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Permanent Fund looms as fiscal gap solution

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State legislators returning to Juneau Jan. 12 face some unfinished business.

The fiscal gap - the difference between \$2.2 billion in spending and \$1.8 billion in revenues - is item No. 1 on everyone's list. But whether a politically acceptable way to raise revenues to close the gap can be found in an election year remains to be seen.

Oil and gas legislation will be on the front burner in the state Legislature this spring. See story, page B1.

One hot topic at the end of the 2003 session, a 3 percent state sales tax, now seems to be on the back burner, according to Rep. Mike Hawker, R-Anchorage, who is co-chair of the special House Ways and Means Committee. The committee was created to find a way to solve the fiscal dilemma.

The state sales tax proposal was introduced late in the 2003 session and prompted howls of protest from municipalities and business groups. There was no work done on the proposal over the summer and fall.

The sales tax bill is in the House Rules Committee, but Hawker said many legislators have little appetite to take up the issue in 2004.

Former Rep. Jim Whitaker, R-Fairbanks,
the chief backer of a sales tax,

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resigned from the Legislature in the fall after he was elected Mayor of the Fairbanks North Star Borough.

Hawker said his focus is now on using part of the Alaska Permanent Fund's \$1 billion-plus annual earnings to help narrow the fiscal gap.

He is working to get his colleagues' approval for a proposed change in the methods Permanent Fund earnings are managed, the so-called "percentage of market value" approach. That could also be combined with a proposal by legislators to divide the Fund earnings between dividends for Alaska citizens and helping finance state government.

"This approach would allow us to keep a dividend at about \$1,100 per year and balance our state budget for the foreseeable future," Hawker said.

The percentage-of-market value plan, proposed by the Permanent Fund Corp. trustees, would pay out 5 percent of the Fund' market value to the state treasury. It would replace the current method, which counts only cash earned from bond interest and stock sales as income. Virtually all large endowments use a percent-of-market value approach for paying out earnings.

Senate President Gene Therriault, R-North Pole, said he supports a constitutional amendment incorporating the percentage-of-market-value idea, but believes it would be a mistake to include anything in the Constitution on how the fund's income is to be used. Decisions on the annual citizen dividend or on using fund income to support the state budget should be left to the Legislature, Therriault said.

Hawker said he believes Gov. Frank Murkowski is supportive of the idea of using income from the fund for government, but that an endorsement by Murkowski isn't necessary. "He has already said he supports the percentage-of-market value approach to managing the fund's income. What is done with the income is up to the Legislature," Hawker said.

Time is short, however. If the idea is approved by the Legislature this spring it can appear on the 2004 ballot. If the decision is delayed into the 2005 or 2006 sessions it would appear on the ballot in the 2006 election.

The state may run short of money before then, however. Current estimates show the Constitutional Budget Reserve, the state's main cash reserve, being less than \$1.5 billion by mid-2006. That's the minimum amount the state should keep on hand to deal with a revenue emergency, such as an oil price decline, and to cover the state's annual cash-flow needs.

If the Legislature doesn't approve the plan or something similar by 2006 lawmakers will have to appropriate some of the Fund earnings under their current statutory authority to meet state expenses, Hawker said. A state sales or income tax will also become more likely, he said.

Rep. Cheryl Heinze, R-Anchorage, said a proposal by Gov. Frank Murkowski to levy special taxes on the tourism industry is likely to get a cool reception in the Legislature. Murkowski proposed the tax as part of a package of tourism-related taxes aimed at helping raise \$75 million in additional revenue in Fiscal Year 2005, which begins July 1, 2004.

Heinze said a tax on cruise tourists is illegal under federal law unless the money is used to pay for visitor-related infrastructure or to provide services in some way to visitors, Heinze said. However, the governor proposes to use the revenue for the state general fund, she said.

State attorney general Greg Renkes, who works for Murkowski, said as much in a legal opinion given to Heinze's special committee on economic development earlier this year, Heinze said.

"We all need to get on the same page on this," she said.

She was also critical of Murkowski's proposed state "bed tax" on hotels and motels. It would cause problems for many municipalities which also have bed taxes, and would make it unlikely that Anchorage would be able to finance part of a proposed major new convention center with an increase in its bed tax, she said.

Tourism groups have told Heinze they are willing to pay more taxes and are even developing proposals of their own. But they want to be part of an overall plan that would get the state out of its current dilemma, she said.

Hawker said increased taxes on businesses will inevitably have to be part of a state fiscal plan. "Everyone will have to give up something," he said.

One tax change his Ways and Means Committee may address is extending the current state corporate income tax to limited-liability partnerships where the tax obligation flows through the partners as individuals, rather than be paid by the corporation.

Many professionals, such as physicians, form these types of corporations, he said. The current law creates a tax haven in Alaska because there is no personal income tax.

Heinze said she feels a proposal she and fellow Anchorage Republican Rep. Norm Rokeberg put forth last year to allow groups of small businesses, nonprofits and even individuals to form and buy group health insurance has a good chance of becoming law in 2004.

The legislation, House Bill 10, is in the Senate after having passed the House last year. Current state law forbids businesses or others to form groups to buy health insurance unless they are in similar fields or occupations. Heinze and Rokeberg would change the law to lift that restriction.

An earlier version of the bill would have had the state acting as an instrument to form the health insurance group, but that was removed after insurance companies objected.

Gaming legislation is likely to be a hot topic in 2004, Hawker said. "It's going to be controversial, and ugly," he said.

A legislative subcommittee headed by Fairbanks Republican Sen. Ralph Seekins and Anchorage Democrat Sen. Hollis French worked this fall on proposals to change state laws allowing certain forms of legal gambling like pull-tabs that provide revenue to charitable groups, civic or fraternal organizations.