

Understanding/Assumptions:

- The trend is that the State is doing less with less – inflation adjusted financials point to one of the smallest budgets since oil production began, and a general decrease over the last 20+ years.
- Many individual programs, when inflation adjusted, follow the same trend, especially those where funds flow from the State to partners, reducing their purchasing power – community assistance, education, jails, AMHS.
- The high years referred to more recently may have been correct adjustments to the State's budget, and were also well-used – pay down pension debt, contribute to capital needs, savings.
- Today, the bottom line is that the State isn't facing a budget crisis, it's facing a revenue shortfall – there has simply been no successful action to address new or increased revenue over 6 (20+) years.
- We have run out of time – no action on revenues this year will mean the state has no options next year to address its deficits; a broad-based tax has to be enacted this legislative session to have time for implementation.

Eight Stars of Gold

AML is proposing an agenda for this Legislature that we're calling "Eight Stars of Gold" – it's a suite of actions that we encourage be taken as part of a comprehensive package that needs to pass this year. We don't necessarily agree with all eight, but we accept that the State can't continue to wait to address this fiscal crisis. We have included here some additional thoughts, but much of which will be subject to further deliberation. We can work through the details together. Our communities depend on a State able to pay for its responsibilities, and which has more options than to shift those responsibilities to local governments. We're committed to assisting on a path to solutions.

1. Fulfill Constitutional, debt, and statutory obligations

- AML believes that State spending has been deficient, and the current proposed budget remains so, for funding of many of the State's obligations, including those laid out in Article 7 – public health, education, and welfare, plus establishment of the University.
- AML believes that if trust is to be reestablished between local governments and the State, the State must fulfill the reimbursement of its debt obligations, and not cost-shift those.
- Reimbursement should include that for school bond debt, and for municipal port and harbor debt.
- It should extend to apply to the mandatory exemption on senior citizen and disabled veteran property, the number of applications for which have doubled in ten years.
- This should apply as well to oil tax credits, or similar resource development incentives offered by the state. Alaska should be known for its rule of law, which the power of appropriation should be applied to.

2. Address the infrastructure deficit

- Part of that spending needs to include adequate investment in Alaska's infrastructure, new and old, and the Legislature should work toward identifying a comprehensive list of needs, developing appropriate prioritization of projects, by category of needs, and determine funding mechanisms.
- In addition to a high enough level of capital investment, the State may consider effectively leveraging its bond capacity.
- While current bond proposals make some sense, given costs, these should not be used to fulfill current obligations or for matching dollars, but be for new projects as part of economic recovery.

- If the State is to consider new bond debt, it must also be sure to honor obligations made to reimburse or pay for past obligations.

3. Implement a broad-based tax and other revenue measures

- If either of the first two items are to be accomplished, and even just to meet its current needs, the State must identify and enact new or increased revenue measures.
- The State's tax-to-GDP, as a measure, places the State the lowest in the nation, with at least \$1 billion in taxes to get to the national average. States that tax GDP effectively see better economic growth than those that don't.
- AML prefers an income tax, as it is the only tax the State keeps to itself, preempting local collection of an income tax and reserving it to the State. It doesn't displace any local tax levy. An income tax can be applied equitably, captures non-resident and corporate revenue, and applies to all sectors.
- AML would accept a statewide sales tax if it were built from the local level up, is developed in collaboration with local governments, and protects local rates and exemptions. A sales tax is the most regressive of taxes, and doesn't apply to certain sectors (nonprofits and government).
- Beyond that, we would consider increases to all other sources of revenue as viable, ranging from resource revenues to motor fuel taxes, or any of the sin taxes, including gambling.

4. Leverage partnerships to achieve goals

- The State will not be able to do this on its own, and success can best occur through inter-governmental collaboration and multi-sector partnerships.
- An evaluation of the State's budget and operations should result in identification of public-private partnerships, privatization, partnerships with non-profits, and consolidation.
- Partnerships will need to be appropriately resourced – base level of continued State support – and demonstrate an effective business model for implementation.
- Devolution should be considered as part of these partnerships. Devolution is the transfer of responsibilities from one level of government to a subsidiary level of government.
- Devolution occurs through negotiation and adequate levels of continued resourcing.
- Cost-shifting or forced powers are ineffective measures at devolution. Key to success is capacity at the local level, which won't be the same across local governments.

5. Manage the Permanent Fund for long-term sustainability

- AML recognizes the value of the Permanent Fund, and believes in a sustainable draw that preserves the integrity of these assets for future generations.
- That draw is current set at 5%, which is consistent with best practices.
- The State should consider moving to an endowment structure, or restructure the earnings reserve to be unavailable for appropriation beyond that draw.
- Some have argued for a \$100 billion Permanent Fund, which is a goal that if set may take until 2038 to reach, at which point it would still be insufficient to fully fund an adequate level of government.
- In terms of goal-setting, we can equate Permanent Fund with the GDP – and a sustainable draw from both
- It may be necessary to overdraw from the Permanent Fund as part of a transition to new revenues, and this could only be acceptable if all other criteria are met.

6. Make appropriate changes to the Dividend formula

- There appears to be consensus that something has to change in the lawful formula applied to the PFD; it is the largest expense of the State.
- The PFD is a fair distribution of Alaska's resource wealth, which can be seen in terms of public welfare. We acknowledge that any decrease to the PFD is the most negatively impactful for low- and medium-income Alaskans.
- The current "policy" has been to fund the PFD with whatever's leftover from the rest of the budget, and/or whatever is politically acceptable within the Legislature.
- There are numerous possibilities for addressing the formula within statute, which is the proper starting place, and a bill would need to be introduced and debated to establish a new law.

7. Implement a reasonable spending cap

- AML is not supportive of a spending cap, but we realize that for others it is a non-negotiable requirement of any discussion of new revenues.
- If there is to be a spending cap, then it should be based off a new baseline budget, which is considerably more than today's proposed or that of the last few years.
- A spending cap should utilize the correct interest assumptions, and per capita adjustments, and interest should apply not just to agency programs but to transfers to local governments, school districts, and other partners.
- It may include the PFD, once the new statutory requirements of that program are defined.
- Debt, retirement, and other obligations should be outside the cap.
- The cap should exclude the capital budget, unless additional criteria are established to adequately fund infrastructure investment and maintenance, whereby it may be included.

8. Provide targeted economic relief

- Alaskans are experiencing incredible hardship as a result of this pandemic and economic crisis.
- A supplemental and full PFD have been proposed; federal relief alleviates much of the broad-based need.
- The Legislature should consider utilizing incoming federal relief as part of Alaska's economic recovery and to strengthen vulnerable populations, and to meet needs.
- One step in this is to stabilize state, local, and school budgets by holding statutory funding harmless even with the receipt of additional funding – this will be needed to shore up lost revenues and additional expenses elsewhere.
- State relief should be targeted, and focused on those sectors, communities, and individuals disproportionately impacted.
- Criteria for disproportionate impact should be developed, and need demonstrated by potential recipients.

Additional Considerations

- The Governor's Constitutional Amendments may be considered as part of this final package, but we encourage the Legislature to only consider statutory options for any of these that make sense to move forward, and that consideration of a constitutional amendment be deferred until and only if the law is proven ineffective over a reasonable amount of time.

- The Constitutional amendment focused on the Permanent Fund may be the most viable for discussion, as it may help to achieve long-term sustainability.
- Federal relief will allow fund source changes and much of this agenda, in terms of spending, to be achieved. However, federal relief will not save the State from next year's deficit.

Conclusion

- We expect from this process stabilized state and local government budgets.
- We know that this will mean avoided local tax increases and/or a reduction in services.
- Together we can achieve better outcomes for public health, welfare, safety, and education.
- The Legislature can restore trust in government by paying its bills and debts, keeping its promises, and meeting the needs of residents.
- These steps will contribute to a rebound in the economy, a halt to outmigration, and the attraction of talent and investment to a State that will be back on its feet.