wish more information - do not hesitate to request it or to call me to discuss the issue.

Please bear in mind two points: (1) monetary reform is a volatile issue and many people are outspoken and even radical on the subject (this is partly because Congress has refused to squarely face this issue even as our national economic stability has disintegrated in recent years.) Do not be "turned off" on the need for monetary reform because of actions or statements by some too intense individuals. Please judge this issue on its own merits; (2) understand I am neither discussing nor advocating gold or silver coinage, U. S. Notes or any particular solution at this time; first we have to understand the magnitude of the problem.

A later step will be to implement a constitutional money system or offer a constitutional amendment to establish an honest money system that will protect our people from the glaring inadequacies of the present debt-money system.

Under our present system (almost) all money in circulation is issued, not by the United State government, but by the Federal Reserve or the commercial banks, and the people are charged interest on it, either directly or indirectly. An alternative is a debt-free money system - money issued by the United States government that does not bear interest.

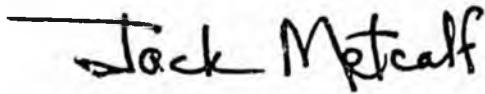
We have an enormous problem which ultimately threatens those who elected us and who trust us to represent their interests. We are earnestly saying the present system is unconstitutional and a ruling from the high court is desperately needed.

I am asking that you introduce in your legislature a measure similar to that printed on the back of this letter. If invited, I will make every effort to come to your legislature to testify, or recommend experts from your state who would speak on this or similar legislation.

Please ALSO introduce a memorial to Congress asking that they abolish the Fed. This sounds radical - but as Congress tends to ignore our official messages to them, the more states that pass such a memorial the more likely we are to finally get their attention! Just a few states acting can be ignored; many states acting in concert with the national legislative organizations cannot be ignored indefinitely!

Please give this matter the intense consideration it deserves. There is no other issue, except that of nuclear war, as vital to the interests of those who have elected us. Contact me with your ideas, questions or requests for further information.

Sincerely,

A handwritten signature in cursive script that reads "Jack Metcalf". The signature is written in dark ink and is positioned below the word "Sincerely,".

Jack Metcalf
Senator, 10th District
State of Washington

JM/lb
Enclosures

P. S. If you feel this information is too new to you to move during this legislative session, please strongly consider encouraging an interim study of federal economic policies, which will pave the way for action next session.

APPROVED RESOLUTION NO. 84-17
EXAMINATION OF THE NATION'S MONEY SYSTEM

(Introduced by the Fiscal Affairs and Federalism Committee)

Urging Congress to Study the Nation's Money System

WHEREAS, a sound, stable money system is vital to a free nation to protect the economic and political liberty of the people; and

WHEREAS, the present money system, the Federal Reserve, was established to 1) end the "boom and bust" cycles, 2) stabilize the currency, 3) end farm foreclosures, and 4) provide for expansion of the money supply when needed; and

WHEREAS, since the introduction of the present money system, the Federal Reserve, our states and our people have suffered 1) recurring recession cycles, 2) a loss of 90% of the purchasing power of the dollar, and 3) farm foreclosures of thousands per week during the Great Depression of the 1930's and the 1981-83 depression; and

WHEREAS, the Federal Reserve has provided for the expansion of our money supply, but under their system they charge us interest on every Federal Reserve dollar in circulation; and

WHEREAS, no other issue affects our states and our people as directly, as labor, farmers, and businesses are absolutely dependent on the nation's money system and may be in grave danger in the near future without major reforms; and

WHEREAS, serious charges have been made that 1) the Federal Reserve has failed to achieve the objectives laid down when it was established, 2) the present debt-money system works to the disadvantage of the people and results in ever-higher interest rates for people, business, and government, 3) violations of prudent bank management practice by large U.S. banks in making loans all over the world have placed this nation, our banking system, and our taxpayers in dire jeopardy, and 4) Congress has been unwilling or unable to face this issue squarely and take action to protect us from further abuses;

NOW, THEREFORE, BE IT RESOLVED that the Western Legislative Conference of the Council of State Governments study the elements of the nation's present money system and reforms designed to protect the people and their economic security; and

BE IT FURTHER RESOLVED that the Western Legislative Conference calls on the Congress to study and hold hearings to examine the nation's money system and consider reforms of the system designed to protect the people and their economic security.

* RESOLUTION APPROVED BY CONFERENCE AT ITS 1984 ANNUAL MEETING ON SEPTEMBER 19
IN SCOTTSDALE, ARIZONA.

SUGGESTED READING LIST

- *TRUTH IN MONEY BOOK - Theodore R. Thoren & Richard F. Warner (260 pages)
The very best primer on what is wrong with our present money system - why it cannot possibly work in the interest of the average citizen.
- *THE GREAT COOKIE JAR - Dr. Edward E. Popp (180 pages)
An excellent discussion on the nature of money and why fractional reserve banking is fundamentally unsound.
- THE MOST SECRET SCIENCE - Col. Archibald Roberts (200 pages)
A discussion of our faulty monetary system and a compendium of testimony and official state actions in recent years exposing it.
- PIECES OF EIGHT - Dr. Edwin Vieira, Jr. (391 pages)
The monetary powers and disabilities of the United States Constitution, by one of the foremost constitutional attorneys in the United States.
- THE FEDERAL RESERVE and our MANIPULATED DOLLAR - Dr. Martin A. Larson (273 pages)
A book written in layman's language on the nature of money. A history of monetary policy in the United States and the origin, nature and operation of the Federal Reserve Act.
- MONEY CREATORS - Gertrude M. Coogan (340 pages) (1st Printing-1935, 12th Printing-1974)
Excellent narrative of our nation's money and banking history.
- BANKONOMICS IN ONE EASY LESSON - Peter Cook (175 pages)
Documented information on how leading commercial bankers in the position of class "A" directors of the Federal Reserve banks use the prestige of the Federal Reserve to enforce compliance of the commercial banking industry to either inflate or deflate periodically the national economy.
- QUOTATION SHEET ON MONEY (2 pages) - From Benjamin Franklin, John Adams, Jefferson and Madison to the present, America's leaders have realized and spoken out on the need for an honest money system.
- TRUTH IN MONEY BULLETINS (2 pages)
- #1 - Where does money come from?
 - #2 - The reform of the goldsmith
 - #3 - Banking: Who's wrong, or what's wrong?
 - #4 - What is the "prime rate" and who sets it?
 - #5 - The story of Goldville and its moral
 - #6 - The message to the unions: forced unemployment never cures inflation!
 - #7 - Only Congress can spank the Fed
 - #8 - The money faucet and the money drain
 - #9 - Monetary Science and the Gold Standard
 - #10- The principle of the debt-less printing press
 - #11- The awesome power of monetary authority: what is it? who should have it?
 - #12- What is debt-money?
 - #13- Federal Reserve Banks: the buck starts here
 - #14- Creating money: the secret of the Fed's phenomenal success
 - #15- The economic myth of "too much money"

* Available through my office. Send request to Senator Jack Metcalf, 202 Institutions Bldg., Olympia, WA 98504

Engineering: space-age technology can correct the money system

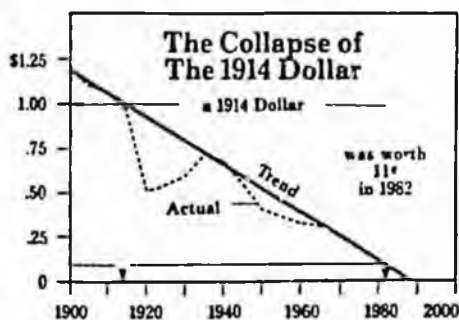
One of the biggest puzzles of economics in a scientific age, is the peculiar frequency with which money systems become woefully unstable and then collapse in a heap of foreclosures and unemployment. To the scientist, trained in the art of getting things right, chronic breakdown of a system is a signal that there is a serious and fundamental flaw in the system's design. The engineer ignores such a signal at his peril and so sets about exploring new avenues to discover what is wrong. The repetition of disaster is unacceptable in engineering.

For instance, say a bridge was designed and built back in 1913. It collapsed in 1920. The bridge was later rebuilt using the exact same blueprints and making no study of why it fell nor any structural corrections. The bridge fell again in 1929. It was rebuilt, again with no study and no changes. The bridge fell again in 1958 and again in 1962, both times it was rebuilt according to the old blueprints. It fell down again in 1973 and was rebuilt using the old blueprints. It is trembling and shaking right now and the same old tattered blueprints are being hauled out again. The bridge repairmen are in their hard hats, waiting for the next terrible crash.

Engineers with this track record could never have survived. They wouldn't have been allowed to survive professionally because engineers are required to be right; or at least they are required to find their mistakes — preferably before a disaster — and correct them.

Of course the bridge is a thinly veiled allusion to the successive economic disasters the country has suffered since the founding of the

Federal Reserve System in 1913. The economy is now on the brink of the sixth major recession/depression in 70 years. These are events which the Federal Reserve System was supposed to render obsolete. Yet once again there is uncertainty both about the direction of the economy and what measures should be taken to forestall another major financial collapse.



What would an engineer do?

To the engineer, chronic instability of any system raises the important question: why?

If a problem keeps recurring in any area of engineering, the engineer stands back and analyzes the problem. There is obviously a need to find out precisely what is going wrong, and why.

Of course, economists have been studying the problem of monetary instability and they ought to know exactly what is going wrong.

Yet when one studies economics, it becomes clear that every school of economic thought is based on a different set of hypotheses. It is as if Caltech taught one type of physics based on a belief in gravity, while

MIT taught another type based on a disbelief in it.

In order to get at the root of the cause of monetary instability it is necessary to depart from economic hypotheses and go straight to the mathematics of money-creation.

The analysis

The first step that is necessary in analyzing the mathematics of money-creation is recognizing that money is created as debt. The other steps of the analysis follow this pattern:

1. Money is created as debt. This is a fact which is admitted by many economists. Here is how one put it:

Most people have heard that in some mysterious manner banks can create money out of thin air, but few really understand how the process works. Few understand that all our money arises out of debt and IOU operations.¹

(In fact, a little money is created debt-free, but it is such a small amount as to be almost negligible.)

2. Debt principal and interest paid to a bank are extinguished. The money is removed from the money supply. Higher rates of interest drain larger quantities of money out of the economy. High interest rates cause a critical money shortage.

3. Debt-money is created by the Federal Reserve and commercial banks.

4. Money is created by the banks as numbers written in their customers' checking accounts. These numbers conform to the laws of mathematics.

5. When money is created only as debt, a mathematical formula governs the growth of this debt. This is the same formula for computing compound interest:

$$D = P(1 + r)^n$$

Where: D is the debt

P is the borrowed principal
r is the annual interest rate
n is the number of years.

Note that this formula is an exponential; it is in the general form of

$y = a^x$. This is a vitally important fact which is totally ignored in most standard economics textbooks.

6. When debt-money is created as a loan, only the borrowed principal is created. Money to pay interest on this principal is not created with the loan.

7. Because the money to pay interest is not created in the system, more money must be borrowed, at interest, in order to pay interest. The system becomes locked into a vicious cycle of borrowing to pay compounding debt which is *mathematically unpayable*.

8. The growth of a \$100 loan at 6% interest is helpful to illustrate exponential debt growth. Here are the figures for 70 years with no principal payments and the interest paid by borrowing it from a bank.

10. Of course, many borrowers are able to pay off their debts. So, how could it be that debt is "mathematically unpayable?" This may seem incongruous at first, until one looks at the *total* debt of the American economy. To illustrate this point, we could look at the total debt at the end of 1981 and compare it with the amount of money which was available to pay off this debt:

Total debt in USA: \$1,004 billion Federal debt
4,196 billion private debt
\$5,210 billion total debt

M1 money supply available to pay off \$5,210 billion: \$ 480 billion

For every \$11 of debt in the economy, there was only \$1 available to pay it off in 1981. Thus, while some people, industries, and governments may have paid off their bank debts, the huge excess of debt

rowed principal is never created with the loan. So it becomes necessary for millions of borrowers to borrow more money to pay interest. This eventually locks them into a condition of having to borrow just to pay interest. As this occurs, their debt begins to increase exponentially, according to the formula $D = P(1 + r)^n$. In order to keep up with the increasing cost of business debts, they must increase the prices of the goods and services they produce. These prices increase exponentially to keep pace with interest costs. This is the factor which generates the exponential increase of prices for everything from bread to local taxes.

12. Inflation, depression and unemployment — the three disastrous faults of the American economy — are all caused by a *shortage of money*.

13. This chronic and critical money shortage is actually a "gross design error" in the money system. The shortage is a direct result of the design of the system, or method, used by the banking system to "supply" money to the economy.

The basic structure of the Federal Reserve's debt-money system can be outlined as follows:

An all-debt money system is unstable because:

A. money is created as loans and therefore debt;

B. only the principal is placed into circulation as the money supply (M1) when loans are made;

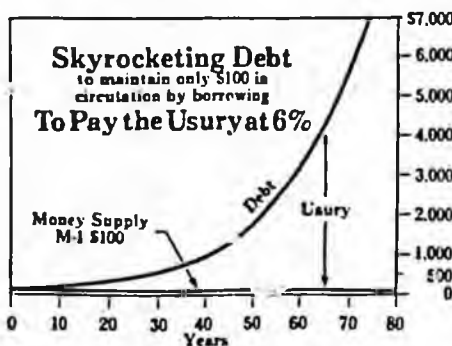
C. so there is no money to pay the interest without reducing the money supply to the point where total debt is unpayable because any payment of interest or principal withdraws money from circulation;

D. this withdrawal of money sets up a shortage which triggers demand for additional borrowing and debt just to prevent a decline in the money supply;

E. the additional borrowing expands the debt exponentially thereby expanding the interest burden exponentially.

Year	Original borrowed principal P	Debt at year end D	Interest due at year end (6%) I	Money in circulation (M1)
1	\$100	\$ 106.00	\$ 6.00	\$100
2	(remains the same)	112.36	6.36	(remains the same)
3		119.10	6.74	
4		126.25	7.15	
5		133.82	7.57	
10		179.08	10.14	
20		320.71	18.51	
30		574.35	32.51	
40		1,028.57	58.22	
50		1,842.02	104.26	
60		3,298.77	186.72	
70		5,907.59	334.39	

9. Here are these figures plotted on a graph.



The definition of usury is: *Any charge at all by a private lender for the use of money he is allowed to create out of nothing as a debt to someone else and an interest-earning asset to himself.*

over money supply indicates that they borrowed to do so. If they didn't borrow, they somehow obtained money, which was someone else's principal!

11. Inflation is a direct result of a shortage of money. Stated another way, inflation is the direct result of *too much debt and too little money to pay it off.*

Here is the reason.

When companies and individuals borrow to produce goods and services, the interest charged by the banks for creating the money they lend is added to the cost of the goods and services as part of the producer's "cost of doing business." There is nothing mysterious about that. However, the money required to pay interest on the bor-

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