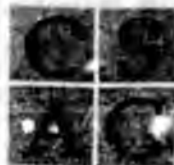


ALASKA LEGISLATURE COMMITTEE FILES, 2003-2008 86/2

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- Individual portfolio analysis, including tiered risk assessments
- In-depth analyses of specific portfolio companies
- Overview of developments in the field of global security risk at the national, state and local levels
- Preparation of "watch lists" of higher risk portfolio companies
- Access to senior CSAG executives
- Briefings for senior staff and boards of directors
- Evaluation of asset manager performance on global security risk

**Asset Managers Service Package**

- Individual portfolio analyses, including compliance considerations
- In-depth analyses of specific portfolio companies
- Guidance concerning communications with portfolio companies  
Pre-investment selection services
- Assistance in responding to plan sponsor or state legislative inquiries
- Access to senior CSAG executives
- Training-oriented work shops on global security risk assessment

**Corporate Service Package**

- Analyses of downside corporate risks
- Preparation of corporate governance and communication strategies
- Industry peer risk evaluations
- Access to senior CSAG executives
- Conduct a work shop on global security risk
- Briefings for senior management and boards of directors

**Foundation Service Package**

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- Preparation of "watch lists" on higher risk portfolio companies
- Formulation of options for investment policy adjustment
- Assistance in communication with portfolio companies on global security risk
- Access to senior CSAG executives
- Preparation of a report on developments in the field of global

security risk

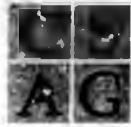
- Briefings for senior staff and boards of trustees

### **Government Agencies Service Package**

- Preparation of a report on developments in the field of global security risk
- Analyses of government and regulatory responses to global security risk
- Industry-specific risk evaluations
- Access to CSAG executives
- Briefings for mid- and high-level officials

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## **Global Security Risk Monitor Product Overview**

This Overview is designed to help subscribers optimize their use of the *Global Security Risk Monitor (Monitor)*. The *Introduction* discusses the risk-related issues addressed in the *Monitor* and the professional research capabilities of Conflict Securities Advisory Group, Inc. (CSAG). The *Research Methodology* outlines the product deliverables, reviews CSAG's research and verification process and summarizes the specific elements of individual company profiles.

### ***Introduction***

The *Global Security Risk Monitor* is a user-friendly online service that identifies and profiles some 450 U.S. and foreign publicly traded companies with business ties to U.S. State Department-designated terrorist-sponsoring states or that have been publicly associated with the proliferation of weapons of mass destruction and ballistic missiles. The *Monitor* is designed to assist investors in identifying and evaluating "global security risk" associated with such business activities. Global security risk is defined as the risk to share value and corporate reputation stemming from a company's business activities in or with U.S. State Department-designated terrorist-sponsoring states or links to the proliferation of weapons of mass destruction and ballistic missiles.

In May 2001, the U.S. Securities and Exchange Commission (SEC) determined, "The fact that a foreign company is doing material business with a country, government, or entity on [the U.S. Treasury Department's Office of Foreign Assets Control] sanctions list is, in the SEC staff's view, substantially likely to be significant to a reasonable investor's decision about whether to invest in that company." Since that determination, investors have primarily focused on those companies with business activities in or with terrorist-sponsoring states. Conflict Securities Advisory Group, Inc. was formed to provide independent, expert research in this new field of risk.

Pursuant to Congressional legislation, the SEC has since opened an Office of Global Security Risk to ensure that companies under its jurisdiction properly disclose material information related to their activities in terrorist-sponsoring states. It should be made clear that, as part of its mandate, the Office of Global Security Risk will not provide a list of companies operating in Sudan or other terrorist-sponsoring states. SEC Deputy Director of Corporation Finance Shelley Parratt spoke to this matter in a letter to the Pennsylvania State Employees Retirement System in July 2004, stating "It would be inappropriate for [the SEC] to publish a list of companies whose securities might be deemed to involve terrorist-related investment risk without publishing corresponding lists for every other possible type of investment risk."

The methodological differences between the SEC's process and an independent research provider such as CSAG helps explain why investors cannot reasonably expect the Office of Global Security Risk to provide the type of data included in the *Monitor*. Unlike the SEC, CSAG identifies publicly traded

companies that have *any* type of business tie to terrorist-sponsoring states – no matter how large or small – thereby allowing the investor to differentiate among such companies and assess the risk. CSAG takes this approach, in part, based on the fact that investors concerned about the social relevance of holding companies with such business ties employ a different materiality threshold than the SEC.

SEC jurisdiction is relevant to this matter as well. The *Monitor* identified some 450 publicly traded companies that have business ties to terrorist-sponsoring states. Of those, the SEC only has jurisdiction over some 175 according to the SEC's List of Foreign Companies Reporting and Registering with the SEC. Were the SEC to determine that all of these companies had *material* ties to terrorist-sponsoring states, investors would still have to await disclosure by the companies and sift through corporate filings to develop an incomplete list of *less than half of those companies covered by the Monitor*.

## **Risk**

Investors and corporations understand that company financials and share value can be affected by public perception of corporate activity and shareholder activism. For instance, in 1998, Nike Corp. suffered losses for the first time in more than a decade in the wake of allegations that the firm employed sweatshop labor in Asia. Industry experts also cite Talisman Energy of Canada as an example; the company experienced a "Sudan discount" to its share price for some three years due to divestment pressures arising from its operations in Sudan. Today, investors are increasingly under pressure to initiate corporate governance measures or divest all together for humanitarian reasons from companies operating in Sudan and, in some cases, any terrorist-sponsoring country.

While some investors choose to view companies profiled in the *Monitor* through a "socially-responsible" lens, others recognize that corporate ties to these countries introduce financial risks as well. For example, sanctions or other policies directed against a government regarded as a state sponsor of terrorism or violator of human rights can affect a firm's operations and performance, particularly if the firm in question has made significant investments in that country. Other risk factors include negative publicity, lawsuits and the possible diversion by the terrorist-sponsoring government of sensitive equipment and technology to non-civilian projects.

## **Professional Expertise**

It is CSAG's view that when taking steps that can affect the fund performance, decision-makers benefit from data compiled -- and analysis provided -- by a professional research staff that specializes in global security risk. This is especially true given the dynamic nature of the information (i.e., companies are routinely developing or concluding business ties to terrorist-sponsoring states).

The *Global Security Risk Monitor* is designed to provide impartial, documented research that can be used by the investor in any way deemed appropriate (i.e., to assess risk, serve as a screen, inform corporate governance initiatives, etc.) The *Monitor* provides extensive documentation and analysis

that allows the investor to differentiate among companies based on the scope of their activities in these countries or the type of each firm's business tie. In the case of each company profiled, serious care is given to ensuring that the data is accurate, unbiased and includes as much relevant information as available. The methodology underpinning the *Monitor* research process and its updates is explained in greater detail below.

## **Research Methodology**

CSAG's approach to collecting and presenting information in the *Global Security Risk Monitor* is based on two assumptions: first, that subscribers will benefit from a distilled, summarized presentation of relevant information with citations of specific reference materials; and second, that consistency in the procedures for compiling, validating and presenting information on each company is essential for providing usable data. The basic elements of the *Monitor* are as follows:

- **Company Lists and Company Profiles** are updated quarterly, with real-time additions or modifications as new data becomes available. There are two different types of company profiles included in the *Monitor*. The *Country Link* profiles provide information about company operations in terrorist-sponsoring states; the *Proliferation Link* profiles summarize publicly available information that links companies to proliferation issues.
- **Country Overviews**, updated annually, provide detailed, security-related background information on each of the six countries covered in the product—Iran, Libya, North Korea, Sudan, Syria and Saddam Hussein's Iraq.
- **Sectoral Analyses**, updated annually, review five broad economic sectors from a security perspective. Those companies profiled whose activities fall into one of the sectors covered may have more pronounced risk associated with their links to the countries noted above. The sectors covered are energy, finance, manufacturing, metals/mining, and telecommunications.
- **Proliferation and Terrorism Overviews**, updated annually, provide background information on these security issues.
- **Search Functions**, that allow the user to sort companies by type of business tie, keyword, country of domicile and company name.
- **Glossary** of key terms.

## **Company Lists and Company Profiles**

CSAG consults numerous subscription databases and business intelligence sources to establish its database of companies operating in the countries tracked in the *Monitor*. CSAG also obtains information on business links to terrorist-sponsoring states through corporate filings, international newspapers, trade publications, magazines and directories. Whenever possible, CSAG relies on materials produced by companies themselves, including annual reports, filings with the Securities and Exchange Commission and corporate websites.

CSAG compiles information from these sources and then sends questionnaires to each of the parent companies profiled in the *Monitor*. Each questionnaire includes a draft profile of the company's ties to countries tracked in the *Monitor* and requests that the company verify or correct its profile. CSAG continues to employ an active corporate communications process to ensure the accuracy of the data.

CSAG developed the list of companies with reported links to proliferation-related concerns by consulting various databases and U.S. government lists of companies that have been cited for activities related to proliferation concerns. Only companies for which CSAG could find credible, public reports of such links are included in the *Proliferation Link* profiles.

The *Monitor* is likewise subject to a multi-tiered update and verification process. CSAG employs a team of researchers tasked with updating the content of those companies profiled in the product and are continuously seeking to identify U.S. and foreign publicly traded companies that establish a business tie to the countries tracked. When new entrants are identified, they undergo a thorough examination and research process, culminating with the corporate communication process described above. As part of the research process, CSAG has reviewed over 13,000 publicly traded companies worldwide.

References regarding the accuracy and utility of CSAG's products and services are available upon request.

## Country Link

*Country Link* profiles assess companies that have business ties to terrorist-sponsoring states. Profiles are divided into several sections:

- The **Company Description** provides corporate contact information, website and stock identifiers (when available), as well as an overview of the firm.
- The **Tie Matrix** identifies the type of business tie each company has to each terrorist-sponsoring state in which it is active. Tie classifications include:
  1. **Equity Tie:** Company or subsidiary has employees or facilities physically located in the country.
  2. **Non-Equity Tie:** Company or subsidiary sells products or services to the country, purchases goods or raw materials from the country, or has distribution agreements with another party for the company's products in the country.
  3. **Other Tie:** Company ties that do not appear to meet the definition of either an equity or non-equity tie. One example would be a company that sponsored a booth at a trade show in the country.
- The **Overview of Operations** details the company's operations or sales in countries tracked by the *Monitor*. This section may include information about company subsidiaries or affiliates,

contracts, licensing, distribution or franchising agreements, and employees in terrorist-sponsoring states. Unless otherwise noted, company operations are assumed to be legal.

- The **Revenue and Financials** section provides data on the financial implications for the company and, when available, for the governments related to its operations in countries tracked by the *Monitor*.
- The **Points of Interest** section provides any information of note that defies other categorization. Information in this section may include references to sanctions against the company related to its operations in terrorist-sponsoring states, or corporate program or publicity that merit note.
- The **CSAG Security Analysis** provides a brief global security risk assessment of each company's operations in the countries tracked in the product. Risk assessments are based on the scope and type of the company's involvement in — or links to — each country. The company's operations may be designated as having risk, risk compounded by the company's presence in more than one country or security-sensitive sector, no apparent risk or insufficient information to determine the company's exposure to global security risk.
- The **Company Response** section provides company data in response to CSAG's questionnaire and any comments it may provide.

## **Proliferation Link**

The *Monitor* identifies publicly traded firms that have been credibly linked to issues related to proliferation. Profiles provide a brief summary of the article and documentation. They also provide citations, when available, for additional articles linking the firm to proliferation-related concerns. Information tracked in this section includes news items related to fines for selling dual-use capable products without validated export licenses, U.S. federal investigations of possible illegal sales and the inclusion of the company on the U.S. Bureau of Export Administration's list of "foreign end users involved in proliferation activities."

## **Country Overviews**

The Country Overviews provide users an in-depth description of the political and security dimensions of each terrorist-sponsoring state. Included in each description are: 1) a brief history of the country's political situation over the past 30 years; 2) a summary of why the country has been identified by the U.S. State Department as a state-sponsor of terrorism; 3) an overview of U.S. government-documented concerns related to the country's development and proliferation of weapons of mass destruction and ballistic missiles; and 4) a brief description of U.S. foreign policy with regard to the country. The Country Overviews are designed to help subscribers understand more fully these country-specific dynamics in their use of the research provided in the *Global Security Risk Monitor*.

## **Sectoral Analyses**

CSAG assesses the security-related concerns specific to the energy, finance, manufacturing, metals/mining and telecommunications sectors of each terrorist-sponsoring state. Analyses regarding prospective large-scale revenue flows to these governments that may be used in a discretionary manner as well as examples of projects, facilities and items that may introduce "dual use" concerns (i.e., items that have both civilian and military applications) are included in this section.

Companies whose activities in these countries are associated with these sectors may have more pronounced risk. To assist subscribers in understanding more completely the company profiles and the CSAG risk assessment, the Sectoral Analyses provide details regarding the role of these sectors in the countries tracked by the *Monitor* and the potential security-related implications of sectoral activities. Please note that not all corporate activity in these countries is classifiable under the sectors covered in the *Monitor*.

## **Terrorism and Proliferation Overviews**

CSAG provides a brief summary of concerns related to terrorism and the proliferation of weapons of mass destruction and ballistic missile delivery systems. The *Monitor* provides a definition of these two issues, reviews international and U.S. institutions and agreements that seek to address terrorism and proliferation information, including U.S. and international sanctions regimes and examples of corporate activity as it relates to these issues.

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## **Client Feedback**

CSAG is interested in your comments and suggestions. The *Monitor* is the first database and research tool of its kind, and we hope to increase its long-term utility with your input.

## **Staff**

Research for the *Global Security Risk Monitor* is managed exclusively by CSAG. CSAG staff overseeing the product are Adam Pender and Andrew Davenport. Either can be reached at 202-223-8034.

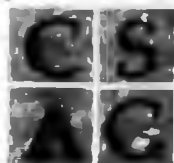
## **Disclaimer**

*Disclaimer: All company activities reported in the Monitor are assumed to be legal, unless otherwise noted. The Monitor does not make any value judgments concerning the presence and operations of those companies or presume any wrongdoing on the part of the companies profiled.*

*All company specific information was culled from publicly available sources or from the company itself. All companies profiled in the Monitor have been provided their profile and an opportunity to comment prior to publication. Company statements or responses, when provided, have been included in the product.*

*The Monitor was prepared for educational purposes, not to advocate any public policy position or to suggest any specific action or investment policy on the part of shareholders.*

*The Monitor is exclusively offered by Conflict Securities Advisory Group, Inc., a Washington-based risk management firm that provides specialized research and assessment services in the field of global security risk. While CSAG exercised due care in compiling information in this product, from time to time errors may occur. CSAG makes no warranty, express or implied, as to the accuracy, completeness or usefulness of this information, nor does it assume any liability with respect to the consequences of the use of this information. Changing circumstances may cause the information to be obsolete.*



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Hon. Roger W. Robinson, Jr.

Mr. Adam Pener

Mr. Andrew K. Davenport

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**Hon. Roger W. Robinson, Jr.**   
President and Chief Executive Officer

Roger Robinson brings to CSAG twenty-five years of experience in identifying and analyzing international security risks. He was formerly Senior Director of International Economic Affairs at the National Security Council and Executive Secretary of the Cabinet-level Senior Inter-Governmental Group for International Economic Policy (SIG-IEP). Prior to his government service, Mr. Robinson was a Vice President in the International Department of the Chase Manhattan Bank with responsibilities for Eastern and Central Europe, Yugoslavia and the former Soviet Union. For the past eighteen years, Mr. Robinson has served as President and CEO of RWR Inc., a Washington-based consulting firm. Over this period, RWR Inc. has advised some of the world's leading energy, defense, aerospace, telecommunications and financial firms.

From 1996-2002, Mr. Robinson served as Chairman of the William J. Casey Institute of the Center for Security Policy, the nation's foremost public policy organization in the burgeoning field of the security dimensions of the global capital markets. Over the course of his association with the Institute, it produced hundreds of publications in the field of global security risk. It also successfully accomplished its *Capital Markets Transparency Initiative*, which sought to expand federal disclosure requirements for foreign companies seeking to raise funds in the U.S. capital markets.

Mr. Robinson presently serves as Chairman of the Congressionally-mandated U.S.-China Security Review Commission. He has frequently testified before Senate and House Committees and has made numerous media appearances, including all of the major broadcast networks, CNN and Fox. Mr. Robinson earned his MA in International Affairs from the Elliott School of the George Washington University and a BA from Duke University.

**Mr. Adam M. Pener**   
Chief Operating Officer

Adam Pener has been at the leading edge of the nexus between international security and the capital markets since 1997. In 2001, Mr. Pener authored a comprehensive report on the security dimensions of China's presence in the U.S. capital markets for the Congressional U.S.-China Security Review Commission (available at [www.uscc.gov](http://www.uscc.gov)). He served as Senior Analyst for the William J. Casey Institute from 1997-2002 and divided his duties with

Written Testimony of Adam M. Perner, Chief Operating Officer  
Conflict Securities Advisory Group, Inc.  
Submitted to the Alaska House State Affairs Committee  
February 27, 2006

**Introduction**

Thank you Mr. Chairman and Members of the Committee for this opportunity to submit written testimony regarding Alaska House Concurrent Resolution 27. By way of background, I am Chief Operating Officer of Conflict Securities Advisory Group, Inc. (CSAG), a Washington, DC-based independent research provider that specializes in identifying and assessing U.S. and foreign publicly traded companies that have business activities in or with Iran, North Korea, Sudan, Syria and Libya.

To my knowledge, CSAG's *Global Security Risk Monitor* (Monitor) online database of public companies with such business ties is the only one of its kind. Our clients include the U.S. Securities and Exchange Commission (SEC), the Department of Defense and the Department of State as well as dozens of asset management firms, mutual fund providers and universities. CSAG also provides products and services to prominent public pension systems including the New York City Employees Retirement Systems, the Missouri State Employees Retirement System and the Office of Arizona State Treasurer David Petersen.

Over the past year, investors and state legislatures have increasingly sought to restrict investment in companies with business ties to Sudan and/or other terrorist-sponsoring states. As a for-profit, impartial research firm, CSAG neither supports nor opposes HCR 27. Likewise, our firm, as a matter of corporate policy, does not take a position on how our data should be used by clients.

Rather, CSAG seeks to provide impartial information that allows investors and their asset managers to conduct expanded due diligence in the area of global security risk.<sup>1</sup> Recently, CSAG's research has also been employed by asset management firms to comply with new investment restrictions and by some firms that are offering "Terror-free" or "Sudan-free" products (i.e., mutual funds, indices or similar investment options that screen-out companies with business ties to Sudan or other terrorist-sponsoring states).

I have submitted to the Committee a detailed Product Overview that provides additional background on our firm and describes our research methodology and verification processes. More information on CSAG as well as a "Free Trial" of our database can be found at [www.conflictsecurities.com](http://www.conflictsecurities.com).

**Testimony Content**

CSAG believes that its extensive experience in helping pension systems and asset management firms comply with legislative requirements, investment mandates and corporate governance

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<sup>1</sup> CSAG was established following a determination by the SEC in May 2001 that corporate ties to U.S.-sanctioned countries, including U.S. State Department-designated terrorist-sponsoring states, can be material to investors. This new risk category was termed "global security risk," or the risk to a company's share value and corporate reputation stemming from its business activities in or with terrorist-sponsoring states. The majority of CSAG's clients use the data to identify portfolio companies that may be exposed to global security risk and to help assess such risks.

initiatives will assist the Committee in its deliberations with respect to HCR 27. At the request of the Committee, I am pleased to offer testimony that will:

1. Address the issue of whether data is available that would allow the Alaska Permanent Fund (APF) and Alaska State Pension Investment Board (ASPIB) to comply with HCR 27;
2. Provide a cost estimate for implementation; and
3. Address the issue of "divestment costs" associated with liquidating the stock of companies with ties to Iran or North Korea.

Before continuing, I should note that CSAG's experiences in this field have produced results that differ from those foreshadowed by Ms. Achee during her testimony of February 23. I hope that Ms. Achee, the Committee and the Alaska Permanent Fund will accept my apology if any of these differences were a result of my inability to articulate properly the capabilities of our firm and CSAG's pricing models during my call with her of Wednesday, February 21.

### List of Companies

In the event that APF and ASPIB are required to screen out companies with business activities in Iran or North Korea, the question has been raised as to how the Funds could identify the relevant companies.

I respectfully disagree with APF's suggestion that the Federal Government via the SEC -- rather than private research firms -- should be looked to as a source to identify and publish a list of companies that have business ties to terrorist-sponsoring states. Both the SEC and the Treasury Department -- in public statements and in letters to public pension systems -- have made clear that the government cannot, and will not, provide a list of companies that do business in terrorist-sponsoring states. There are several reasons why the government has been firm on this matter.

### *Legality of Operations*

The USG can (and does) provide investors with a "do not buy" list of companies that have engaged in illegal terrorism-related or sanctions-violating activity. The vast majority of companies with ties to Iran, North Korea and other terrorist-sponsoring states, however, maintain such operations legally (i.e., these companies are not in violation of U.S. sanctions and are not directly supporting terrorism). The USG has made clear that it will not provide a list of companies that *legally* do business in terrorist-sponsoring states.

This is likely why U.S. Treasury Spokesman Taylor Griffen, in response to pension system requests for a government-identified list of these companies, stated in an Associated Press article dated July 8, 2003: "[Divesting from companies with ties to terrorist-sponsoring states is] not a question of regulation, but of policy, and we would leave that for the states to decide." (See Attachment I.)

### *Global Security Risk*

While pension systems can legally invest in these companies, such investments can still introduce risk to the investor. In that connection, it is the job of the federal government to ensure that companies disclose via public filings all activities that could negatively affect share value.

It is not the responsibility of the federal government, however, to provide a list of companies that could be risky investments. SEC Deputy Director Shelley Parratt said as much in a letter to Nick Maiale, Chairman of the Pennsylvania State Employee's Retirement System (PSERS) dated July 28, 2004 (see Attachment 2):

"It would be inappropriate for [the SEC] to publish a list of companies whose securities might be deemed to involve terrorism-related investment risk without publishing corresponding lists for every other possible type of investment risk."

### *Values-Based Investing*

Interestingly, HCR 27 speaks to neither the legality of these investments nor the risk factors they involve. Rather, it reflects the view of a growing number of individual investors and public pension systems that a company's willing to do business in terrorist sponsoring states runs counter to their personal values or beliefs, or those of their constituencies. This is commonly referred to as "values-based investing." For example, investors routinely avoid investing in companies that promote tobacco, gambling, firearms or alcohol – *not because it is illegal or risky to invest in such companies*, but because the investor is seeking to align their personal values with their financial goals.

This "values-based investing" issue lies at the heart of HCR 27. Apparently, some state legislators believe that Alaskans simply do not want to invest in companies with business ties to Iran or North Korea.

It is important to note that this position is perfectly within the rights of the investor or, in this case, the state of Alaska. **In no case, however, will the USG tell an investor whether or not to establish such "values-based" investment restrictions or provide a list of such companies.** In fact, Ms. Parratt goes on to say in the aforementioned letter: "It would also be inappropriate for [the SEC] to engage in any activity that might be construed as providing investment advice."

As Mr. Griffen and Ms. Parratt make clear, it is not possible for the government to provide a list of companies that have legal ties to terrorist-sponsoring states. The USG is likewise restricted from providing a list of companies that may be exposed to global security risk. This might help explain why the SEC looks, in large part, to CSAG to make these identifications through a subscription to our *Monitor* product.

### *Availability of "Divestment Lists"*

Finally, the APF has correctly pointed out that companies such as CSAG do not promote the use of their data as a "divestment list." This is due to the fact that our database is designed to be a comprehensive research tool that includes information on a variety of corporate ties to Iran and North Korea. *Whether the specific business activities of companies in terrorist-sponsoring states meet Alaska's threshold for divestment should be up to the State and its Funds to determine, not CSAG or the federal government.*

Accordingly, subscribers are welcome to interpret CSAG's data in any way they deem indicated – including to develop screens or implement a divestment policy.

## Cost of Data

Naturally, there would be modest costs involved should APF and ASPIB decide to identify or screen out companies that do business in Iran and North Korea.

- A standard subscription to CSAG's full *Monitor* database and research is \$15,000 per year. This option is widely used by clients who wish to access our comprehensive data on the activities of publicly traded companies in Iran, North Korea, Sudan, Syria and Libya.
- If the Committee (or APF and ASPIB) wanted to determine how many APF and ASPIB holdings would be affected by the HCR 27 restrictions, CSAG could provide a "Certification Report," including sample company profiles, for \$3,500.

## *HCR 27 Implementation*

In the event that APF and ASPIB establish investment restrictions on companies with business ties to Iran and/or North Korea, implementation could be approached in several ways. For example, the Funds could allow their asset managers to comply independently with state law by purchasing their choice of research products – which is the process being employed by Illinois.

Based on our understanding of the concerns raised by APF and ASPIB regarding how an Iran and North Korea screen would be configured, CSAG believes a more "top-down" approach of the type described below might yield a higher level of uniformity in the data used by asset managers.

Specifically, CSAG could work with APF and ASPIB to configure a custom screen for Iran- and North Korea-linked companies that would involve the formulation and maintenance of a "do not buy" list based on CSAG's research. This single, statewide list would then be available to asset managers for the consistent application of state law. For example:

- The Funds would review CSAG's data and establish a "do not buy" list of companies that meets Alaska's specifications. (Please note that such a list could exclude companies that, for example, only have humanitarian ties to these countries.)
- Determine an agreed, discounted price point for CSAG to provide the Alaska custom screen to all APF and ASPIB asset managers, including regular updates of the list.
- Managers that are already subscribers to CSAG's *Monitor* product would be able to employ the Alaska screen at no cost.
- The Alaska Funds would have access to the custom screen at no cost to assist the process of overseeing their managers.

While I cannot provide a firm price point for such a custom screen at this time, I am confident that CSAG would be able to execute this proposed process for substantially less than the APF-estimated price-tag of between \$207,000 and \$585,000 annually.

Specifically, I would estimate that CSAG's custom screen proposal for Alaska would be priced between \$2,000-\$3,000 annually, per manager. The exact price point would depend on the number of asset management firms that would require ongoing access to the custom screen.

Accordingly, I would anticipate the entire set of deliverables described in this implementation scenario to cost Alaska's asset managers *cumulatively less than \$100,000* per year. In the event that Alaska's asset managers were required to implement a screen, the cost estimates I have provided would likely represent less than one quarter of one percent of the APF's FY06 budget for asset managers (i.e., based on APF's estimates, asset managers will collectively receive \$46.6 million from Alaska in 2006, while requiring a budget of less than \$100,000 to comply with HCR 27).

Finally, the APF stated in its testimony that the costs associated with this type of screen will be passed back from the asset manager to the pension funds. Again, this has not been our experience. For example, in the case of Sudan divestment legislation in Oregon and Illinois, it was stipulated that the costs of setting up screens were to be borne by the asset manager. In working with Illinois asset managers, I have received no indication that these firms planned to charge their pension system clients for minor expenses incurred in establishing a Sudan screen.

### The Performance Costs of Divestment

On Sunday, February 19, the *New York Times* ran an article on the Illinois divestment legislation (see Attachment 3). Despite the fact that the legislation affects some 10 public pension systems with more than \$120 billion in assets under management – as well as over 150 asset managers ranging in size from small, local firms to some of the biggest names in the business – the *Times* article made no mention of any financial losses incurred by Illinois pension systems as a result of this policy.

Practical experience also casts doubt with respect to anticipated losses stemming from divestment of a relatively small number of companies. Specifically, CSAG's data is licensed by The Roosevelt Investment Group (Roosevelt), a New York-based asset management firm. Roosevelt uses CSAG's database to exclude from of its Bull Moose Growth Fund all companies identified by CSAG as having business ties to any terrorist-sponsoring states. Not only has Roosevelt been able to avoid "divestment losses" since employing its screen, but it has outperformed the S&P 500 by a substantial margin.

Oregon likewise does not expect to lose money in employing a Sudan screen for its public funds. According to a recent Socialfunds.com article (see Attachment 4),

"Oregon law goes a step further than Illinois law, requiring institutional investors' asset managers to prevent negative financial impacts on the portfolio when divesting. 'What I'm hearing from [asset management firms], though, is that this is not very difficult --they've been able to reposition their portfolios without a lot of adverse impact,' Ms. Ivy [of Institutional Shareholder Services] concluded."

Naturally, there may be performance or transitional losses associated with disinvestments from companies with business activities in Iran or North Korea. However, practical experiences in Illinois, Oregon and elsewhere suggest that it is highly unlikely that Alaska would lose between \$19 and \$39 million – as predicted in APF's testimony – were they to implement this type of screen.

## Conclusion

In closing, I would note that Alaska is not alone in considering this issue. In addition to three states that have already enacted legislation that establishes investment restrictions on companies with business activities in Sudan, published reports indicate that as many as five states are expected to introduce divestment legislation this spring targeting companies that do business in any terrorist-sponsoring state.

Should Alaska choose to restrict APF and ASPIB from investing in companies with ties to Iran and North Korea, it is my view that CSAG could help the Funds develop and implement such a screen on a cost-effective and relatively non-disruptive basis.

I would be pleased to discuss this matter further with the Committee and/or Alaska's Funds. Also, I would recommend that the Committee look to the following experts and public officials for additional information on those matters raised in my testimony:

1. **New York City Comptroller William Thompson:** Comptroller Thompson can be reached via Pat Doherty, 212-669-2651 or [pdoherty@comptroller.nyc.gov](mailto:pdoherty@comptroller.nyc.gov).
2. **Missouri Treasurer Sarah Steelman:** Treasurer Steelman can be reached through Mark Mathers (see below).
3. **Nell Minow:** Expert on Corporate Governance and President of The Corporate Library, [nminow@thecorporatelibrary.com](mailto:nminow@thecorporatelibrary.com).
4. **Mark Mathers:** Director of Investments for the State of Missouri and Board Member for the Missouri Investment Trust, 573-751-8530 or [Mark.Mathers@treasurer.mo.gov](mailto:Mark.Mathers@treasurer.mo.gov).
5. **Steven Schoenfeld\*\*:** Chief Investment Strategist for Quantitative Investments for Northern Trust, (212) 339-7102 or [ss146@ntrs.com](mailto:ss146@ntrs.com).
6. **Tony Malaj:** Chief of Staff for Arizona Treasurer David Petersen, 602-604-7809 or [tonym@treasury.state.az.us](mailto:tonym@treasury.state.az.us).

\*\* As noted in the attached *New York Times* article, Mr. Schoenfeld is responsible for implementing six "Sudan-Free" indices for Northern Trust that already have over \$8 billion in assets under management – mainly from Illinois pension systems that are required to divest from companies operating in Sudan. CSAG has spoken with Mr. Schoenfeld and received no indication that Northern Trust's "Sudan-Free" indices are experiencing sub-standard performance.

Mr. Schoenfeld is one of the country's leading thinkers on indexed funds and should be able to shed additional light on whether divestment and/or the development of "Iran- and North Korea-Free" indices would have the negative financial impact predicted by the APF in its testimony.

## Attachment 1

### **Pa. to Explore Whether It Invests in Terror**

**By Marc Levy**

*The Associated Press State & Local Wire*

**Harrisburg, PA**

**July 8, 2003**

With lawmakers worried that some state assets might indirectly be financing terrorism, legislative staffers plan to explore a contract with a Washington, D.C., firm that identifies publicly held companies that have business with countries identified by the federal government as sponsors of terrorism.

Ultimately, the staff of the Legislative Budget and Finance Committee hopes to compare the state's investments - including approximately \$70 billion invested by Pennsylvania's treasury and the two largest public pension systems - with the firm's database and present the findings to the General Assembly.

The effort comes despite the misgivings of state Treasurer Barbara Hafer, who maintains that the federal government is best equipped to offer such guidance.

Neither the Securities and Exchange Commission nor the U.S. Treasury, however, is prepared to do so, spokesmen said.

"It's not a question of regulation, but of policy, and we would leave that for states to decide," U.S. Treasury spokesman Taylor Griffin said. And as long as companies disclose to shareholders activities that could affect their financial health, the SEC is satisfied, said spokesman Herb Perone.

It's not clear what the General Assembly would do with the information.

In late 2001, the House passed a bill to bar state assets from being invested in any corporation that does business in countries identified by the United States as sponsors of terrorism. The bill died in the Senate.

Still, Pennsylvania is not alone in its introspection. State treasurers in Arizona and Nebraska are pushing for a similar review of their state's assets.

In Pennsylvania, a House resolution that passed unanimously May 7 directed the review, saying corporations could help fuel terrorists' sponsoring countries and such a connection could also threaten the value of an investment in those corporations.

Last week, the Legislative Budget and Finance Committee, which serves both chambers

of the Legislature, authorized its staff to look into a contract with Conflict Securities Advisory Group. The firm is believed to be the only one with a database of companies that do business with countries - Iran, Iraq, Libya, North Korea, Sudan, and Syria - identified by the U.S. State Department as state sponsors of terrorism that have weapons of mass destruction programs.

American companies are barred by federal law from doing business with or in those countries, but their foreign subsidiaries can be exempt in some cases, and foreign companies are not subject to the U.S. laws.

Conflict Securities Advisory Group drew up the database with the Investor Responsibility Research Center, a for-profit firm also based in Washington. The database identifies about 375 firms - about 35 of which are American - that have business dealings in or with the sanctioned countries, said Adam Pender, the chief operating officer for Conflict Securities.

Those companies include such large and widely traded firms as Exxon Mobil Corp., General Electric Co., ChevronTexaco Corp., and Halliburton Co., according to the research center.

Pender noted that some of the companies on the list sell consumer goods and have a relatively small amount of money invested, while other companies may have large-scale projects that introduce "dual-use technologies" that send millions of dollars to those governments.

Iraq is still on the list, although most sanctions against the country have been dropped since American-led forces ousted Iraqi President Saddam Hussein.

## Attachment 3

### **How States Are Aiming to Keep Dollars Out of Sudan**

**By Carla Fried**  
*The New York Times*

**February 19, 2006**

THE latest American initiatives to put pressure on the government of Sudan are centered many thousands of miles away from its capital, Khartoum. A handful of state legislatures in the United States have passed laws that bar their public pension funds from investing in companies with ties to Sudan, which has been accused of extensive human rights abuses in a long-running civil war.

The United States State Department has also labeled Sudan a state sponsor of terrorism.

While a 1997 executive order by President Bill Clinton bars American companies from conducting business in Sudan — except for a few technical exceptions, like a humanitarian mission — foreign businesses do not fall under that restriction. But in this age of global asset allocation, it is not uncommon for investors in the United States to have a link to Sudan through foreign stock holdings. Such foreign holdings would be the most affected by the recent state legislation.

The New Jersey Legislature passed a law in August that requires its public pension funds to divest itself of holdings in businesses that have equity stakes, including investments, facilities or employees, in Sudan. A similar law went into effect in Illinois last month, requiring its pension funds to be fully divested of any company with a Sudan tie by July. Oregon has also passed such a law for its public investment funds, while Louisiana has approved legislation that permits, but does not require, its public funds to shed investments linked to Sudan.

In December, the biggest public pension hammer, the California Public Employees Retirement Plan, or Calpers, took aim at three companies in which it has invested. The Calpers board voted 9 to 2 to call for the companies, ABB, Alcatel and Siemens, to cease business operations in Sudan.

A Calpers spokesman said that "our board believes that an engagement process with the companies is the best avenue if we are going to effect some change." Last week, Calpers reported that the three companies would not sever their Sudan ties; Calpers is considering its next step.

Phil Angelides, the California state treasurer and a Calpers board member, says he is prepared to pursue divestment if those companies do not pull out of Sudan. "The U.S.

government has told Americans to have no business in Sudan," he said, "so why should California invest in companies that are supporting the regime?"

Spokesmen for the three companies say that leaving Sudan would do more harm than good. Ron Popper, a spokesman for ABB, for example, said the company had sought comment from many individuals and organizations within Sudan. "We have unanimously heard one message: do not withdraw because the country needs international investment," Mr. Popper said.

The states have left it to their money managers to figure out who belongs on the divestment list. Money managers have relied on private research firms that scour publicly available documents, trade journals and news accounts, and that conduct independent research to compile databases of companies involved in Sudan. Among the firms providing this research are KLD Research and Analytics, Institutional Shareholder Services and the Conflict Securities Advisory Group.

For example, KLD started its Sudan Compliance Service last November. Noel Friedman, managing director of KLD, said that 124 companies were currently on its Sudan list, including eight American businesses that he declined to name.

The lists, however, are far from definitive. Some companies that appear on them declare that they do no business in Sudan, and for at least one, 3M, the involvement was described by the company as aiding the United Nations. A spokesman at 3M said the United Nations bought 3M's Scotchshield Ultra Safety and Security Film, used to protect windows.

Steven Schoenfeld, chief investment strategist for quantitative investments at Northern Trust, is responsible for determining the companies his firm will exclude from the six "Sudan free" index funds it has started for institutional clients, including the State of Illinois. More than \$8 billion of Illinois pension money has already moved into the six portfolios.

Mr. Schoenfeld's goal is to track closely the performance of traditional indexes even after he has removed stocks with ties to Sudan. He says his fund that tracks the MSCI EAFE index, a popular benchmark for developed countries across Europe and Asia, as well as Australia, will pose his biggest challenge. He said that more than 25 companies, representing more than 9 percent of the index's market capitalization, could be booted from the fund.

Among the big names that could be dropped from the portfolio are Royal Dutch Shell, which represents more than 2 percent of the EAFE index; Total, the French energy giant, about 1.5 percent; Toyota, about 1 percent; and Siemens of Germany and Ericsson of Sweden, both about 0.5 percent.

The six Northern Trust funds are to complete Sudan divestment by the summer.

While Sudan has been in a two-decades-long civil war that has claimed thousands of lives through fighting and famine, the state initiatives picked up momentum after Colin L. Powell, then the secretary of state, said in late 2004 that the United States viewed violence in the Darfur region of western Sudan as genocide.

Agreement over the gravity of the situation in Sudan has not meant a united push for divestiture. It stalled in the Arizona Legislature and didn't get far in Maryland. William C. Thompson, the New York City comptroller, has identified 24 stocks in the city pension system's holdings in which the parent company has some operations in Sudan. A spokesman for Mr. Thompson said his preferred course — echoing the stance of Calpers and others — was discussion with those companies, not divestment.

Mutual funds that call themselves socially responsible routinely screen out companies that they regard as having poor records on humanitarian issues and thus have generally avoided investing in companies with Sudan ties. But Julie Gorte, director of social research at Calvert Investments, which specializes in socially responsible funds, says she can still appreciate the complexity of the issue.

"You have to ask yourself what your goal is with divestment," she said. "What's there if the government falls? Is there a government there that will take over and be better? If the companies that pull out provide money, goods and services, is there an understanding that will make the people poorer in the short run?"

Before the states' recent push, there were other moves to exert pressure. In 2002, Talisman Energy of Canada decided to end its Sudan investment after American investors steeply discounted its stock. In 2000, many college endowments and public pension funds, including Calpers, did not participate in the initial public offering of PetroChina, a subsidiary of the China National Petroleum Company, because of PetroChina's involvement in oil extraction from Sudan.

THE nation's largest mutual fund companies have remained on the sidelines so far. A spokesman for Vanguard said it was "taking an 'analyze and see' approach before making any broad policy changes to either our internally or externally managed funds," while a spokesman for Fidelity said the Sudan issue was not currently a concern.

The \$9 million Bull Moose Growth fund, which calls itself a "terror free" fund, is an exception. The investment manager relies on a database, maintained by the Conflict Securities Advisory Group, that tracks public companies with business ties to countries designated as state sponsors of terrorism; about 450 companies are listed in Conflict Securities' global security risk monitor, including about 120 with ties to Sudan. The fund's gain of 12.8 percent in 2005 was more than double that of the Standard & Poor's 500-stock index.

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DIVISION OF  
CORPORATION FINANCEUNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

July 28, 2004

Nick Malala, Chairman  
Commonwealth of Pennsylvania  
State Employees' Retirement System  
30 North Third Street  
P.O. Box 1147  
Harrisburg, PA 17108-1147

Dea. Mr. Malala:

Thank you for your June 29th letter to Chairman Donaldson regarding your interest in the work of our new Office of Global Security Risk. In your letter, you express your desire to avoid investing the pension assets under your control in companies whose operations might directly or indirectly support terrorism. You indicate that you would like the SEC to publish a list of companies whose securities involve investment risk arising from terrorist-supporting activity by the companies or their affiliates and indicate that our doing so would provide a valuable service to your fund and many other public pension funds.

We certainly can appreciate your desire to invest in a manner that will both minimize the investment risk to your pensioners and promote our nation's security interests. We share your concern that American investors not unwittingly finance corporate operations they would deem to be contrary to our national interest. For this reason, the review staff of the Division of Corporation Finance makes every effort to ensure that the documents companies file with this agency include full disclosure of all material information regarding terrorism-related and other global security risk-related issues. The new Office of Global Security Risk will work closely with the review staff to make sure that our front-line reviewers are apprised of all significant developments in this area, and that we maintain the highest standard of review in considering these issues. Our mission, and our commitment, is to ensure that the investing public has all the information about public companies that a reasonable investor would consider important in deciding whether to buy or sell securities.

In light of the public trust we hold, it is crucial to the successful execution of our mission that we not engage in any activity that might give the appearance of bias or partiality in the performance of our duties. It would be inappropriate for us to publish a list of companies whose securities might be deemed to involve terrorism-related investment risk without publishing corresponding lists for every other possible type of investment risk. It also would be inappropriate for us to engage in any activity that might be construed as providing investment advice. In our view, a far more workable approach,

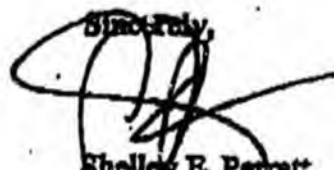
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Nick Mizala, Chairman  
Commonwealth of Pennsylvania  
State Employees' Retirement System  
Page Two

even in these times of heightened concern about terrorism-related and other global security-related investment risk, is for the staff to continue to pursue the best disclosure possible, so that the publicly available documents on file with this agency will give pension fund managers and other investors ready access to all of the information they need about any public company to make a fully informed investment decision.

I hope this information is helpful to you. I very much appreciate your letting us know your views. As we go forward in addressing global security risk related issues, it is helpful to hear from all interested persons so that we can best fulfill our mission of investor protection.

Sincerely,  
  
Shelley E. Parratt  
Deputy Director

## Attachment 4

### **KLD and ISS Offer Research Tools for Divesting from Sudanese Genocide and Terrorism**

by **Bill Baue**  
**SocialFunds.com**

**February 7, 2006**

The KLD tool focuses narrowly on the Illinois law mandating divestment from companies doing business with the Sudan; the ISS tool focuses beyond divestment and on other state sponsors of terrorism.

SocialFunds.com -- Late last month, Illinois Senate Bill 23 entered into force as the "Act to End Atrocities and Terrorism in the Sudan." The Act requires Illinois state pension funds to divest from companies doing business with the Sudan, which has been identified by the US State Department as a perpetrator of genocide and a state sponsor of terrorism.

Illinois is joined by five other states (Arizona, California, Louisiana, New Jersey, and Oregon) using public pension investments to influence global human rights abuses in Sudan and elsewhere. With five more states (New York, Maryland, North Carolina, Texas, and Vermont) headed in the same direction, the need for research on companies with ties to rogue countries such as the Sudan has suddenly arisen.

KLD Research & Analytics and Institutional Shareholder Services (ISS) have stepped up to fill this need. In fact, KLD had already developed a tool for assessing company involvement in the Sudan when it received a request for proposal (RFP) from the Associated Illinois Pension Systems, according to Randy O'Neil, KLD's managing director of global sales.

"They wanted to identify a single list of companies operating in the Sudan so that all their managers would be on the same page instead of one manager using one list and another manager using another list and having to figure out which list is more accurate," Mr. O'Neil told SocialFunds.com. "We went out to Chicago to present to the pension boards, and less than a day later they came back to us with a positive response."

The KLD Sudan Compliance Service draws on the traditional socially responsible investing (SRI) practice of exclusionary screening based on ethical criteria.

"A company is either in Sudan or it isn't: determining that is our job," said Peter Kinder, founding president of KLD. "Of course, the root cause of the screen is ethical: the Darfur and Southern Sudan genocides."

It also harkens back to the 1980s and '90s when SRI staked its moral claims and proved the efficacy of its strategies by spearheading the campaign to divest from companies doing business in apartheid South Africa, which Nelson Mandela credited with helping topple apartheid.

"The vast majority of clients are using this product strictly for divestment purposes in response to the recent law passed in Illinois, but we also have some clients that are using our tool to try to understand better what is the best strategy for addressing the gross human rights violations going on in the Sudan," said Mr. O'Neil.

While the Illinois statute that the KLD tool is tailored to stipulates divestment, other states' directives include divestment as one potential response but prioritize comprehensive reporting on corporate involvement in the Sudan as well as other state sponsors of terrorism. ISS designed its compliance tool accordingly.

"It's not just a Sudan issue--two of these states, Arizona and Louisiana, also cover the other countries with State Department sanctions for sponsoring terrorism," said Nahla Ivy director of environmental and social analytics at ISS. "Our net is cast wide in terms of trying to find out what the nature of any company ties are to these countries, which include Libya, Syria, Cuba, Iran, and North Korea."

ISS, which initiated its "sanction/terrorism" research stream in 2001, defines two levels of company involvement in these countries. The first level, labeled an "equity tie," applies to more direct involvement such as on-the-ground facilities and employees.

"If you're operating there, whether or not you're contracting directly with the government, you're providing revenues to the government, which then enhances civil unrest or even genocide," Ms. Ivy told SocialFunds.com.

The second level, called a "non-equity tie," applies to less direct involvement, such as distributing products or services through a third party or foreign subsidiary. And ISS research delves even deeper than this second level.

"If companies are distributing humanitarian products or services to a country, we separate that out to call attention to the fact that they are benefiting people in the region," Ms. Ivy told SocialFunds.com. "Illinois has an exclusion for companies doing only humanitarian activity, but if they are also doing a revenue generating activity, then those companies would appear on Illinois' forbidden entity list."

Oregon law goes a step further than Illinois law, requiring institutional investors' asset managers to prevent negative financial impacts on the portfolio when divesting.

"What I'm hearing from them, though, is that this is not very difficult--they've been able to reposition their portfolios without a lot of adverse impact," Ms. Ivy concluded.

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4 March 2001

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## The People at the Center

### Staff

**Frank J. Gaffney, Jr., President.** Mr. Gaffney formerly acted as the Assistant Secretary of Defense for International Security Policy during the Reagan Administration, following four years of service as the Deputy Assistant Secretary of Defense for Nuclear Forces and Arms Control Policy. Previously, he was a professional staff member on the Senate Armed Services Committee under the chairmanship of the late Senator John Tower, and a national security legislative aide to the late Senator Henry M. Jackson.

**Michael Reilly, Vice President for Operations** Mr. Reilly is engaged in the Center's long-term strategic planning and manages its day-to-day operations and staff. He arrived at the Center following service as a Major in the United States Marine Corps. While a Marine, Mr. Reilly held fellowships with the Center and with the office of Congressman Jerry Lewis. He is a veteran of the liberation of Iraq.

**Alex Alexiev, Vice President for Research.** During nearly 20 years as a senior analyst with the national security division of the Rand Corporation, Alexiev directed numerous research projects for the Department of Defense and other agencies. He is the author of several books and myriad monographs and articles on national security issues. His present research focuses on issues related to Islamic extremism and terrorism.

**J. Michael Waller, Ph.D., Vice President for Information Operations.** A journalist and author, Dr. Waller brings expertise in terrorism, intelligence, the former Soviet Union and the Americas. He has covered wars and political violence in five countries, has written for *Insight* magazine, *Reader's Digest*, the *Washington Times* and the *Wall Street Journal* and has served as a consultant to the U.S. Department of State. He holds a Ph.D. in international security affairs from Boston University, and is a former staff member of the United States Senate.

**Christopher Holton, Vice President for Administration, Marketing & Development.** Holton comes to the Center after serving as president and marketing director of Blanchard & Co. and editor-in-chief of the Blanchard Economic Research Unit from 1990 to 2003. As chief of the Blanchard Economic Research Unit in 2000, he conceived and commissioned the Center for Security Policy special report *Clinton's Legacy: The Dangerous Decade*. Holton is a member of the Board of Advisers of WorldTribune.com.

**David McCormack, Senior Research Associate.** Mr. McCormack assists the President with research and the drafting of policy publications on a range of national security issues. He has authored book chapters and other research publications on various topics, and his articles have appeared in national and international publications such as the *Washington Times*, the *Jerusalem Post*, the *Baltimore Sun*, and the *Wall Street Journal Europe*. McCormack is a graduate of the George Washington University with a degree in history and international affairs.

**Ryan Peterson, Research Associate.** Mr. Peterson's research focuses on energy security issues and American sovereignty. His work on such topics has been published by *FrontPageMagazine.com*. Peterson is a

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graduate of Wheaton College with a degree in international relations.

**Olivia Albrecht, John Tower Fellow.** Ms. Albrecht's research focuses on immigration issues and the Islamist phenomenon. Her work on such topics is published regularly by *FoxNews.com*. Albrecht comes to the Center following internships with the Pentagon (Non-Proliferation Policy) and the Heritage Foundation. She is a graduate of Princeton University with a degree in Philosophy.

**Robert T. McLean, Research Associate.** Mr. McLean researches an array of foreign affairs and national security issues, and is a frequent contributor to *FrontPageMagazine.com*. He is a graduate of Lafayette College with dual degrees in history and government/law.

**Lisa Firestone, Executive Assistant to the President.** Ms. Firestone assists the President with event coordination, fundraising and development, and office management. Prior to arriving at the Center, she worked in the field of asset management and public policy. Firestone is a graduate of both Duke University with a B.A. in English and Economics, and the New York Institute of Finance.

### Center Fellows

**Roger W. Robinson, Senior Resident Fellow.** An indispensable part of the Center for Security Policy from its founding, Robinson has served as an original member of the National Security Advisory Council, chairman of the Center's William J. Casey Institute and long-time member of the Center's Board of Directors.

Robinson was vice president in the International Department of the Chase Manhattan Bank and senior director of International Economic Affairs at the National Security Council under President Reagan. At present, he is chairman of the congressionally mandated, bipartisan U.S.-China Economic and Security Review Commission ([www.uscc.gov](http://www.uscc.gov)).

**Caroline Glick, Senior Fellow for Middle Eastern Affairs.** Chicago-born Caroline Glick is deputy managing editor of the *Jerusalem Post*. A former officer in the Israel Defense Forces, she was a core member of Israel's negotiating team with the Palestinians and later served as an assistant policy advisor to the prime minister. During Operation Iraqi Freedom, the widely-published Glick was an embedded journalist with the U.S. Army's Third Infantry Division. She was awarded a distinguished civilian service award from the U.S. Secretary of the Army for her battlefield reporting.

**Eugene Novikov, Ph.D., Senior Fellow for the Islamist Project.** Born in Kyrgyzstan of Russian parents, Novikov is a former Soviet Communist Party International Department operative, and is a noted expert on Islam and the politics and economics of the Persian Gulf region. He established close relationships with leaders across the Islamic world. Following his defection to the United States in 1988, he served on the faculty of the U.S. Naval War College and the George C. Marshall Center for Security Studies. He is the former director of the International Terrorism Program at the Jamestown Foundation.

**Major Stephen Newsome, USMC.** Maj. Newsome is the Marine Corps National Fellow for 2005-2006. He comes to the Center following a joint assignment advising the Iraqi Ministry of the Interior on the rebuilding of Iraq's police forces. He is currently completing coursework for a Masters degree in security policy at George Washington University's Elliot School of International Affairs.

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# CENTER FOR SECURITY POLICY

CSP Newsletter :

## Message from the President



At this writing, the Center for Security Policy is undergoing an exciting transition.

Loosely modeled after the legendary Committee on the Present Danger - a non-partisan coalition of prominent Americans who in the 1970s challenged the view that détente with the Soviet Union was a viable basis for American security - the Center has been a forceful, and often lonely, voice of reason and realism in recent

years.

Like the Committee on the Present Danger, too, the Center helped preserve a sense of identity and community among like-minded security policy practitioners, awaiting a day when many of them would be called upon to serve once again in government. That occurred in the Reagan Administration in which many members of the Center held senior posts.

Happily, that day has now arrived for the Center for Security Policy and its associates, as well.

An early member of the Center's Board of Advisors, Richard Cheney, is now Vice President of the United States. President Bush appointed a distinguished recipient of the Center's Keeper of the Flame Award, Donald Rumsfeld, to be his Secretary of Defense. And Secretary Rumsfeld and his counterparts elsewhere in the government have invited an extraordinary number of members of the Center's National Security Advisory Council and others of the Center's colleagues to serve in top positions in the U.S. government.

With the return of such highly qualified, skilled and principled men and women to high office in the U.S. government, the Center for Security Policy looks forward to playing a new and, we hope, even more influential role in the years ahead. To be sure, the Center will remain a source for ideas, information and recommendations associated with promoting the policies of peace through strength. The presence in government of so many of those who broadly share the Center's commitment to this philosophy - and who have, over the years, helped us in advancing it - should, however, enable the Center to direct less energy towards the inside-the-Beltway debate and more to educating and engaging the American people and friends of freedom around the world.

The need for such an initiative, of course, has become both glaringly apparent and intensely urgent in the wake of the 11 September 2001 attacks and the war on global terrorism they precipitated. Accordingly, we intend to redouble our efforts in Washington, across the United States and internationally.

In this connection, we are beginning some dramatic changes in our products and the means by which they are made available - notably, via a vastly more useful and user-friendly new Web site ([www.CenterforSecurityPolicy.org](http://www.CenterforSecurityPolicy.org)). We believe that the cumulative effect of these efforts, together with improved governance in Washington, will greatly improve the prospects that the United States will continue to enjoy the fruits of peace and prosperity made possible, in no small part, by its vigilance and strength.

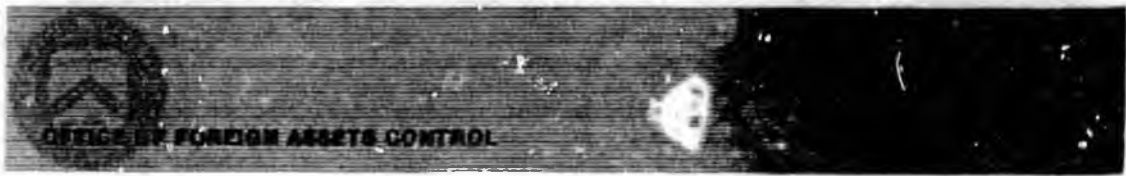
Frank J. Gaffney, Jr.

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### MISSION

The Office of Foreign Assets Control ("OFAC") of the US Department of the Treasury administers and enforces economic and trade sanctions based on US foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. OFAC acts under Presidential wartime and national emergency powers, as well as authority granted by specific legislation, to impose controls on transactions and freeze foreign assets under US jurisdiction. ([more](#))

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| 02/19/2006 |

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The Office of Foreign Assets Control ("OFAC") of the US Department of the Treasury administers and enforces economic and trade sanctions based on US foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. OFAC acts under Presidential wartime and national emergency powers, as well as authority granted by specific legislation, to impose controls on transactions and freeze foreign assets under US jurisdiction. Many of the sanctions are based on United Nations and other international mandates, are multilateral in scope, and involve close cooperation with allied governments.

**Our History**

The Treasury Department has a long history of dealing with sanctions. Prior to the War of 1812, Secretary of the Treasury Gallatin administered sanctions imposed against Great Britain for the harassment of American sailors. In 1861, during the Civil War, Congress passed a "Trading With the Enemy Act," which prohibited transactions with the Confederacy, called for the forfeiture of goods involved in such trade, and provided a licensing regime under rules and regulations administered by Treasury. The Trading With the Enemy Act of 1917 ("TWEA") made that Civil War legislation "modern" for World War I.

OFAC is the successor organization to the Office of Foreign Funds Control (the "OFFC"), which was established at the advent of World War II following the German invasion of Norway in 1940. The OFFC's initial objective in acting under TWEA was to prevent Nazi use of occupied countries' holdings of foreign exchange and to prevent forced repatriation of funds belonging to nationals of those countries. These controls were later extended to protect assets of other invaded countries. After the United States formally entered World War II, the OFFC became the major American program of economic warfare against the Axis powers, blocking enemy assets and prohibiting foreign trade and financial transactions. Those assets would also serve as a future source of war reparations. The OFFC program was administered by the Secretary of the Treasury throughout the war.

OFAC itself was formally created in December 1950, following the entry of China into the Korean War, when President Truman declared a national emergency under TWEA and blocked all Chinese and North Korean assets subject to U.S. jurisdiction.



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**OFAC Country Sanctions Programs**

Program Last Updated:

<a href="#">Balkans Sanctions</a>	05/29/2003
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<a href="#">Cote d'Ivoire (Ivory Coast)</a>	02/08/2003
<a href="#">Cuba Sanctions</a>	02/22/2005
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**OFAC List-Based Sanctions Programs**

Program Last Updated:

<a href="#">Anti-Terrorism Sanctions</a>	02/19/2006
<a href="#">Counter Narcotics Trafficking Sanctions</a>	11/30/2005
<a href="#">Non-proliferation Sanctions</a>	02/10/2006
<a href="#">Diamond Trading Sanctions</a>	07/29/2003



**Archive of Inactive Sanctions Programs**

Inactive Since:

<a href="#">Information on the first Iraq Sanctions Program</a>	Components still active in the Iraq II program
<a href="#">Libya Sanctions Program Information</a>	09/20/2004
<a href="#">Sierra Leone Program Brochure </a>	07/29/2003
<a href="#">Taliban Program Brochure </a>	07/02/2002
<a href="#">UNITA Program Brochure </a>	05/06/2003
<a href="#">Yugoslavia Program Brochure </a>	05/21/2003

**Testimony by Mead Treadwell, Senior Fellow, Institute of the North  
Before the House State Affairs Committee, Juneau, AK , February 23, 2006  
On HCR 27, Urging the Alaska Retirement Management Board and the Alaska  
Permanent Fund Corporation to divest all holdings held in companies with business  
activities or holding investments in Iran and North Korea**

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Mr. Chairman, I am Mead Treadwell. I reside at 528 N Street in Anchorage and am a Senior Fellow at the Institute of the North, and direct the Institute's Defense and Security Program.

The Institute was founded by former Alaska Governor Walter J. Hickel to help develop policy on issues strategic to Alaska and its future. For close to ten years, Mr. Chairman, the Institute of the North has worked with other national, international and state based think tanks on the proposition that action at the state level can help improve the security of the United States.

Should state governments be concerned about national security? Absolutely. In Alaska, we understand our geographic position. We understand our role in hosting the military and sending our sons and daughters overseas to protect us. We understand we are the closest state to North Korea and in their sights. We understand the Alaska pipeline is a terrorist target, and we understand our energy helps America diversify its supply. We also need to understand our role, as an investor, in providing funds to parts of the world that could or would do harm to us.

With the Center for Security Policy in Washington, the Claremont Institute in California, the Institute of Foreign Policy Analysis at Tufts University, and others, we have helped the nation understand Alaska's vital role in U.S. security and we have helped Alaskans play a more effective role.

As an aside, Mr. Chairman, I should say the current divestment campaign on terrorism, Sudan slavery, and national security issues is a coalition of left and right, labor and business. The firms and institutes mentioned today are very fine, patriotic people.

As far back as 1996, the Institute of the North began looking at missile threats to Alaska and the position of the U.S. government then, which was not to include Alaska under the umbrella of a proposed ballistic missile defense system. It was a resolution of the Alaska Legislature in 1997 which called for a new intelligence estimate on missile threats to Alaska. That resolution, Senator Ted Stevens told us, resulted in the Rumsfeld Commission. Over several years, we shifted U.S. policy to build a system in Alaska – not for our economy, but for our protection. We have hosted a continuing series of follow-up conferences on these issues, involving many of your present and former colleagues.

Mr. Chairman, there's one conclusion we've found in every meeting we've had assessing the threats to the United States: terrorism and nuclear threats run on

money. Terrorism finds refuge in states with regimes that support terrorists. Money, usually outside money brought in from the world market economy, either as investment or trade, is the mother's milk of terrorism.

Alaska's major funds – the Permanent Fund and our pension funds could find themselves unwitting players in this process. This resolution calls for a stop to that by a simple, inexpensive process that several other states and leading pension funds have taken on to review their portfolios.

I was able to see a copy of the document circulated by the Permanent Fund Corporation at the last meeting of this committee. Mr. Chairman, what I saw is a scare tactic – a huge price tag meant to dissuade you and this committee from passing a resolution that would free Alaskans from the concerns that their Permanent Fund might be supporting terrorism.

Between the last meeting and this, we were in contact with the Conflict Securities Advisory Group, one of several firms states and pension funds have hired to review their portfolios against concerns they are unwittingly investing in terrorism or nuclear threats to the United States.

This firm has told me that they would be able to offer the State of Alaska a full screening service for its Permanent Fund and the state pension fund for a discounted rate of \$5000. Mr. Chairman, before this legislature concludes its business this spring, I believe you could be aware of how many stocks and of what value Alaska's portfolio is exposed through investments in companies doing business in terror sponsoring states.

The term exposure is not one I use lightly. While some investment funds have cautioned that divestment of stocks investing in terrorist states could lose them money, I believe this process reduces the risk that the stocks would take a sharp fall. Several firms, such as General Electric and Conoco Phillips, because of concerns raised like those in this resolution, have themselves divested activities in Iran, for example, to make sure they are not exposed. Shouldn't we be doing the same thing?

My point is this: reviewing our portfolio costs very little. Divestment can happen over time, as other states have allowed. This is a resolution, Mr. Chairman, not a law, and the Permanent Fund – with oversight from this legislature – can commit itself to a process of monitoring its investments for national security and divesting overtly. They have chosen not to do so, and I believe you should help them change their mind.

As a college student, I was a member of Yale University's board which oversaw that endowment's divestment policies, during the era of divestment campaigns and apartheid. (Yale's endorsement has had outstanding returns without turning a cold shoulder to examining issues like these.) Today, as a private venture

investor, I chair a publicly listed company. I am well aware that fund managers seek the broadest leeway to invest – and for many years I have actively supported taking away strictures on the Permanent Fund's capabilities to seek the highest return.

But Mr. Chairman, a little advice now and then from the owners is not a bad thing. Our Institute's founder, Wally Hickel, has urged us to fulfill our responsibilities as an owner state. I think this resolution puts forward an appropriate action for Alaska. As a citizen, I thank Rep. Hamras, his colleagues, and, I trust, this committee for its leadership.

I am happy to answer any questions.

# Center for Security Policy

## From SourceWatch

Center for Security Policy was founded in 1988 and states that it operates as a non-profit, non-partisan organization committed to the time-tested philosophy of promoting international peace through American strength.

[1] (<http://www.centerforsecuritypolicy.org/index.jsp?section=static&page=abouts>)"

A very influential organization with the Center for Security Policy is the Center's National Security Advisory Council, whose members hold senior positions with the Bush administration.

Center for Security Policy has strong ties with the Republican Party with many members serving senior posts in the Reagan administration and George W. Bush administration. Donald Rumsfeld, current Secretary of Defense under Bush, is a recipient of the the Center's Keeper of the Flame Award. The Center is not shy in touting its strong ties with the U.S. Government.

[2] (<http://www.centerforsecuritypolicy.org/index.jsp?section=static&page=message>)[3] (<http://www.centerforsecuritypolicy.org/index.jsp?section=static&page=nsac-gvtsvc>)

- Elliott Abrams, Special Assistant to the President for National Security Affairs for Democracy, Human Rights and International Operations
- Devon Gaffney Cross, member, Defense Policy Board
- Jack D. Crouch II, Assistant Secretary of Defense for International Security Policy; nominated January 31, 2005, to be Assistant to the President and Deputy National Security Advisor
- Mitchell E. Daniels, Jr., former Director of the Office of Management and Budget
- Kenneth deGraffenreid, Deputy Under Secretary of Defense for Policy Support
- Paula J. Debriansky, Under Secretary of State for Global Affairs
- Douglas J. Feith, former Chairman of the Center's Board of Directors, Under Secretary of Defense for Policy
- Evan Galbraith, Secretary of Defense's Representative to Europe
- Robert Joseph, Special Assistant to the President for National Security Affairs for Proliferation Strategy, Counterproliferation and Homeland Defense

- Sven Kraemer, Policy Advisor to the Undersecretary of Defense for Policy
- Keith Payne, Deputy Assistant Secretary of Defense for Forces Policy
- Richard Perle, Chairman of the Defense Policy Board
- Roger W. Robinson, Jr., Commissioner, U.S.-China Security Review Commission
- James G. Roche, Secretary of the Air Force
- William Schneider, Jr., Chairman of the Defense Science Board
- Wayne Schroeder, Deputy Under Secretary of Defense for Resource Planning and Management
- Michelle Van Cleave, Assistant Secretary of Defense-designate for Special Operations and Low Intensity Conflict
- Jose Sorzano, member, Board of Visitors, Western Hemisphere Institute for Security Cooperation (formerly the School of the Americas)
- Arthur Waldron, Commissioner, U.S.-China Security Review Commission
- Gov. Pete Wilson, member, President's Foreign Intelligence Advisory Board
- Dov Zakheim, Under Secretary of Defense; Comptroller
- Caroline B. Glick the senior Middle East fellow and the deputy managing editor of The Jerusalem Post

## Board of Directors

- Frank J. Gaffney, Jr., President, Center for Security Policy
- James T. deGraffenreid, Chairman; President, First Services Network
- Hon. M. D. B. Carlisle, Former Asst Secretary of Defense for Legislative Affairs; former Chief of Staff to Senator Thad Cochran
- Dr. Charles M. Kupperman, Vice President, Space and Strategic Missiles Sector, Lockheed Martin Corporation
- Hon. Dominic J. Monetta, President, Resource Alternatives, Inc.
- Hon. Roger W. Robinson, Jr., President, RWR, Inc.
- David P. Steinmann, Managing Director, American Securities, L.P.

[edit]

## Personnel

- Dick Cheney, Vice President of the U.S. under George W. Bush, was an early member of Center's Board of Advisors (which is now called the National Security Advisory Council).
- "twenty-two CSP advisers -- including additional Reagan-era remnants like Elliott Abrams, Ken deGraffenreid, Paula Dobriansky, Sven Kraemer, Robert Joseph, Robert Andrews and J.D. Crouch -- have reoccupied key positions in the national security establishment, as have other true believers of more recent vintage."

HJR

7

# FISCAL NOTE

**STATE OF ALASKA**  
**2005 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: HJR7  
 ( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: OOG  
 Title Constitutional Amendment relating RDU Elections  
 to Secretaries of State references \_\_\_\_\_ Component Elections  
 Sponsor Representative Anderson  
 Requester House State Affairs Committee Component No. 21

**Expenditures/Revenues** (Thousands of Dollars)

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

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

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

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

Estimate of any current year (FY2006) cost: 0.0  
 Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

Prepared by: Lauri Allred, Admin Assistant Supervisor Phone 465-4611  
 Division: Division of Elections Date/Time 2/28/05 9 26 AM  
 Approved by: Laura A. Glaiser, Director Date 2/28/2005  
 Agency: Office of the Lt. Governor, Division of Elections

# Alaska State Legislature

## House of Representatives



Official Business

State Capitol  
Juneau, AK 99801-1182

### **SPONSOR STATEMENT FOR HJR 7**

#### **BY: Representative Tom Anderson**

**TITLE:** "Proposing amendments to the Constitution of the State of Alaska to correct obsolete references to the office of secretary of state by substituting references to the office of lieutenant governor."

In 1970 the legislature proposed and the voters of Alaska approved a series of amendments to the State constitution that changed the name of the office of "Secretary of State" to the office of "Lieutenant Governor". At that time, the drafting attorneys did not catch all of the references to "Secretary of State".

HJR 7 attempts to correct the two references to "Secretary of State" in the Alaska constitution that are left. The proposed amendments, if approved by the Legislature, would be placed before the voters in the next General Election.

I urge your support of this bill.

# Alaska State Legislature

## House of Representatives



Official Business

State Capitol  
Juneau, AK 99801-1182

### Sectional Analysis for HJR 7 BY: Representative Tom Anderson

**Section 1.** Amends Article II, sec. 5, Constitution of the State of Alaska

Adds: lieutenant governor

Removes: [SECRETARY OF STATE]

This change brings the Alaska Constitution into line with the will of the people of Alaska to replace the position of Secretary of State with the position of Lieutenant Governor

**Section 2.** Amends Article III, sec. 25 Constitution of the State of Alaska

Adds: lieutenant governor

Removes: [SECRETARY OF STATE]

This change brings the Alaska Constitution into line with the will of the people of Alaska to replace the position of Secretary of State with the position of Lieutenant Governor

**Section 3.** The amendments proposed in HJR 7 will be placed on the ballot at the next general election.

This is in conformity with art. XIII, sec. 1 of the Constitution of the State of Alaska. This article requires all amendments to the constitution be proposed by a two-thirds vote of each house of the legislature. If passed it shall be placed onto the ballot of the next general election. If a majority of the votes cast on the proposition favor the amendment, it shall be adopted.

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STATE OF ALASKA

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State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## MEMORANDUM

January 7, 2005

**SUBJECT:** House Joint Resolution proposing amendments to the Constitution of the State of Alaska to correct obsolete references to the office of secretary of state by substituting references to the office of lieutenant governor. (Work Order No. 24-LS0340\A)

**TO:** Representative Tom Anderson

**FROM:** Jack Chenoweth  
Assistant Revisor

Treat the enclosed House joint resolution as the equivalent of a revisor's bill for one element of the state constitution.

In 1970, the legislature proposed and the voters, by a margin of 71% - 29% (yes = 46,102; no = 18,781), approved a series of amendments to the state constitution that changed the name of the constitutional office of "secretary of state" to the office of "lieutenant governor." In the 1970 joint resolution that proposed the amendments, a copy of which is attached, the drafting attorneys of the time did not catch all the references to "secretary of state." They missed the two that appear in article II, section 5 and article III, section 25. By proposing amendments to delete in those two sections the obsolete references to secretary of state and substituting references to lieutenant governor, this House joint resolution would correct the oversight.

Unlike statutes, corrections of errors and omissions in the state constitution cannot be completed editorially. Under article XIII, section 1,

**Amendments.** Amendments to this constitution may be proposed by a two-thirds vote of each house of the legislature. The lieutenant governor shall prepare a ballot title and proposition summarizing each proposed amendment, and shall place them on the ballot for the next general election. If a majority of the votes cast on the proposition favor the amendment, it shall be adopted. Unless otherwise provided in the amendment, it becomes effective thirty days after the certification of the election returns by the lieutenant governor.

Changes of this kind might have been proposed by a constitutional convention called to make changes to the state constitution. But, as you know, when, at ten-year intervals, the proposals have been presented to the voters as referenda under article XIII, section 3, the

LEGAL

Representative Tom Anderson

January 7, 2005

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voters have repeatedly failed to approve calls for state constitutional conventions. The voters defeated the calls for constitutional conventions in each of the 1972, 1982, 1992, and 2002 general elections.

JBC:med  
05-005.med

Enclosure



## Alaska State Legislature

1970

Source:

SJR 2

SJR 2

### SENATE JOINT RESOLUTION

Proposing that the Constitution of the State of Alaska be amended by changing the name of the secretary of state to lieutenant governor.

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

\* Section 1. Secs. 7, 8, 9, 10, 11, 13, 14 and 15, Art. III, Constitution of the State of Alaska, are amended to read:

SECTION 7. There shall be a lieutenant governor. He shall have the same qualifications as the governor and serve for the same term. He shall perform such duties as may be prescribed by law and as may be delegated to him by the governor.

SECTION 8. The lieutenant governor shall be nominated in the manner provided by law for nominating candidates for other elective offices. In the general election the votes cast for a candidate for governor shall be considered as cast also for the candidate for lieutenant governor running jointly with him. The candidate whose name appears on the ballot jointly with that of the successful candidate for governor shall be elected lieutenant governor.

SECTION 9. In case of the temporary absence of the governor from office, the lieutenant governor shall serve as acting governor.

SECTION 10. If the governor-elect dies, resigns, or is disqualified, the lieutenant governor elected with him shall succeed to the office of governor for the full term. If the governor-elect fails to assume office for any other reason, the lieutenant governor elected with him shall serve as acting governor, and shall succeed to the office if the governor-elect does not assume his office within six months of the beginning of the term.

SECTION 11. In case of a vacancy in the office of governor for any reason, the lieutenant governor shall

SJR FROM 1970

succeed to the office for the remainder of the term.

SECTION 13. Provision shall be made by law for succession to the office of governor and for an acting governor in the event that the lieutenant governor is unable to succeed to the office or act as governor. No election of a lieutenant governor shall be held except at the time of electing a governor.

SECTION 14. When the lieutenant governor succeeds to the office of governor, he shall have the title, powers, duties, and emoluments of that office.

SECTION 15. The compensation of the governor and the lieutenant governor shall be prescribed by law and shall not be diminished during their term of office, unless by general law applying to all salaried officers of the State.

\* Sec. 2. Secs. 2, 3, 4, 5 and 6, Art. XI, Constitution of the State of Alaska, are amended to read:

SECTION 2. An initiative or referendum is proposed by an application containing the bill to be initiated or the act to be referred. The application shall be signed by not less than one hundred qualified voters as sponsors, and shall be filed with the lieutenant governor. If he finds it in proper form he shall so certify. Denial of certification shall be subject to judicial review.

SECTION 3. After certification of the application, a petition containing a summary of the subject matter shall be prepared by the lieutenant governor for circulation by the sponsors. If signed by qualified voters, equal in number to ten per cent of those who voted in the preceding general election and resident in at least two-thirds of the elector districts of the State, it may be filed with the lieutenant governor.

SECTION 4. An initiative petition may be filed at any time. The lieutenant governor shall prepare a ballot title and proposition summarizing the proposed law, and shall place them on the ballot for the first statewide election held more than one hundred twenty days after adjournment of the legislative session following the filing. If, before the election, substantially the same measure has been enacted, the petition is void.

SECTION 5. A referendum petition may be filed only within ninety days after adjournment of the legislative session at which the act was passed. The lieutenant governor shall prepare a ballot title and proposition summarizing the act and shall place them on the ballot for the first statewide election held more than one hundred eighty days after adjournment of that session.

SECTION 6. If a majority of the votes cast on the proposition favor its adoption, the initiated measure is enacted. If a majority of the votes cast on the proposition favor the rejection of an act referred, it is rejected. The lieutenant governor shall certify the election returns. An initiated law becomes effective ninety days after certification, is not subject to veto, and may not be repealed by the legislature within two years of its effective date.

It may be amended at any time. An act rejected by referendum is void thirty days after certification. Additional procedures for the initiative and referendum may be prescribed by law.

\* Sec. 3. Secs. 1 and 3, Art. XIII, Constitution of the State of Alaska, are amended to read:

SECTION 1. Amendments to this constitution may be proposed by a two-thirds vote of each house of the legislature. The lieutenant governor shall prepare a ballot title and proposition summarizing each proposed amendment, and shall place them on the ballot for the next statewide election. If a majority of the votes cast on the proposition favor the amendment, it shall be adopted. Unless otherwise provided in the amendment, it becomes effective thirty days after the certification of the election returns by the lieutenant governor.

SECTION 3. If during any ten-year period a constitutional convention has not been held, the lieutenant governor shall place on the ballot for the next general election the question: "Shall there be a Constitutional Convention?" If a majority of the votes cast on the question are in the negative, the question need not be placed on the ballot until the end of the next ten-year period. If a majority of the votes cast on the question are in the affirmative, delegates to the convention shall be chosen at the next regular statewide election, unless the legislature provides for the election of the delegates at a special election. The lieutenant governor shall issue the call for the convention. Unless other provisions have been made by law, the call shall conform as nearly as possible to the act calling the Alaska Constitutional Convention of 1955, including, but not limited to, number of members, districts, election and certification of delegates, and submission and ratification of revisions and ordinances. The appropriation provisions of the call shall be self-executing and shall constitute a first claim on the state treasury.

\* Sec. 4. Sec. 9, Art. XV, Constitution of the State of Alaska, is amended to read:

SECTION 9. The first governor and lieutenant governor shall hold office for a term beginning with the day on which they assume office and ending at noon on the first Monday in December of the even-numbered year following the next presidential election. This term shall count as a full term for purposes of determining eligibility for reelection only if it is four years or more in duration.

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

HJR

8

# ALASKA STATE LEGISLATURE

Representative Bruce Weyhrauch

HOUSE DISTRICT 4



ALASKA  
STATE CAPITOL  
JUNEAU, ALASKA  
99801-1182

(907) 465-3744  
FAX (907) 465-2273

## Sponsor Statement for HJR 8

More than 250 Alaska Army National Guard soldiers are now on active duty, and are deployed throughout the world. These citizen soldiers, from all over Alaska are serving in overseas training deployments, combat missions, stability and support operations, as well as federal missions and the Partnership for Peace in Mongolia.

Alaskan Army National Guard members come from all walks of life. They are committed to serving their country in times of need; thus, they leave their families, friends and jobs in order to spend from six months to a year and a half completing their assigned missions.

These fine soldiers deserve our appreciation and thanks.

# FISCAL NOTE

**STATE OF ALASKA**  
**2005 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: HJR 8  
 () Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: \_\_\_\_\_  
 Title Supporting Alaska Army Natl Guard RDU \_\_\_\_\_  
 Component \_\_\_\_\_  
 Sponsor Representative Weyh: auch  
 Requester House Military & Veterans' Affairs Component No. \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

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

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

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

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

Estimate of any current year (FY2005) cost: 0.0

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

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

Prepared by: Nancy Manly, Committee Aide  
 Division: House Special Committee on Military and Veterans' Affairs  
 Approved by: Representative Lynn  
 Agency: Chairman

Phone 907-465-2794  
 Date/Time 2/16/05 9:15 AM  
 Date 2/16/2005

22 February 2005

Alaska State Legislature  
c/o Representative Bruce Weyhrauch  
State Capitol, Room 421  
Juneau, Alaska 99801  
Attention: Terry Harvey

SUBJECT: Letter of Support to House Resolution 8, In Support of National Guard Programs

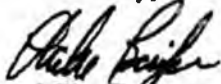
I am sending this letter of support as the President of the Alaska National Guard Officer's Association (ANGOA) for the current bill recognizing the service and sacrifices of the members of the Alaska Army National Guard who are or will be deployed around the world in support of the Global War on Terror, as well as other current Homeland Defense and Homeland Security missions.

The Alaska Army National Guard is at a historic pace of operational deployments in both Federal and State status' to protect Alaskans and Americans and any form of literal or functional support from our State is greatly appreciated and extremely important.

The effects on the morale of our soldiers and their families with formalized and heart-felt support for the unique sacrifices of Alaska National Guardmembers is yet to be determined, but we can expect it to be acknowledged.

Thanks for your consideration in this and other matters of support from the Alaska State Legislature on behalf of my fellow Alaska Guardsmen and Women.

Sincerely,



Mike Bridges  
Lieutenant Colonel  
President, ANGOA

(907) 428-6503  
[mike.bridges@ak.ngb.army.mil](mailto:mike.bridges@ak.ngb.army.mil)  
3026 Eaglek Bay Circle  
Anchorage, AK 99515

20 January 2005

The Honorable Mr. Bruce Weyhrauch  
Alaska State Representative  
Juneau, Alaska

**SUBJECT:** Operational Deployments of the Alaska National Guard

**DEPLOYMENT STRENGTH:** The Alaska Army National Guard currently has over 250 soldiers on Federal Active duty with approximately 170 of those involved in Operation Iraqi Freedom (OIF) or Operation Enduring Freedom (OEF) overseas. Over 80 soldiers are on Federal Title X duty at Ft. Greely with the National Missile Defense security mission. 36 Soldiers have just completed Federal Title X duty of two years securing Kulis Air Guard Base and 67 Aviation Battalion soldiers recently returned from nearly a year in Kosovo.

**PENDING MISSIONS:** Current pending missions include an Aviation Company (UH60 Blackhawk Helicopters) to OIF late this Spring 2005 (18 months total Federal time), and beginning early Summer 2006 through Spring 2008, approximately 320 infantry soldiers will deploy to the Horn of Africa (HOA) in support of the Global War On Terror (GWOT) with two, 150-plus man unit rotations of 12 months "boots on the ground" time each rotation).

**LENGTH OF MISSIONS:** Army Guard missions are primarily 12 months boots on the ground if part of OIF or OEF for a total of 18 months with train up/mobilization and demobilization time. Other missions are generally from 6-12 months. Overseas deployment training missions (ODT) are usually 3-4 weeks if outside Alaska. The Haiti mission is a Nation-Building/Humanitarian mission starting in February and running through June, with Aviation Platoons going for 3-4 week rotations covering the duration.

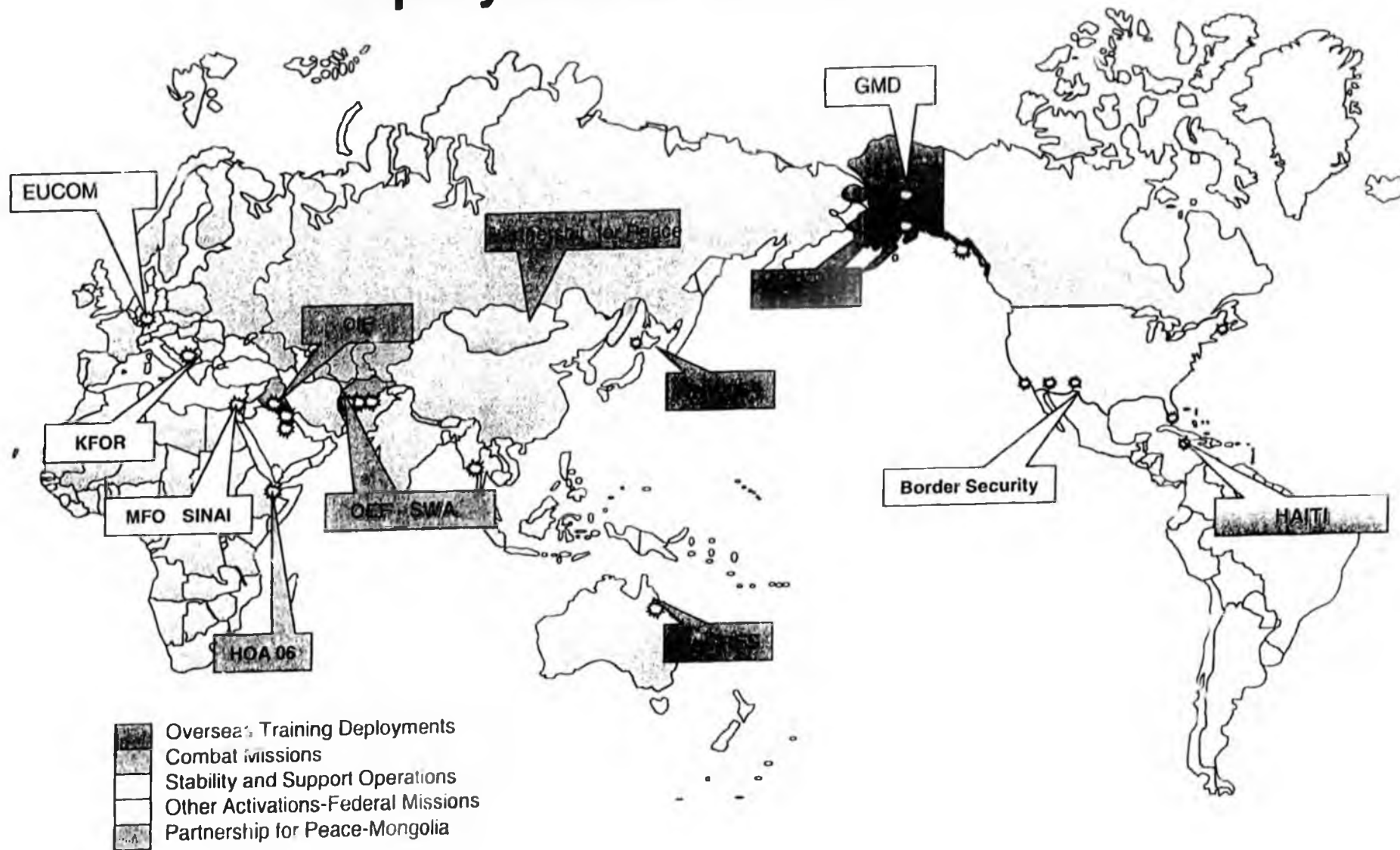
**WHERE THEY ARE FROM:** These Army Guard Soldiers are from communities all over Alaska from Ketchikan to Barrow, and around the entire Rural periphery from Kotzebue to Togiak, Kodiak, Kenai and throughout the Southeast.

**TROOP BACKGROUND:** In their civilian lives these soldiers are mechanics, truck drivers, cooks, business managers, small business owners, pilots, fishermen, accountants, police, fire fighters, mill workers, salespeople, state and federal public employees, you name it, they are part of the civilian communities they come from.

Point of Contact for this information is: Lieutenant Colonel Mike Bridges at (907) 428-6503, email: [mike.bridges@al.ngb.army.mil](mailto:mike.bridges@al.ngb.army.mil)

# Alaska Army National Guard Operational Deployments

(As of January 2005 and pending)



HJR

12



**HOUSE BILL NO.**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-FOURTH LEGISLATURE - FIRST SESSION**

**BY REPRESENTATIVE HARRIS**

**Introduced:**

**Referred:**

<b>Funding Information:</b>	<b>General Fund</b>	<b>\$</b>	<b>-0-</b>
	<b>Other Funds</b>		<b>600,000,000</b>
	<b>Total</b>	<b>\$</b>	<b>600,000,000</b>

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act making an appropriation to the statutory budget reserve fund; making an**  
 2 **appropriation under art. IX, sec. 17(c), Constitution of the State of Alaska, from the**  
 3 **constitutional budget reserve fund; and providing for an effective date."**

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 **\* Section 1. STATUTORY BUDGET RESERVE FUND.** (a) Contingent upon the  
 6 approval of an amendment to the Constitution of the State of Alaska repealing the budget  
 7 reserve fund established by art. IX, sec. 17, Constitution of the State of Alaska, by a majority  
 8 of the voters voting on the amendment at the 2006 general election, the sum of \$600,000,000  
 9 is appropriated to the budget reserve fund (AS 37.05.540) from the budget reserve fund (art.  
 10 IX, sec. 17, Constitution of the State of Alaska).

11 (b) The appropriation made by this section is made under art. IX, sec. 17(c),  
 12 Constitution of the State of Alaska.

13 **\* Sec. 2. LAPSE.** The appropriation made by sec. 1 of this Act is for the capitalization of a  
 14 fund and does not lapse.

1     \* **Sec. 3.** This Act takes effect on the day after the date on which the election returns of the  
2     2006 general election are certified by the lieutenant governor.

ately and may be appropriated by."

facilities maintenance and construction, AS 37.05.560, remain "available for use" in the meaning of article IX, section 2 of the Alaska Constitution. *Hickel v. Nelson*, 658 P.2d 432 (Alaska 1994).

**a special revenue fund.** The fund is established. The amount deposited in the appropriations before June 9,

National Petroleum Reserve —

Community and Economic Development shall adopt the National Petroleum Reserve — apply for and be eligible to receive priority in the allocation of the most direct or . 6508 within the National meritorious grant application 30 days after the convening of the legislature list of all municipalities, a recommendation of the committee, and written justification

the money in the National available for appropriation by (c) of this section present from oil and gas development an initial appropriation be available through supplemented and the legislature to be meritorious.

of this section only for the oil and gas development — Alaska:

essential public facilities by the

municipality.

to be used for the retirement of

deposited and not appropriated for deposited at the end of each Alaska permanent fund; and the amounts remaining after

the deposits to the Alaska permanent fund and the public school trust fund may be appropriated to the power cost equalization and rural electric capitalization fund (AS 42.45.100). The amounts remaining after any appropriation to the power cost equalization and rural electric capitalization fund shall lapse into the general fund for use by the state for the following facilities and services: planning; construction, maintenance, and operation of essential public facilities; and other necessary public services.

(h) Notwithstanding other provisions of law and unless expressly provided by the legislature in the appropriation item making the appropriation, an appropriation from the National Petroleum Reserve — Alaska special revenue fund shall, for the purposes of determining the funding sources for the appropriation be treated as though the appropriation takes effect in the fiscal year in which the appropriation passes the legislature. The authorization to expend funds appropriated from the fund shall take effect as otherwise provided by law. (§ 2 ch 94 SLA 1984; am §§ 2, 3 ch 53 SLA 1986; am § 2 ch 59 SLA 1992; am § 32 ch 32 SLA 1997; am § 2 ch 93 SLA 1999)

**Revisor's notes.** — Formerly AS 37.25.040. Renumbered in 1988.

In 1999, in (c) of this section, "Community and Economic Development" was substituted for "Community and Regional Affairs" in accordance with § 91(a)(9), ch. 58, SLA 1999, and, in (d) of this section, "Community and Economic Development" was substituted for "Community and Regional Affairs" to correct a manifest error in enactment by the omission of reference to AS 37.05.530(d) in § 91(a)(9), ch. 58, SLA 1999.

In 2004, in (c) and (d) of this section, "Department of

Community and Economic Development" was changed to "Department of Commerce, Community, and Economic Development", in accordance with § 3, ch. 47, SLA 2004.

**Cross references.** — For legislative findings in connection with the 1984 and 1986 Acts, see § 1, ch. 94, SLA 1984, and § 1, ch. 53, SLA 1986, respectively, in the Temporary and Special Acts; for legislative purpose in connection with the enactment of (h) of this section, see § 1, ch. 59, SLA 1992 in the Temporary and Special Acts.

**Sec. 37.05.540. Budget reserve fund; appropriation limit.** (a) There is established as a separate fund in the state treasury the budget reserve fund. The budget reserve fund consists of appropriations to the fund. Money received by the state that is subject to the appropriation limit under (b) of this section and that exceeds that limit, may be appropriated to the budget reserve fund.

(b) Except for appropriations to the permanent fund or for Alaska permanent fund dividends, appropriations to the budget reserve fund, appropriations of revenue bond proceeds, appropriations required to pay the principal and interest on general obligation bonds, and appropriations of money received from a nonstate source in trust for a specific purpose, including revenue of a public enterprise or public corporation of the state that issues revenue bonds, appropriations from the mental health trust settlement income account (AS 37.14.036), and appropriations made to the mental health trust fund (AS 37.14.031), appropriations from the treasury made in a fiscal year may not exceed appropriations made in the preceding fiscal year by more than five percent plus the change in population and inflation since the beginning of the preceding fiscal year. For purposes of applying this limit an appropriation is considered to be made in the fiscal year in which it is enacted and a reappropriation remains attributed to the fiscal year in which the original appropriation is enacted. The determination of the change in population for purposes of this subsection shall be based on an annual estimate of population by the Department of Labor and Workforce Development. The determination of the change in inflation for purposes of this subsection shall be based on the Consumer Price Index for all urban consumers for Anchorage prepared by the United States Bureau of Labor Statistics. The amount of money received by the state that is subject to the appropriation limit includes the balance in the general fund carried forward from the preceding fiscal year.

(c) If the legislature determines that the money subject to the appropriation limit received by the state in a fiscal year is less than the maximum permitted to be appropriated under (b) of this section, up to 25 percent of the balance of the budget reserve fund may be appropriated to the general fund.

(d) The Department of Revenue shall manage and invest assets of the budget reserve fund in the manner set out for the management and investment of the assets of the general fund under AS 37.10.070. Income from investment of the budget reserve fund may be appropriated to the fund each year by law.

(e) Notwithstanding other provisions of this section, appropriations may be made from the budget reserve fund needed by the governor to meet a disaster. In this subsection, "disaster" has the meaning given in AS 26.23.900. (§ 1 ch 58 SLA 1986; am § 6 ch 66 SLA 1991)

**Revisor's notes.** — Formerly AS 37.05.156. Renumbered in 1988.

In 1996, in subsection (b) of this section, "mental health trust settlement income account" was substituted for "mental health trust income account" pursuant to sec. 17, ch. 1, SSSLA 1994.

In 1999, in (b) of this section, "Department of Labor" was changed to read "Department of Labor

and Workforce Development" in accordance with § 99, ch. 58, SLA 1999.

**Opinions of attorney general.** — Article IX, section 17 of the Alaska constitution did not repeal the statutory budget reserve fund established by this section and the statutory fund continues in effect until amended or repealed by the legislature. 1992 Op. Atty Gen. No. 1.

NOTES TO DECISIONS

Cited in *Hickel v. Cowper*, 874 P.2d 922 (Alaska 1994).

**Sec. 37.05.550. Alaska marine highway system vessel replacement fund.**

(a) There is in the general fund the Alaska marine highway system vessel replacement fund. The fund consists of money appropriated to it by the legislature. Money appropriated to the fund does not lapse. The Department of Revenue shall manage the fund. Interest received on money in the fund shall be accounted for separately and may be appropriated into the fund annually. The legislature may appropriate money from the fund for refurbishment of existing state ferry vessels, acquisition of additional state ferry vessels, or replacement of retired or outmoded state ferry vessels.

(b) [See conditional amendment note.] The legislature may appropriate to the fund money received by the state as Alaska marine highway system program receipts or from a settlement or final judicial determination of the Dinkum Sands case (*United States v. Alaska*) and the North Slope royalty case (*State v. Amerada Hess, et al.*) and not deposited into the Alaska permanent fund under AS 37.13.010(a)(1) or into the public school trust fund under AS 37.14.150.

(c) The Department of Revenue shall prepare a written report, no later than the 10th legislative day of each regular legislative session, regarding the earnings of the Alaska marine highway system vessel replacement fund during the prior fiscal year and projected earnings of the Alaska marine highway system vessel replacement fund for the current fiscal year and the next fiscal year. The Department of Revenue shall notify the legislature that the report is available. (§ 1 ch 145 SLA 1990; am § 2 ch 62 SLA 1992; am § 59 ch 21 SLA 1995; am § 1 ch 22 SLA 2003)

**Conditional amendment of subsection (b).** — Under § 2, ch. 22, SLA 2003, subsection (b) is amended to read as follows: "(b) The legislature may appropriate to the fund money received by the state as Alaska marine highway system program receipts or from a settlement or final judicial determination of the Dinkum Sands case (*United States v. Alaska*) and the North Slope royalty case (*State v. Amerada Hess, et al.*) and not deposited into the Alaska permanent fund under AS 37.13.010(a)(1) or (2) or into the public school trust fund under AS 37.14.150." As of July 2004, this contingency had not occurred.

Under § 5(a), ch. 22, SLA 2003, this amendment of subsection (b) takes effect if the commissioner of revenue determines that "the amount by which each

permanent fund dividend is reduced as a result of the amendment to AS 37.13.010(a) [by § 3, ch. 22, SLA 2003] . . . when compared to what the amount of each dividend would have been for that year had the amendment to [AS 37.13.010(a) by § 3, ch. 22, SLA 2003] . . . not taken effect" equals or exceeds \$20. The commissioner of revenue is to make the calculation "[b]efore October 1 of each year[.]"

The calculation made under § 5, ch. 22, SLA 2003 for the year 2004 indicates that the conditional amendment did not take effect during 2004.

**Cross references.** — For Alaska Marine Highway System Fund and budget, see AS 19.65.050 — 19.65.100.

**Effect of amendments.** — The 2003 amendment,

effective August 16, 2003, delete "AS 37.13.010(a)(1)" near the end

**Constitutional availability** — Funds which require further action before expenditures can be are available for appropriation energy fund, AS 37.05.520, the way system vessel replacement

**Sec. 37.05.560. Educa**

(a) The educational facili separate fund in the gene

(b) The educational faci the Department of Reven 37.10.071. Money in the f

(1) to finance the design

(2) for maintenance of

(c) Appropriations from subject to AS 14.11.008. (

**Revisor's notes.** — Enacted numbered in 1993.

**Editor's notes.** — Section 2

**Constitutional availability** — Funds which require further tion before expenditures can b are available for appropriatio energy fund, AS 37.05.520, the way system vessel replacemen

**Sec. 37.05.570. Alask**

account in the general fu

(1) payments made to occupant of a covered bui tion for costs of the occup

(2) appropriations to t

(b) Beginning with the annual basis and under A

amounts from the Alask

pay use, management, of

covered buildings manag

(c) Appropriations to t

and do not lapse under /

(d) The unexpended : public building fund laps

year for which it was ap

(e) Nothing in this se-

fund from the requireme

for a specific purpose.

(f) In this section, "cov

the responsibility for ope

Department of Administ

# Alaska State Legislature

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



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

**John Harris**  
Speaker of the House

## SPONSOR STATEMENT

### **COMMITTEE SUBSTITUTE for HOUSE JOINT RESOLUTION 12 (W&M) *CONSTITUTIONAL AMENDMENT: BUDGET RESERVE FUND REPEAL***

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

Theoretically, the CBR should grow in size because the account is to be repaid when revenues exceed expenditures. To date, this has not occurred. The cumulative draw has been over \$5 billion.

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

As written within the resolution, funds from the CBR would be placed into a capital construction permanent fund. Appropriations from the fund are to be made on a percent of market value method with no more than five per cent of the average of the fiscal year end market values of the fund for the first five of the preceding six years.

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



## Rainy Day Funds

### Appendix A. State Budget Stabilization Funds

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

#### Alabama

*Education Proration Prevention Fund (Statutory)*

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

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

#### Alaska

*Budget Reserve Fund (Statutory)*

**Method for deposit:** By appropriation.

**Method for withdrawal:** By appropriation.

*Constitutional Budget Reserve Fund (Constitutional)*

**Method for deposit:** Mineral litigation/dispute settlements.

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

#### Arizona

*Budget Stabilization Fund (Statutory)*

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

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

#### California

*Special Fund for Economic Uncertainties (Statutory)*

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

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

#### Colorado

*Required Reserve (Statutory)*

**Method for deposit:** 4 percent of GF appropriations.

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

#### Contents

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

#### Rainy Day Funds in other states

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

### Connecticut

#### *Budget Reserve Fund (Statutory)*

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

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

### Delaware

#### *Budget Reserve Account (Constitutional)*

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

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

### Florida

#### *Working Capital Fund (Statutory)*

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

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

#### *Budget Stabilization Fund (Statutory)*

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

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

### Georgia

#### *Revenue Shortfall Reserve (Statutory)*

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

**Method for withdrawal:** By appropriation.

### Idaho

#### *Budget Reserve Account (Statutory)*

**Method for deposit:** By appropriation.

**Method for withdrawal:** By appropriation.

### Indiana

#### *Counter-Cyclical Revenue and Economic Stabilization Fund (Statutory)*

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

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

**Iowa**

*Cash Reserve Fund (Statutory)*

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

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

*Economic Emergency Fund (Statutory)*

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

**Method for withdrawal:** By appropriation for emergency expenditures.

**Kansas**

*Budget Stabilization Fund (Statutory)*

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

**Method for withdrawal:** By appropriation.

**Kentucky**

*Budget Reserve Trust Fund (Statutory)*

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

**Method for withdrawal:** Allotted by governor to meet a revenue shortfall; 2/3 governor must notify legislature. (Conditions governing the use of the fund are attached to its appropriation every two years. At the end of the biennium, the fund lapses and has to be recreated. The state also has created in the general fund the Surplus Fund Account. No expenditures may be made from the account unless appropriated by the legislature, or unless required by the budget reduction provisions of the budget bill.)

**Louisiana**

*Revenue Stabilization - Mineral Trust Fund (Constitutional)*

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

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

**Maine**

*Rainy Day Fund (Statutory)*

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

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

**Maryland**

*Revenue Stabilization Account (Statutory)*

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

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

**Massachusetts**

*Commonwealth Stabilization Fund (Statutory)*

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

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

**Michigan**

*Countercyclical Budget & Economic Stabilization Fund (Statutory)*

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

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

**Minnesota**

*Budget & Economic Stabilization Fund (Statutory)*

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

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

**Mississippi**

*Working Cash Stabilization Reserve Fund (Statutory)*

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

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

## Missouri

### *Budget Stabilization Fund (Statutory)*

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

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

## Nebraska

### *Cash Reserve Fund (Statutory)*

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

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

## Nevada

### *Fund to Stabilize Operation of State Government (Statutory)*

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

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

## New Hampshire

### *Revenue Stabilization Reserve Account (Statutory)*

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

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

## New Jersey

*Surplus Revenue Fund (Statutory)*

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

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

**New Mexico**

*Operating Reserve Fund (Statutory)*

**Method for deposit:** Transfer from GF.

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

**New York**

*Tax Stabilization Reserve Fund (Statutory)*

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

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

**North Carolina**

*Savings Reserve Account (Statutory)*

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

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

**North Dakota**

*Budget Stabilization Fund (Statutory)*

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

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

**Ohio**

*Budget Stabilization Fund (Statutory)*

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

**Method for withdrawal:** By appropriation.

**Oklahoma**

*Constitutional Reserve Fund (Constitutional)*

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

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

**Pennsylvania**

*Tax Stabilization Reserve Fund (Statutory)*

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

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

**Puerto Rico**

*Budgetary Fund (Statutory)*

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

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

**Rhode Island**

*Budget Reserve and Cash Stabilization Account (Statutory)*

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

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

**South Carolina**

*Capital Reserve Fund (Statutory)*

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

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

*General Reserve Fund (Constitutional)*

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

*Carnell-Felder Set-Aside Account (Statutory)*

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

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

**South Dakota***Budget Reserve Fund (Statutory)*

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

**Method for withdrawal:** By appropriation.

**Tennessee***Reserve for Revenue Fluctuations (Statutory)*

**Method for deposit:** By appropriation.

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

**Texas***Economic Stabilization Fund (Constitutional)*

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

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

**Utah**

*Budget Reserve Account (Statutory)*

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

**Vermont**

*Budget Stabilization Trust Fund (Statutory)*

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

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

**Virginia**

*Revenue Stabilization Fund (Constitutional)*

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

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

**Washington**

*Budget Stabilization Account (Statutory)*

**Method for deposit:** By appropriation based on statutory formula.

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

*Emergency Reserve Fund (Statutory)*

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

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

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

**West Virginia**

*Revenue Shortfall Reserve Fund (Statutory)*

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

percent of GF appropriations for the fiscal year just ended.

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

#### Wisconsin

*Budget Stabilization Fund (Statutory)*

**Method for deposit:** By appropriation.

**Method for withdrawal:** By appropriation.

#### Wyoming

*Budget Reserve Account (Statutory)*

**Method for deposit:** Year-end surplus plus appropriations.

**Method for withdrawal:** By appropriation.

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

#### States Broaden the Scope of Rainy Day Funds

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Posted August 1997; reviewed March 2004.

Email [statebudget-info@ncsl.org](mailto:statebudget-info@ncsl.org) for more information.

[Visitor counts for this page.](#)

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



APPENDIX V

Constitutional Provisions and Statutes Pertaining to  
the Constitutional Budget Reserve Fund

*Constitutional  
amendment adopted  
in 1990 election.*

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



this subsection for a fiscal year that were enacted during the calendar year that ends on December 31 of that same fiscal year.

(b) If the amount appropriated from the budget reserve fund has not been repaid under art. IX, sec. 17(d), Constitution of the State of Alaska, the Department of Administration shall transfer to the budget reserve fund the amount of money comprising the unreserved, undesignated general fund balance to be carried forward as of June 30 of the fiscal year, or as much of it as is necessary to complete the repayment. The transfer shall be made on or before December 16 of the following fiscal year.

(c) In this section, "unrestricted revenue accruing to the general fund" or "unreserved, undesignated general fund balance carried forward" is money not restricted by law to a specific use that accrues to the general fund according to accepted principles of governmental or fund accounting adopted for the state accounting system established under AS 37.05.150 in effect on July 1, 1990.

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

*Commissioner may transfer some or all management to the AK Permanent Fund Corporation.*

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

**Section 37.10.430. Management of the Budget Reserve Fund.** (a) The Department of Revenue may transfer management responsibility over all or a portion of the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Alaska Permanent Fund Corporation.

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

## F. Budget Gap and the Constitutional Budget Reserve

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

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

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

(1) The projected FY 2005-2015 budget of \$2,251.7 billion is simply a reference point for analysis. Any budget estimate used to determine "The Gap" will have its detractors -- some will contend spending should be cut, while others will argue just as strongly that spending should be increased to reflect inflation and population growth.

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

**Available Balance in Constitutional Budget Reserve Fund**  
*in thousands*

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

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

# FISCAL NOTE

**STATE OF ALASKA**  
**2005 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: HJR12  
 ( ) Publish Date: \_\_\_\_\_

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

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

**Expenditures/Revenues** (Thousands of Dollars)

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

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

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

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

Estimate of any current year (FY2005) cost: 0.0

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

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

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

Prepared by: Lauri Allred, Admin. Assistant Supervisor  
 Division: Division of Elections

Phone 465-4611

Approved by: Laura A. Glaiser, Director  
 Agency: Office of the Lt. Governor, Division of E

**Elections Fiscal Note**