

Reclassification of the Constitutional Budget Reserve

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In August 2019, the Legislative Finance Division reclassified the Constitutional Budget Reserve Fund from Other State Funds to Unrestricted General Funds. This white paper explains the reasoning behind this decision.

The Legislative Finance Division classifies state funds in four categories:

1. Unrestricted General Fund (UGF) – state funds that can be spent for any purpose with no restrictions;
2. Designated General Funds (DGF) – state funds that have statutory restrictions on use, but that can be spent for any purpose through appropriation;
3. Other State Funds (Other) – state funds that are restricted in use by the Alaska Constitution, federal law, or other restrictions that cannot be overridden through appropriation;
4. Federal Funds (Fed) – funds originating from the federal government, which typically have narrow uses.

The Constitutional Budget Reserve Fund (CBR) was formerly categorized as an “Other” fund because the Alaska Constitution specifies that it is a separate fund from the general fund. Under the fund classification system it therefore was not general funds and had to be classified as Other State Funds. Historically, this classification has seldom been significant because the CBR was used primarily as a budget-balancing tool and has seldom been directly appropriated.¹ In typical years, appropriations were made from the general fund and the deficit (if there was one) was filled from the CBR. Spending appeared in budget reports and the fiscal summary as UGF, even if the ultimate source was the CBR.

However, the CBR can be spent by the legislature for any purpose at any time; the Constitution makes it difficult to access but does not restrict its use.² This access requirement is essentially different than the statutory designations of DGF, or the federal or contractual limits placed on Other Funds.

The CBR is by title a “budget reserve” fund for general purpose use when revenue is insufficient. In FY20, it was appropriated directly to capital projects in place of UGF. The purpose of fund classifications for budgeting is ultimately to provide useful information to decision-makers and the public. It is more useful and transparent to classify the CBR according to its use rather than where it is held.

The FY20 capital budget includes \$142.8 million directly appropriated from the CBR. This change will increase the pre-fund transfer deficit by \$142.8 million. Using the CBR directly is, in effect, the same as transferring funding to the general fund for general fund appropriations. In the fiscal summary, the \$142.8 million will show as a transfer from the CBR to the general fund, resulting in a post-transfer surplus of \$115.7 million based on the current revenue forecast. However, there is still a net draw from the CBR, so showing a pre-transfer surplus would be misleading. Reclassifying the CBR as UGF results in a clearer picture of the State’s finances.

¹ The only other direct appropriation from the CBR was in FY15 when \$3 billion was transferred from the CBR to the state’s pension systems.

² Under Article 17 of the Alaska Constitution, appropriations from the CBR require a three-fourths vote of the legislature in most cases.