

MINUTES
SENATE FINANCE COMMITTEE
March 17, 2004
1:36 PM

TAPES

SFC-04 # 46, Side A
SFC-04 # 46, Side B
SFC-04 # 47, Side A
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CALL TO ORDER

Co-Chair Gary Wilken convened the meeting at approximately 1:36 PM.

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Con Bunde, Vice-Chair
Senator Ben Stevens
Senator Fred Dyson
Senator Donny Olson

Also Attending: SENATOR RALPH SEEKINS; SENATOR BERT STEDMAN;
SENATOR GARY STEVENS; SENATOR TOM WAGONER; and SENATOR JOHN COWDERY

Attending via Teleconference: Statewide Public Testimony occurred in the order reflected in the minutes.

SUMMARY INFORMATION

CONFERENCE OF ALASKANS RESOLUTIONS
PUBLIC TESTIMONY

The Committee heard Statewide testimony regarding the Conference of Alaskans' resolutions. The Committee took no action.

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CONFERENCE OF ALASKANS RESOLUTIONS
PUBLIC TESTIMONY

As adopted by the Conference of Alaskans Feb. 12, 2004
A RESOLUTION

Expressing the sense of the conference that the state should

maintain a prudent balance in the constitutional budget reserve fund.

BE IT RESOLVED BY THE CONFERENCE OF ALASKANS:

WHEREAS the constitutional budget reserve fund was established by an amendment to the Alaska Constitution after a vote of the people held at the 1990 general election;

WHEREAS the constitutional budget reserve not only provides a contingency fund for the operations of the State of Alaska, it is also an integral component of maintaining the state's credit rating and that of the local communities throughout the state; and

WHEREAS the state relies on the balance of the constitutional budget reserve fund to meet its financial needs from time to time.

NOW THEREFORE LET IT BE RESOLVED that the state should maintain a prudent balance in the constitutional budget reserve fund.

As adopted by the Conference of Alaskans Feb. 12, 2004

A RESOLUTION

Expressing the sense of the conference whether use of distributions from the Alaska Permanent Fund should be limited to five percent of the market value of the fund (POMV) as the Permanent Fund trustees have proposed.

BE IT RESOLVED BY THE CONFERENCE OF ALASKANS:

WHEREAS the Conference of Alaskans believes that a Permanent Fund dividend should be annually distributed to Alaskans;

WHEREAS the percent of market value (POMV) distribution formula would limit the amount that can be annually withdrawn from the Alaska Permanent Fund to no more than five percent of the market value of the fund (POMV);

WHEREAS the board of trustees of the Alaska Permanent Fund believes that the Permanent Fund is not adequately protected for the future;

WHEREAS the percent of market value (POMV) distribution formula is expected to maintain the purchasing power of the entire Permanent Fund by retaining in the fund enough of the increase in value to protect against inflation; and

WHEREAS the percent of market value distribution formula is expected to allow future generations to benefit equally from the Alaska Permanent Fund.

NOW THEREFORE LET IT BE RESOLVED: The Legislature should pass a resolution proposing a constitutional amendment addressing percent of market value (POMV), as recommended by the Permanent Fund trustees and present it to the voters for ratification at the 2004 general election that would change the method of distributing amounts from the Alaska permanent fund so that distributions are limited to five percent of the market value (POMV) of the fund.

As adopted by the Conference of Alaskans Feb. 12, 2004

A RESOLUTION

Expressing the sense of the conference that distributions from the Alaska Permanent Fund for permanent fund dividends be dedicated in the constitution and that distributions from the Alaska Permanent Fund for other public purposes should be determined annually by the legislature.

BE IT RESOLVED BY THE CONFERENCE OF ALASKANS:

WHEREAS the Alaska Permanent Fund was established as an exception to the dedicated fund prohibition so that enough revenue could be segregated and protected to provide a source of money to benefit present and future generations of Alaskans;

WHEREAS dedication of a part of the distributions from the Alaska Permanent Fund provides a predictable and stable means to finance the permanent fund dividend for the foreseeable future;

NOW THEREFORE LET IT BE RESOLVED: The Legislature should pass a resolution proposing a constitutional amendment and present it to the voters for ratification at the 2004 general election that would protect the permanent fund dividend and ensure that the dividend would continue to be paid to state residents.

As adopted by the Conference of Alaskans Feb. 12, 2004

A RESOLUTION

Expressing the sense of the conference that a part of the income of the Alaska permanent fund should be used for essential state services, such as education, public protection and other necessary public services.

BE IT RESOLVED BY THE CONFERENCE OF ALASKANS:

WHEREAS the earnings of the Alaska Permanent Fund exceed the amount of revenue realized by the state from oil and gas taxation and royalties;

WHEREAS the fiscal crisis facing Alaska is a clear and present danger to the adequate provision of necessary public services;

WHEREAS Alaska must not impose self-inflicted harm; and

WHEREAS Alaska's state spending is inadequate to meet current needs for public education, public protection, and many other necessary state services; and

WHEREAS the conference believes that after the dividend is protected a permanent fund dividend distributed, and any remaining funds available for distribution are used for essential government services, additional revenues will be needed to fully fund and protect those essential government services.

NOW THEREFORE LET IT BE RESOLVED: A portion of the distribution of the percent of market value (POMV) of the Alaska Permanent Fund should be used for essential state services, such as education, public protection and other

necessary state services. However this recommendation is subject to the following conditions:

(1) Dividends must be paid out first from the amount available under the percent of market value (POMV) distribution method, as recommended by the board of trustees of the Alaska Permanent Fund, with the remainder available to fund essential state services; and

(2) The governor and legislature must take action to balance the state's revenues and expenditures, including but not limited to consideration of a personal income tax, other broad-based taxes and other alternative sources of income.

This was the first public testimony hearing conducted by the Committee regarding the Conference of Alaskans Resolutions.

Co-Chair Wilken noted that the purpose of today's meeting is to entertain public testimony regarding the Conference of Alaskans Resolutions and other fiscal planning issues. Testimony would be limited to five-minute increments until otherwise noted.

ROBERT PRUNELLA, City Manager, City of Wrangell, testified via teleconference from Wrangell to encourage the Legislature to continue their serious efforts to develop a State fiscal plan. The City Council and city residents ask that the Legislature address community requests regarding State revenue sharing. The City has an approximate \$600,000 revenue deficit this year and received minimal State revenue. To address the City's deficit, reductions in City services such as fire and police services, would be required. He favored utilizing some of the Permanent Fund earnings with some portion of that being designated for municipalities; and the implementation of an income tax as well as a Municipal dividend program. There is no support for a State sales tax. While there is a local school bond proposition package on an upcoming community ballot, were it adopted, it's funding would be questionable as the city has no money to support capital projects.

Senator Bunde encouraged Mr. Prunella to recognize and discuss with community members the fact that any money the State might generate to support community revenue sharing or a dividend would be acquired from State residents.

Mr. Prunella acknowledged this fact, but noted that the source of the money would be a factor. Due to the fact that the City currently has a 12-mill property tax and a seven-percent sales tax, it would be impossible to increase the local tax base in the economically depressed community.

Mr. Prunella stated that while there is support for using some of the Permanent Fund earnings to support municipalities, it could

reduce the amount of individuals' Permanent Fund Dividend (PFD) checks. The receipt of a PFD is not an entitlement. The economy of the State must be turned around. Such things as education funding reductions are forcing young people to leave the State.

STAN STEPHENS, Stan Stephens Wildlife and Glacier Cruises, testified via teleconference from Valdez and urged that a long-term fiscal plan be developed that would encourage economic diversification in the State as opposed to continuing the dependence on one industry. The recommendations of the Conference of Alaskans should be considered. While some say that the State is not experiencing a fiscal crisis, he opined that "if survival is not a crisis then that is probably true." He urged Legislators to consider the future of the State as a whole rather than limiting their view to their district.

Co-Chair Wilken acknowledged Mr. Stephens as one of the Conference of Alaskans' 55 delegates.

RICH KRONBERG, President, NEA-Alaska, testified in Juneau and shared that NEA-Alaska supports the development of a long range fiscal plan as well as to acknowledge the efforts to address short-term K-12 education funding. The differences between the House of Representatives and the Senate regarding school funding issues should be resolved, as there is a need to alleviate the pressure being placed on school districts throughout the State. State residents would support the development of a fiscal plan that would provide a long-term fiscal fix and provide adequate funding for schools. NEA-ALASKA has no formal position on which methodology should be utilized to address the State's fiscal gap. "We stand ready to support any plan that would end the annual trauma that schools and school districts" have experienced for more than a decade as a result of State funding support "that has not kept pace with the cost of meeting those needs."

Senator Hoffman asked the testifier to define short-term funding.

Mr. Kronberg responded that short-term funding would be that specified for the next school year. He reviewed NEA-Alaska's funding request for the next fiscal year.

Senator Bunde asked the definition of long-term funding.

Mr. Kronberg clarified that a long-term plan would be one that would get education funding to the point where the standards for student education could be met.

Senator Bunde asked whether this might require five or ten years.

Mr. Kronberg expressed that since it took the education system a while to get to the point it is, it would take a while to get to the required level.

ROGER CREMO, a resident of Anchorage, appeared in Juneau before the Committee and read his testimony regarding SJR 18-CONST. AM: PF APPROPS/INFLATION-PROOFING as follows.

Presentation to Senate Finance Committee on CSSJR 18 (3/17/04)

You're considering the POMV method of takeout for the Permanent Fund. Before you decide whether it's any good, take a hard look at the constitutional provision you would be putting it into. And, by the way, I prefer the POMV method to the one we've got now.

Unlike a statute, which is relatively transitory, a constitutional provision can be on the books forever. It should be near perfect - a product of sound analysis, wise decision and excellent drafting. But the track record of our constitutional amendments, in the fiscal area, isn't very good.

Besides Section 15, there have been two amendments of Article 9 since it was written in 1955. Section 16, which limits appropriations, ignored the first rule of organization - that authority must be commensurate with duty. Your duty is to do that which in your judgment will promote the welfare of the people of this state. The amendment to Section 16 limits your ability to discharge that duty. Fortunately, the provision is otherwise so flawed that it has never come into play.

The other amendment, Section 17, established the Budget Reserve Fund, which has facilitated, if not promoted, deficit spending in most of the years since 1990. And, its voting requirements have resulted in end-of-session arrangements that, over the years, have added hundreds of millions of dollars to that deficit spending.

That leaved Section 15, which established an endowment - the Alaska Permanent Fund. Typical of documents that create endowments, the section has three components. One determines what money goes into the fund. Another deals with the investment of the money. And the third determines how much money is to be taken out for spending.

Twenty-five percent of royalties is supposed to go into the

fund. But Section 15 doesn't nail down that requirement. It can be circumvented by agreeing to the reduction of royalties while increasing the production tax. That can, over a period, divert billions of dollars to the General Fund. Of course, such a tactic wouldn't even be considered unless fiscal pressures were compelling.

The only thing that Section 15 requires with respect to investment is that the fund's principal "can be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments." That means stocks that regularly pay dividends and, of course, bonds. But the Alaska Permanent Fund Corporation probably has invested billions in stocks that don't regularly pay dividends.

This is not to say that the Permanent Fund Corporation doesn't do a good job investing. It has ably managed the state's capital. But it has been forced to liberally construe an inadequate constitutional provision.

Co-Chair Wilken thanked Mr. Cremo for his comments and asked whether he might be available for further discussion following the public testimony.

Mr. Cremo commented that he would be available.

Co-Chair Wilken introduced Jessica Crier from Fairbanks and Sarah [last name unknown] as guest pages.

DR. DOUG STARK, Member, Homer City Council, testified via teleconference from Homer and noted that the Homer City Council recently adopted two resolutions: one in support of the development of a State fiscal plan this year and the other in support of a municipal dividend program. Homer would experience a budget deficit in excess of \$450,000 this year. He personally supports the Percent-of-Market-Value program (POMV) although he is concerned that, were it to go to a Statewide ballot, it would be defeated due "to misinformation." A defeat of the POMV by the citizens might then be interpreted by the Legislature that citizens would not support utilizing Permanent Fund earnings to support the budget. He personally supported using Permanent Fund earnings to support the PFD and inflation proofing of the Fund "in the normal manner" and the use of the remainder of the earnings to fund State operations and provide municipal assistance. He also supported increased gas and tobacco taxes.

JOHN VELSKO, concerned citizen, testified via teleconference from

Homer and urged the Committee to support the POMV plan and municipal revenue sharing with incorporated communities. He would support having a smaller PFD if it were offset by lowered property and sales taxes. He does not support an income tax. Last year's PFD did not offset expenses incurred by increased user fees and other taxes such as property taxes. He urged that the "free ride" currently provided to unincorporated communities cease, as all people should contribute. The POMV would be a step in the right direction. He noted that when oil prices rise above \$30 per barrel the economic limit factor (ELF) should be cancelled. He also recalled that when the Permanent Fund was being established, it was understood that it would provide a Rainy Day Fund.

JOHN DAVID REAGAN testified via teleconference from Fairbanks in support of a State income tax. He voiced disbelief that "the most normal customary method of taxation in America in the 20th Century" is not being considered even though it has widespread support. There was an income tax in the State in the 1970s and the Legislature's refusal to reinstitute an income tax is incomprehensible. He stated that efforts to utilize the earnings of the Permanent Fund without an income tax being also utilized would not be supported. State resources, such as the PFD, belong equally to all Alaskans. The PFD has a significant impact on low-income families and communities. Republicans are attempting to shift the tax burden to low-income people and "the rich get richer." There should be a progressive income tax.

ANDY HARRINGTON testified via teleconference from Fairbanks and pointed out that there has been a shift in the dialogue in that the people who once stated that the Permanent Fund earnings should never be touched or that taxes should never be imposed are now talking about a combination of things. He urged that a moderate approach be adopted: moderate spending controls, moderate use of the Permanent Fund earnings, and moderate taxes. It is important to note that the Conference of Alaskans not only answered the four questions they were charged with, but that they also urged that consideration be provided to other options including the implementation of an income tax. Noting Governor Frank Murkowski's recent testimony regarding the negative affect of alcohol on the State, he voiced support for the implementation of a "sin" tax on such things as alcohol and tobacco. He supported the POMV program, was reluctant on Constitutionalizing the Permanent Fund Dividend, approved of using the earnings of the Permanent Fund, and approved of maintaining a prudent balance in the Constitutional Budget Reserve (CBR).

CARL EVERTSBUSCH, President, Key Coalition, testified via teleconference from Anchorage on behalf of the State's

developmentally disabled and their support groups. Their numbers are continuing to grow. Funding of essential services has been limited due to the lack of revenue. Community-based services are essential services; therefore the Key Coalition is in support of a long range fiscal plan that includes reasonable spending, the use of the earnings of the Permanent Fund, and the implementation of a broad based and fair tax. In a recent conversation with some low-income people, it was expressed that they were willing to receive a lower PFD and pay a sales tax if that would be required in order for the State to support essential services.

KATHY FITZGERALD testified via teleconference from Anchorage on behalf of her family and, in particular, her disabled daughter regarding the value of providing a quality community to everyone. This would include education, recreation, job opportunities, and other things that are important to our quality of life. She voiced support of a broad-based income tax and the POMV. She would also support the reinstatement of the school tax and other taxes to support essential services that are required for the developmental disabled and communities that need funding.

BOB WEINSTEIN, Mayor, City and Borough of Ketchikan, testified via teleconference from Ketchikan and voiced that, as one of the 55 appointees of the Conference of Alaskans he is supportive of the recommendations that were adopted at the Conference. "Use of a portion of the excess income or excess percentage of market value" of the Permanent Fund "would not, under certain circumstances be sufficient" to fill the current or projected fiscal gap. Under POMV, excess earnings could be "a major support for essential services," but additional revenues would be required. Therefore, he urged Committee Members to recognize that POMV would be one component of a plan to meet the State's long-term fiscal needs. It should also be recognized that the high oil prices being experienced today would not be sustained and that, were a plan in place, residents "would be assured that critical services would continue without interruption."

ROSS SCHAEFFER, Mayor, Northwest Arctic Borough, testified via teleconference from Kotzebue and urged that a long term fiscal plan be adopted that would utilize some of the earnings of the Permanent Fund to pay for public services while maintaining and growing the individual PFD program under the POMV management system. He also supports the sharing of State revenue through an equitable municipal dividend program, a low income tax, an education tax and other taxes. He does not support a Statewide sales tax. He voiced support for an [unspecified] education bill that is being presented by the House of Representatives. Communities are struggling and that revenue sharing is needed. The elimination of the Longevity

Bonus program has created additional problems in that senior citizens are unable to pay utility bills and other expenses. Fifty percent of the municipal governments in the State would be unable to provide sufficient public services within the next years. They have had to reduce staffing, have raised property and other taxes, and resorted to other measures to address their budget problems. Municipal assistance is necessary.

SANDY SHOULDERS, Resident of Talkeetna and Representative, Parent Teacher Association (PTA), testified in Juneau that a long-term fiscal plan is essential and is long overdue. One of the PTA's positions on education funding is that it must be stable funding. Trauma to teachers, schools, and students is the result of annual budget "scrambles" in regards to staffing, supplies, and other important school components. She is "too old" to continue to deal with this "rollercoaster ride." She urged the Committee to stabilize the State's fiscal program not only for education, but also for the good of the State in general.

Co-Chair Wilken asked regarding the new Talkeetna elementary school.

Ms. Shoulders responded that it is a vast improvement over the "abominable" other school. She acknowledged the efforts of Co-Chair Green, local parents, and others who worded hard to make the school a reality.

Senator Dyson opined that the goal of stabilizing the State's fiscal situation is difficult due to the fact that the State is so dependent on the price of oil, which fluctuates dramatically. The two options available to reduce this dependency and provide stability would be to either raise taxes to provide a steady income stream with which to support State government or to reduce spending to a level that could be supported by oil revenues. People would not desire to have services reduced or to have taxes increased to a high level. He asked what method Ms. Shoulders would recommend.

Ms. Shoulders responded that personally, she would support utilization of the earnings of the Permanent Fund, as that was the reason it was initially established. She agreed that the fluctuating price of oil is an on-going issue, and therefore to continue to fund State government on that basis is ludicrous. While acknowledging that there are people who could not afford not to receive their annual PFD, she would forgo her PFD if it were so required. In addition, people who pay nothing to support State government should be paying in some manner.

Senator Dyson asked whether she would support using all of the

Permanent Fund earnings to support State government to fill that gap.

Ms. Shoulders stated that while she would resign her PFD check she could not answer for others.

Senator Bunde pointed out that in regards to stable education funding, State support for education has consistently increased, not decreased, during the time he has been involved in the Legislature. Therefore, the amount of money that was most recently budgeted for education would be the base for the next fiscal year.

Ms. Shoulders voiced the hope that as Legislators develop a fiscal plan, appropriate funding sources would be identified.

Senator Bunde responded that the source would be the same as it has been. The State either "robs Peter to pay Paul" or a new revenue source is identified. Judging from letters to the editor of the [unspecified] newspaper, he lacked the confidence that much new revenue would be generated from the community of Talkeetna.

Ms. Shoulders responded that there are other opinions aside from those printed in the newspaper.

MARY HAKALA, Parent of three school age children and Coordinator, Alaska Kids Count, testified in Juneau that the nonpartisan parent organization supports schools and children by volunteering and advocating for increased school funding. While the current \$85 million school budget is appreciated, it is inadequate to meet needs. She understood that new revenue sources would be required to support the desired level of excellence. Noting that the organization has urged parents to speak up regarding their individual funding recommendations to support of education, she stated that she personally is asking that Legislators revisit ELF to insure that the State is maximizing its yield by receiving its fair share of oil profits, especially when oil prices are elevated; would support the enactment of POMV; the utilization of "a portion of the Permanent Fund earnings to support critical services such as education," and the enactment of a broad based income tax. She urged the Committee to make education a top priority, as schools need Legislatures "to tackle the thorny issue of the revenue side of the equation."

Senator Hoffman asked whether the testifier would support an income tax or a sales tax.

Ms. Hakala responded that a sales tax would be devastating to those organized boroughs that have existing sales tax programs. Some

utilize their sales tax proceeds to support local education needs.

Co-Chair Wilken acknowledged the value of good volunteers, such as Ms. Hakala, to organizations.

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REVEREND RICHARD OLSON, Parent, testified via teleconference from Homer to speak on behalf of those people to whom the PFD is of tremendous importance, especially those people who live in Rural Alaska. A PFD check to people who earn more than \$100,000 annually is incidental. He opined that the 55 Alaskan delegates who were appointed by Governor Frank Murkowski to the Conference of Alaskans represent rich people as proven by their reluctance to support an income tax while supporting efforts to reduce PFD levels. He professed that a graduated income tax, beginning at a minimum annual income of \$50,000 should be considered, especially as this tax would capture money from those people who move to the State, earn big money, and then move away without contributing anything to the State. All other states have income taxes, so why not should Alaska. He argued that the PFD should be left alone as people depend on it. He also spoke against a State sales tax, but supported the re-implementation of a school tax. Implement a graduated income tax, and tax tourists before changing the PFD program. He also suggested that the Permanent Fund investments be conducted in a different manner.

Senator Bunde commented that numerous states do not have an income tax. The Commissioner of the Department of Revenue recently testified that those states that depend on revenues generated from income taxes, rather than a sales tax, to support state government are experiencing economic downturns. He also addressed the myth regarding the substantial amount of money that leaves the State because of non-resident workers. 90-percent of the wages earned in the State are earned by Alaskans. The average salary earned by the remaining ten-percent non-residents is \$13,000 and therefore would not be remitting any income tax were a graduated income tax program in place.

Co-Chair Green asked whether there is a bill being proposed that would eliminate the PFD as referenced by the testifier.

Co-Chair Wilken asked the testifier whether his comments were meant to indicate that there is legislation being presented to eliminate the PFD program.

Reverend Olson responded that while there is no bill being proposed to eliminate the PFD, the POMV would remove some of the excess earnings. He professed that the entirety of the excess earnings should be distributed to Alaskans. An income tax should be the first consideration.

MARY GRISWOLD, testified via teleconference from Homer and voiced support for a combination of SJR 32 and a committee substitute for SJR 18 that would establish a POMV program established at a five-percent market value payout of the Permanent Fund with 80-percent of that amount being allocated to pay PFDs. This would serve to preserve the Permanent Fund through inflation proofing, as only the principal is currently inflation-protected by an annual appropriation authorized by the Legislature, "subject to available funds." In addition, the POMV program "would prevent the erosion" of the Fund's value by "limiting spending "in times of plenty." The proposed payout method would also comply with general accounting principals, which are appropriate to the current diversified fund structure consisting of stocks, bonds, and real estate. The current payout method is no longer valid as the Fund is no longer solely invested in income producing bonds. The POMV should remain simple and comparable to the current dividend system in order to gain voter approval. While not generally accepting of dedicating appropriation language into the State's Constitution, the POMV method would be worthy of consideration. It is imperative that this issue be addressed in order to allow the State to address its fiscal dilemma. She reiterated that after inflation proofing, the remaining portion of the five-percent of the earnings as specified in the POMV plan, should be divvied out at an 80/20 percent payout, with 80 percent of the payout being dedicated to the dividend program and 20 percent being dedicated to support essential government services. This performance model would also be a more trusted model that one based on projections and short-term look-backs.

TABER REHBAUM testified via teleconference from Fairbanks on behalf of herself and voiced support for the Conference of Alaskans resolution regarding the Constitutional Budget Reserve (CBR). She noted that the question evoked by this resolution is where would the funding come from with which to stabilize the CBR. She also spoke in support of the POMV while pondering whether the voters would approve it because it is a confusing issue and voters might ascertain that it would be an attack on the Dividend rather than actually preserving it. She suggested that in order to gain acceptance, after the PFDs are paid this year, the remaining earnings should be used to balance the budget and to build up the CBR. This might further clarify how the POMV would work. She noted that the last phase in the CBR resolution is worthy of mentioning

as it reads, "Whereas Alaska must not impose self-inflicted harm." This phrase could be understood that State funding of essential services should not be reduced to a point where harm would result rather than finding ways to increase revenue. An income tax should be considered as one of the areas from which revenue could be generated. People are willing to pay their way and a graduated income tax would be a good option. Addressing the fiscal gap, and particularly addressing the need to adequately fund education, is long overdue.

DWIGHT MORRIS testified via teleconference from Fairbanks and voiced his support for the Resolutions of the Conference of Alaskans. He voiced that the earnings of the Permanent Fund alone would not be sufficient to balance the budget this year. He also supported an income tax, but not a sales tax, as it would promote Internet purchases that would drive money out of the State. It would be disastrous to communities that already have local sales taxes. He urged the Committee to balance the State budget and establish a tax plan, an income tax plan, and a budget plan. He warned that without a budget plan, the State would face a crisis similar to that currently being faced by education.

Senator Bunde clarified that he would also desire "to fix the roof before it rains rather than have it rain on our parade financially." However, he avowed that the impression that the earnings of the Permanent Fund would be insufficient to address the State's fiscal gap is inaccurate as between \$600 million and one point two billion dollars in earnings have annually been realized in the last few years. Therefore, due to the fact that this year's fiscal gap is projected to be approximately \$500 million, the earnings would be sufficient. Were a POMV plan in affect, according to the Department of Revenue, there would be enough earnings to provide both a dividend and close this year's fiscal gap. Other year's ability in this regard would depend on that year's financial market.

JERRY MCCUTCHEON testified via teleconference from Anchorage and asked what the State would depend on for income in the future when there were only 100,000, 250,000 or 500,000 barrels of oil being produced, were it to dip into its Permanent Fund earnings now. Actions today will affect tomorrow. The Permanent Fund's \$28.6 billion went to \$21.3 billion during the most recent financial market downturn before it turned around. Were the State to have invested for a modest rate of return, the balance would currently be \$31.5 billion. While the Permanent Fund value has returned to \$28 billion, it has lost one-third of its purchasing power. Therefore, it is really only worth about \$19 billion today. When compared to gold, it's value is even less. Those managing the Fund

are "asleep at the switch." Alaska's oil taxes are based on an \$18 per barrel price and the formula provides oil companies less money when the price is less than ten dollars per barrel. There is no consideration to the tax in regards to when the price exceeds \$18. OPEC has raised its barrel taxes several times to keep in line with current conditions and is today based on a \$36 dollar a barrel price. Every dollar per barrel increase over \$18 equates to \$365 million in revenue, of which the oil companies receives \$300 million and the State receives \$65 million. "A real poor split." When oil prices increase from \$18 to \$33 per barrel, the oil company receives \$5.5 billion in un-taxed revenue and the State receives \$950 million. When the price is \$36, the total revenue is \$6.5 billion: oil companies would receive \$5.4 billion "to go play elsewhere in the world and have a good time and prospect" and the State would receive \$1.1 billion. Elsewhere in the world, "those numbers would be reversed." We need to do something about this.

ERIC WOHLFORTH testified via teleconference from Anchorage and on behalf of himself and fellow convener, Arliss Sturgelewski, it was an honor to participate in the Conference of Alaskans. In his view, changes should be made incrementally rather than to be implemented within a one-year timeframe. In addition, it would be acceptable to further an adequate plan and amend it as needed rather than to delay action due to the position that an ideologically perfect plan must be developed. The Conference of Alaskans actions proceeded with that understanding and view in mind. The delegates adopted what could be referred to as a "comprehensive solution." He declared that the POMV should be specifically considered and adopted as "a separate stand-alone" methodology through which to provide a payoff from the Permanent Fund. He urged that, "the plan be adopted because it is an efficient and effective way of giving the Legislature a maximum percentage each year of amounts that can be spend each year from the Permanent Fund." He supported the notion that "an incremental plan is better than none; looking at the proposition of spending this year some amounts of Permanent Fund earnings through Legislative action;" and that, were it to be legally allowed and approved by a vote of the people, that the monies that could be spent from the Permanent Fund be utilized and prioritized to support education. This would be the first step in developing an ultimate fiscal plan. He does not support the Conference of Alaskans' Resolution in support of Constitutionalizing the Permanent Fund Dividend. He stressed that inadequate funding of education is a major issue that "will substantially detract from the future of the State." If we are looking for advancing economic development, support of education at the local and university level would be required. He also supported the implementation of broad based taxes such as tobacco and alcohol taxes.

Co-Chair Wilken thanked Mr. Wohlforth for his service to the State.

AL JUDSON, testified in Juneau and voiced that the issue of education funding is the most important issue facing the State. In addition, he questioned the continuance of the tax breaks that are afforded to oil companies. Appropriate taxation would provide needed revenue to the State. [NOTE: The quality of the recording of this testimony was substandard and therefore the testimony was difficult to understand.]

Senator Stedman responded to a comment by Mr. Judson by stating that the forthcoming move of the Marine Highway System operations staff to Ketchikan from Juneau would enable the children of the affected families to receive a quality of education equal to or exceeding that provided in the City and Borough of Juneau. The move would also be in the best interest of the State, as it would enhance the economy of the Ketchikan region and save the State money.

KEVIN RITCHIE, Executive Director, Alaska Municipal League, testified in Juneau that the League supports the POMV program as it could adequately provide PFD funding, inflation proofing, and money to support State government. In addition, the League and the Conference of Mayors would support furthering concepts that would provide education funding, the development of a municipal dividend program, and other public service programs from the earnings of the Permanent Fund. There is also support for a minimal State income tax and other taxes; however, he reminded that sales taxes are one of the primary revenue sources for many local government entities, especially those small communities that have no property tax base. Testimony in support of developing a long-term fiscal plan has been noted, as the current situation is alarming to many people including the developmentally disabled, senior citizens, and essential service providers. In the 2002 election, when the State tax cap issue was on the ballot, two out of three voters supported maintaining existing taxes as they recognize the value of what they support.

Senator Dyson expressed delight that the League is now in support of Legislators' abilities to address the State's fiscal gap as opposed to their earlier position of "no confidence."

MIKE NAVARRE former Legislator and former Mayor, Kenai Peninsula Borough, testified via teleconference from Kenai and voiced that, while he was originally ambivalent about it, he is honored to have been one of the 55 participants in the Conference of Alaskans. The Conference served to generate a lot of discussion and a focus on

the issues. "That, in and of itself, is tremendous." He voiced appreciation for the efforts of the Legislature to address the issues, and he urged them "to get on with it." He opposed any reduction of residents' PFDs, opposed using any of the earnings of the Permanent Fund to support State government, opposed an income tax and a State sales tax, opposed increasing taxes on the oil industry, opposed an increase in motor fuel taxes, but understood that all or some combination of these would be necessary. He urged that the POMV "with no attachments" be put before the citizenry for a vote, as it is an absolute no-brainer. Acknowledging that there is support for tying the POMV to such things as a Permanent Fund dividend guarantee or a spending limit would guarantee its failure as the issue is "confusing enough" as a stand alone proposal. Rather than allowing access to the earnings of the Permanent Fund, the POMV really would limit the Legislature's ability to get into the Fund. Inflation proofing of the Fund as the first course of action makes "absolute sense." He urged the Committee to support this program, as, in his opinion, those in opposition to the POMV are "just wrong."

Mr. Navarre voiced support for being able to access the earnings of the Permanent Fund and the implementation of an income tax. As a former participant in the Conference of Mayors, he had begged the Legislature in 1999, without success, to include mayors and the Municipal League in the process of developing a fiscal plan.

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Mr. Navarre concluded that the POMV should be the first step in developing a State fiscal plan and that once the public understands it, it would be embraced and supported. One of the real tragedies in this State has been the undermining of the institution of State government branches. The public does not understand the responsible job that the Legislature has conducted in regards to the Permanent Fund. Two-thirds of the Fund balance is the result of Legislative action that deposited discretionary funding into it. The public should congratulate the Legislature for their actions regarding the Fund. While acknowledging that the earnings of the Permanent Fund should be accessed, he declared that the PFD program should continue, "as it is an economic engine" in the State. He reminded that while subsurface mineral rights are the property of the State of Alaska, this is not the case in other states whose citizens utilize their assets and contribute to their state's economy. The State of Alaska utilizes the PFD program to contribute to the economy. He stated that the Resolution regarding the Constitutional guarantee for the CBR was the hardest vote for him to make at the

Conference as he could appreciate arguments on both sides of the issue...the higher the amount is set, the more he disagrees with it.

MARIE LAVIGNE testified via teleconference from Anchorage to encourage the Legislature to consider a diversification of measures through which to address the State's funding crisis. The goal would be to insure that essential public services are continued. Even though there is a focus on Missions and Measures, the budget being proposed for FY 05 would be harmful to Alaskans, particularly in the health care area. Other components that would be negatively impacted would be municipal funding, education, public safety, senior services, alcohol assessment programs, and mental health care. Continuing oil revenue as the primary source of State revenue would only result in more severe budget reductions. Things such as the POMV, a tourism tax, an increase in the tobacco and alcohol tax, an income tax, and others should be considered to generate revenue for the State. The Legislature must take a leadership role in the effort to develop a long-term fiscal plan.

RON COWAN testified via teleconference from Anchorage to urge, as a long-term care ombudsman, for increasing rather than reduced support for senior citizen services. He expressed that services could be increased without increasing funding were programs re-evaluated for the long-term. It must be acknowledged that the State is experiencing a growth in its senior citizen population as well as its special needs population. As a citizen who is interested in maintaining essential services, he would be willing to have the PFD program altered, would pay an income tax, would not support a sales tax, but would be willing to make sacrifices. Now is the time to take some personal action to help the State. He voiced dismay at hearing that people might leave the State to get their children a better education. While oil and other natural resources are important to the State, children, seniors, and other citizens are also important resources. He urged the Committee to address the issue of balancing the budget.

CLEM TILLION, Former Legislator, testified via teleconference from an offnet site in Halibut Cove and noted that when he was a member of the Legislature he was the only person who voted against repealing the State's income tax. While he would support a sales tax or an income tax, he preferred a sales tax that would be contributed in its entirety back to the community from whence it was collected to insure every area of the State would contribute. A small income tax levy would be acceptable were it based on a person's federal income tax amount. While he supported the POMV proposal, he warned that it might not be approved were it a stand-alone issue. He suggested that up to five percent of the earnings be distributed as a PFD and that each recipient's check be subject

to a specified tax withholding percentage. This would provide sufficient revenue to the State.

PAM LABOLLE, President, Alaska State Chamber of Commerce, testified in Juneau, that the Chamber supports the POMV proposal. The challenge of addressing the State's fiscal imbalance is daunting, however, by utilizing a variety of different revenue sources, a sound fiscal plan could be developed. The Chamber urges that a prioritization list be followed. First, a budget discipline with reasonable spending controls should be developed as were new revenue generated without this control it could compromise the effort. A portion of the Permanent Fund earnings should be allocated to support government services and provide for the PFD. As a last resort, implementation of a broad-based statewide tax could be considered. However, she warned that a tax could harm the competitiveness of Alaska businesses over time. She urged the Committee to address the budget this year.

Senator Dyson asked whether the Chamber would support an increase in the business tax.

Ms. LaBolle responded that the Chamber would support a broad based tax rather than targeted taxation, as the citizens of the State should support services.

Senator Dyson stated that a definitive analysis of the downside of any new tax should be reviewed. A tax increase in California actually resulted in a net decrease in revenue as people moved out of the state in order to avoid the taxes. He asked whether there are any tools available through which the effects of how a tax on a specific group could be gauged.

Ms. LaBolle stated that the Council on State Taxation has recently conducted a fifty-state study on the affects of business taxes in each state. The Internet address is www.statetaxation.com.

Co-Chair Wilken noted that testimony would now be limited to three minutes in order to compete testimony before the teleconference network terminates at 4:00 PM.

JEANNETT GRASTO, Member, Alaska Mental Health Board, testified via teleconference from Fairbanks and urged the Legislature to develop a long term fiscal plan now rather than waiting until the situation is more desperate and State services are further curtailed. She would rather pay a tax than witness some vulnerable individuals being negatively affected by service reductions. Reductions have negatively impacted proven long-term programs such as the Mental Health Board and parent support services. She supported continuance

of the PFD program as many people depend on it and it contributes to the State economy.

SUSAN STITHAM testified via teleconference from Fairbanks and pointed out that education funding is the absolute responsibility of the State. It is also an economic engine as it attracts business to a community and enhances the quality of life. There is also a moral obligation to the next generation. Funding reductions that have occurred have "whittled away funding until there is no more fat left and we are down to the marrow." Funding reductions have a negative affect each year on children. Reduced opportunities and increased class sizes is shortsighted and will short change education. She urged that legislation to increase the foundation formula funding be supported.

Ms. Stitham voiced support for the continuation of the PFD and for broad based taxes such as an income tax. She, like Mr. Tillion, would have voted against the discontinuation of the State's income tax. Sales taxes should be a local issue. The results of a recent AARP survey on taxation indicated, "that half of all Alaskans feel that the cost of human services should be shared between the individual and the State government." That is an astonishing fact in that half of Alaskans think the services should be free. Some of these people pay practically nothing to support State services.

ROSELYNN CACY, Director, Adult Learning Center, University of Alaska Anchorage, testified via teleconference from Anchorage and urged the Legislature to continue K-12 and University funding. She noted that the Adult Learning Center plays a role in furthering educational opportunities for those Alaskans who do not hold a high school diploma. She voiced appreciation for the \$300,000 general fund allocation that was combined with grant monies to fund the Center. Investing in education is a true investment.

JEFFREY TODD BROWN testified via teleconference from Anchorage in opposition to using the earnings of the Permanent Fund to support State government as the Fund belongs to the people. While other states utilize tax revenues to pay their debt, Alaska's oil revenues should be viewed as a taxation methodology that supports Alaska's debt. There would be no fiscal problem were oil companies charged the appropriate taxation rate on oil production. ELF should also be re-evaluated. It makes him "wonder" why the Legislature does not address this issue.

JUDY TOLBERT, Retired Teacher, testified via teleconference from Fairbanks to note that since retirement, she has been active in the University and has assisted in local classrooms. She is appalled that the smaller classroom sizes, one-on-one student assistance,

and teacher training achievements that have been accomplished would be undermined by the proposed budget reductions. She would support an income tax. People are spoiled by the services that are provided in this State and should be willing to contribute to support them.

EDDY BURKE, Chairman, Alaskans Just Say No Committee, testified via teleconference from Anchorage in opposition to POMV, as it would be a raid on the Permanent Fund Dividend. This type of proposal has been defeated before. Other options that could be considered would be consolidating such things as the Alaska Industrial Development and Export Authority (AIDEA) and the Alaska Housing Corporation; tourism taxation; and re-evaluation of ELF. There is reluctance on the part of the Legislature and Governor Frank Murkowski to further these options. He stated that the Alaskans Just Say No Committee has developed a form that would allow those citizens who wish to donate their PFDs to the State to do so. The majority of the testifiers today are those who are "in the take trough." These mayors, city council people, PTA people, chamber of commerce members, and others just want more money for their programs. Eighty-three percent of Alaskans, or the average citizen, are not speaking today. Were they to testify, they would be saying "no", that rather than there being a fiscal crisis, "there is an allocation problem". The spending gap is being reduced. The Democratic Party should let the Republican Party "run off the cliff" and be remembered as the political party "that raided the Dividend or implemented the largest tax increase in Alaska's history" ... a sales tax.

SOREN WUERTH, Treasurer, Alaskans Just Say No Committee, testified via teleconference from Anchorage and stated that someone told him that his organization's goal of protecting the Permanent Fund would lead to an economic train wreck. However, he countered that if it would take a train wreck to clear the rails of irresponsible leadership, let it happen. Our PFD "train has a big engine" and is morally and socially responsible. Oil and tourism industries take money out of the State, but the Permanent Fund is an economic engine that brings money into the State as the people's money is circulated within the State. The PFD is money from our natural resources and, as such, is the people's portfolio. We are all shareholders on this train and "Legislators are worried that the PFD train will come hurling down the track toward the framework of government" and without outside special interests would run the show, contrary to the situation in which Legislators want to run the show with full control. The Permanent Fund stands in the way of how the Legislative leadership wants to run the show. "Let the train wreck come." 83-percent of the citizens in the State "wish to preserve the Permanent Fund far into the distant future" and the misleading propaganda distributed by the Legislature would not

work.

GEORGE VAKALES, Chair, Board of Directors, Anchorage Chamber of Commerce, testified via teleconference from Anchorage that the Chamber supports the development of a fiscal plan that would include budget discipline, the use of Permanent Fund earnings, and the "institution of a broad-based tax."

Co-Chair Wilken asked whether Mr. Vakales would consider a sales tax a broad-based tax.

Mr. Vakales affirmed that he would.

Senator Hoffman asked whether the Chamber would prefer an income tax to a sales tax.

Mr. Vakales stated that the Chamber has not taken a position on this issue. It would best be determined by public opinion and the Legislature.

FRANCINE HARBOUR testified via teleconference from Anchorage and stated that she is a "consumer of mental health services" and that rather than being characterized as a person who just wants more services, she is simply concerned about living. She shared some of the negative affects that have occurred from reductions in mental health services. The services that are being provided help keep people alive. She asked the Committee to develop a fiscal plan that would provide adequate funding of services for vulnerable Alaskans, including the elderly, the young, and especially the one-in-four Alaskans who suffer from mental health issues.

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CLAUDIA CRISS testified in Juneau and urged that a fiscal plan be developed that would support health services, mental health services, and education. A broad-based tax would support necessary services. In addition, consideration should be given to increasing the tax levy on oil companies so that when oil prices increase, the State would receive more revenue. Efforts should also be exerted to diversify the economy, expand the State's Pacific Rim business relationships, and attract more industry in order to provide more job opportunities for our youth. This would encourage them to remain in the State.

BRAD FLUETSCH, Charter Financial Analyst, testified in Juneau and expressed that to further the focus of these hearings, which is to

develop a fiscal plan facing the State, a framework or process must be identified. Were the State his client, he would first determine the goals and objectives to include such things as what level of education, mental health, and public safety were desired. Quality of life and standards of living could be equated to dollars. What budget level would be sufficient? The next step would be to review and identify sources of income in the future with realistic levels and timeframes. Revenue sources currently include the CBR, taxes, oil revenues, the Permanent Fund, resource revenue, federal government and others. The next step would be to review the budget including State assets, their projected growth rate, and the rate of inflation. Once all this information is compiled, a determination could be made as to whether the budget goals would be achievable. Were it not, adjustments could be made and plotted into the future, to include asset risk tolerance and liquidity needs.

Mr. Fluetsch informed that he does not support POMV as the Fund consists of money that has been acquired by utilizing consumable resources. Were POMV implemented, a low payout of approximately three-point-five percent and a [indiscernible] and volatile minimal balance should be identified. The current system is currently the vehicle of choice to protect family assets from the government, spendthrift descendants, and financial scams. He supported the use of trusts.

Co-Chair Wilken asked Mr. Cremo to continue the testimony he had begun earlier in the meeting.

Mr. Cremo reiterated his support for the POMV proposal. He also stated that, to date, the State has not done too well in the fiscal area with its Constitutional amendments. He continued his comments as follow.

Incidentally, the "income-producing" requirement expressly applies to principal. Section 15 is silent with respect to the investment of accumulated income.

Another thing. Section 15 lacks a prohibition against investment in the obligations, properties and enterprises of the state. How could the Permanent Fund Corporation resist a request from a fiscally strapped legislature and governor that the fund buy back and lease back a government building or buy state bonds that brought no bids from investment bankers?

The greatest fault, however, of Section 15 is that it doesn't require that all of the oil money go into the Permanent Fund.

Endowments have two main purposed. One is to perpetuate the

flow of money to an operating entity, such as a university, a foundation or a government. The other is to stabilize the flow of money to the operating entity.

The Alaska Permanent Fund provides a good example of an endowment with the first-mentioned purpose - perpetuation. Revenue from the fund's investments continues to flow after the natural resource is exhausted.

A university's endowment provides an example of an endowment with the other purpose - stabilization of income. Wealthy alumni die and leave large amounts of money to the university. The flow of that money to the university is irregular. It could be more than a million dollars a year for a period of several years. Then, for another period, it could fall off to much less than that. If that money were treated as income, the fluctuations wouldn't be easy to manage.

In the case of the state, the oil revenue is extremely volatile. Yet the state isn't using its endowment to stabilize that revenue. Only 15-20% of the oil money goes to the Permanent Fund. With the rest going into the General Fund, the state has been fiscally unstable for years.

But the state can stabilize the flow of that oil money by routing it through the Permanent Fund. Income produced by investment would be much more sustainable than the oil money itself.

There is a proposed constitutional amendment, not on your plate, that would put all of the oil money into the Permanent Fund and cure the other defects of Section 15 as well. It would provide you with a new and simple system for funding the government.

[NOTE: Mr. Cremo's proposed amendment and transitional language regarding the Alaska Permanent Fund read as follows.

ARTICLE IX, SECTION 15 - ALASKA PERMANENT FUND.

(a) The money derived by the state (A) from the disposition of minerals and land by the state or the United States and (B) from taxation of (1) production, transportation and reservation of minerals, (2) property used in exploring for, producing and transporting minerals and (3) income from production and transportation of minerals shall constitute the Alaska Permanent Fund.

(b) Money in the fund shall be invested and reinvested, for income and capital gains, in accordance with restrictions,

prescribed by law, that emphasize preservation of the fund's assets. No investment shall be made in the obligations, properties and enterprises of the state.

(c) No money, or other asset, shall be removed from the fund except, in order to provide the state with revenue, a noncumulative amount of money that in a fiscal year does not exceed 4.30 percent of the average market value of the fund's net assets at the end of each of the six full calendar years immediately preceding that fiscal year. The revenue shall not be dedicated to any special purpose.

ARTICLE XV, SECTION 30 - ALASKA PERMANENT FUND (TRANSITION)

(a) The percentage prescribed in Article IX, Section 15, amended in 2004, for determining the amount of money that can be removed from the Alaska Permanent Fund, shall not apply until fiscal year 2016. the applicable percentage shall be 9.36 percent in fiscal year 2006 and, in each intermediate fiscal year, 0.9257 times the percentage in the immediately preceding fiscal year.

(b) The assets of the Alaska Permanent Fund prior to the effective date of the amendment of Article IX, Section 15, in 2004, are assets of the fund after the amendment.

(c) The amendment of Article IX, Section 15 in 2004 and this section shall be effective July 1, 2005.

Mr. Cremo continued his comments.

The revenue from the fund, supplemented with revenue from conventional sources in whatever amount you consider adequate, would go into the General Fund. It would fund government in an orderly fashion.

The constitutional provision wouldn't dictate to you how the revenue is to be spent. You would allocate it to all governmental services, including the one we call dividends, according to the priority you assign them.

Mr. Cremo discussed his proposed amendment as follows.

At the start of a ten-year transition the rate of withdrawal for the Permanent Fund, which would use the POMV method, would be high enough to provide revenue that, when combines with conventional revenue, would fund spending at the current level. During the transition the rate would decrease gradually. At the end of transition it would be at a sustainable level.

There is also a proposed constitutional amendment, not on your

plate, of Section 17 of Article 9.

[NOTE: Mr. Cremo's proposed amendment regarding the Budget Reserve Fund and an accompanying amendment that would provide the transitional language read as follows.]

ARTICLE IX, SECTION 17 - BUDGET RESERVE FUND

- (a) The money deposited into it in accordance with (c) constitutes the Budget Reserve Fund.
- (b) Money in the fund shall be invested and reinvested, for income, in accordance with restrictions, prescribed by law, that emphasize the liquidity and preservation of the fund's assets. No investment shall be made in obligations, properties, and enterprises of the state.
- (c) The amount by which money actually available for appropriation in a fiscal year exceeds, or is less than, the amount appropriated for that year shall, correspondingly, be deposited into or withdrawn from the fund.
- (d) Money in any amount may be appropriated directly from the fund for meeting natural disasters.

ARTICLE XV, SECTION 31 - BUDGET RESERVE FUND (TRANSITION)

- (a) The assets and liabilities of the budget reserve fund (Article IX, Section 17) that are in excess of three hundred million dollars in value, if any, shall be transferred to the Alaska Permanent Fund (Article IX, Section 15) on the effective date of this section.
- (b) The assets of the Budget Reserve Fund prior to the effective date of the amendment of Article IX, Section 17, in 2004, except those assets transferred to the Alaska Permanent Fund in accordance with (a), are assets of the fund after the amendment.
- (c) This section shall be effective July 1, 2005.

Mr. Cremo's testimony continued.

That section created the Budget Reserve Fund. It would transfer the bulk of the assets of that fund to the Permanent Fund. The amount retained would be used for funding actual deficits and, incidentally, meeting natural disasters. Thus, it could not be used to bridge projected fiscal gaps. And it would not be used for inter-fund "borrowing". Revenue anticipation financing would be available for that.

I've told you what I think is wrong with Section 15 of Article 9 of our constitution. And I've told you what I think should be done about it. But I'm not naïve enough to suggest that you do it now.

I am suggesting, however, that you refrain from making any changes in Section 15 until the time comes that it can be done right.

The people aren't in the mood to touch Section 15 except with respect to dividends. But that mood could change if you mount a massive campaign to tell them the unspun FACTS about the state's fiscal condition

Co-Chair Wilken thanked Mr. Cremo for the efforts exerted in the development of his remarks.

Senator Dyson also voiced appreciation for Mr. Cremo's comments. He voiced concern that the Legislator might look back in fifteen or eighteen years and wish that they had paid attention to what Mr. Cremo had recommended. He was disappointed that the public officials who had supported Mr. Cremo's remarks were viciously attacked the next election cycle by some "demigods" and defeated. The acquisition was that following Mr. Cremo's counsel was a raid on the dividend. This was a very unfortunate distortion of what he considered Mr. Cremo to be saying. Furthermore, he recalled a conversation in which it was discussed that were some of the budget restraints proposed by Mr. Cremo adopted, the Permanent Fund might be valued at an \$80 billion to \$100 billion level. Mr. Cremo commented that, were his recommendations followed, the endowment fund might have approached similar magnitude.

Mr. Cremo agreed that, according to calculations he had conducted in the middle 1990s, had his proposal been adopted when North Slope oil began to flow into the Alaska Pipeline the Fund "was approaching \$100 billion dollars." He wondered what it would be today were these calculation conducted. Five-percent of \$100 billion is a lot of money.

Senator Dyson agreed.

Senator Bunde thanked Mr. Cremo. He stated that currently, oil pays approximately 70 to 80-percent of the State's operating expenses and other taxes contribute 20 to 30-percent. Were Mr. Cremo's proposal enacted with the Fund's current balance, 70 to 80-percent of the State's funding would be generated from taxes and 20 to 30-percent would be derived from the earnings of the Permanent Fund. He asked whether this would be an unfair interpretation of the scenario.

Mr. Cremo stated that this is incorrect. Going forward, a 9.36 percent withdrawal of money from the Fund would be required to

support a flat General Fund State budget. In the year 2006, a relatively small amount of conventional funding would be required to be combined with the Fund amount. He stated that he could provide a spreadsheet depicting the formula.

Senator Bunde understood that the 9.36 percent withdrawal of funds would be a temporary level, as withdrawal of that amount of money could not be sustained.

Mr. Cremo concurred. He reiterated that his amendment would provide for a ten-year transition period in which the 9.36 percent withdrawal would, over time, lower to four-percent. "The rub is that during that time, as the fiscal gap grows, the dividends grow." In the beginning, there would be a substantial affect on the dividends, but, over time, their amount would increase. He suggested that the dividend program be considered a separate program. The legislature would need to make that determination.

Senator Bunde stated that he is inundated with comments from people stating that they want their PFD to continue untouched.

Mr. Cremo stated that upon cross-examination, these positions would change.

Senator Bunde stated that over-time the funding generated from the Permanent Fund to support State government would increase to approximately 50-percent.

Mr. Cremo stated that the proposal does not dictate how the money would be expended. It is only a funding mechanism.

Senator Bunde stated that were only four-percent of the earnings available, rather than the five-percent payout that would be available through POMV, the amount would equate to approximately \$600 million.

Mr. Cremo stated that in ten years, the amount would be substantially more.

Senator Bunde asked for further discussion regarding the faults with the POMV proposal as earlier referenced by Mr. Cremo.

Mr. Cremo stated that rather than utilizing a five-year average, a six or seven year cycle would be more in line with investment cycles. In addition, the proposed five-percent payout must jive with the investment objective, and a public endowment, unlike private endowments, "has to preserve the Fund." There is no investment objective currently required in Section 15. He

understood that the target should conservatively be 7.5 percent. A three-percent rate of inflation factor would therefore, provide a 4.5 percent "real rate of return." That is the extent of the Permanent Fund Corporation's reasoning in regard to the POMV proposal. However, the real rate of return does not equate to the rate of withdrawal, as it must be lower than the real rate of return. He stated that a study has been done that reflects that any fund that withdraws five percent "would eventually erode." He reviewed the calculation formula for rates of withdrawal.

Mr. Cremo stated that other fault in the proposal would be that a fiscal year rather than a calendar year should be utilized as the calendar year terminates just prior to the Legislature's convening. Also missing from the current proposed Section 15 language is the distinction between cumulative and non-cumulative in that five percent be derived from a four-percent withdrawal one year and six-percent the next year.

Co-Chair Wilken thanked Mr. Cremo and other testifiers for their participation.

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[NOTE: Due to technical difficulties, the adjournment of this meeting was not recorded.]

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ADJOURNMENT

Co-Chair Gary Wilken adjourned the meeting at 8:30 PM.