

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

April 20, 2007

7:41 a.m.

MEMBERS PRESENT

Representative Mike Hawker, Chair
Representative Anna Fairclough, Vice Chair
Representative Bob Roses
Representative Paul Seaton
Representative Peggy Wilson
Representative Sharon Cissna
Representative Max Gruenberg

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

Discussion of Conceptual Elements of a Long Term Fiscal Plan

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

No witnesses to record

ACTION NARRATIVE

CHAIR MIKE HAWKER called the House Special Committee on Ways and Means meeting to order at [7:41:37 AM](#). Present at the call to order were Representatives Hawker, Fairclough, Wilson, Cissna, Gruenberg, Roses, and Seaton.

[7:42:43 AM](#)

Discussion of Conceptual Elements of a Long Term Fiscal Plan

CHAIR HAWKER explained that the purpose of today's meeting was to discuss components of sustainable fiscal policy for the state. He provided the committee with copies of documents titled "Why was the Permanent Fund established?" from the campaign literature related to formation of the permanent fund

in 1976. He also provided a document prepared by his office and titled "Components of Sustainable Fiscal Policy for Alaska." He said that these documents were for guidance, but do not set forth specific proposals. He set forth that the committee may want to discuss various ways fiscal issues can be addressed. He noted that Representatives Gruenberg and Cissna had also provided documents for committee consideration.

[7:45:18 AM](#)

REPRESENTATIVE GRUENBERG opined that there are at least three possible dimensions related to discussions of long-term fiscal planning. First, he indicated that one needs to consider whom the planning is for. Secondly, one must consider the plan specifics for each constituent group. Next, one should consider a time framework within which to structure short, medium, and long-term solutions. He addressed the first dimension by setting forth that there is a responsibility to consider the needs of large and medium state governmental entities as well as individual citizens. He opined that there is also a need to look at measures to raise revenues as well as to responsibly manage existing assets. He offered that this type of framework may help put these issues into perspective.

[7:49:39 AM](#)

REPRESENTATIVE WILSON reminded the committee that many southeast coastal communities already have a local sales tax, and that imposition of a statewide tax would be a burden to them, especially since the cessation of revenue sharing. She opined that it is important to look at the effects of revenue issues on the state as a whole.

[7:51:02 AM](#)

REPRESENTATIVE GRUENBERG suggested the committee set forth ideas that could be placed on a matrix or other organizational chart for consideration within an integrated framework. He agreed that policy decisions made for one group may have effects on another group.

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CHAIR HAWKER suggested that the committee should consider the direction it would like to take throughout its discussion of fiscal issues. These discussions could be general or more

specific. He offered that there may be some value to formulating a statement of objectives for guidance.

[7:54:34 AM](#)

REPRESENTATIVE WILSON suggested that an ideal situation may be to suggest ways to bridge fiscal gap that may arise between now and the start up of the gas pipeline. She suggested that although she does not desire to impose taxes, she recognizes that it may be a necessary component to address budget woes as it is difficult to continue to cut budgets. She opined that since there are no statewide taxes, Alaska is the only state where the citizens do not "have a part to play" in state government except to inform the legislature of what they want. She offered her belief that if people help pay for governmental services it may be beneficial to the decision-making process, and recognized that taxes may be a burden to some.

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CHAIR HAWKER summarized that one issue to be addressed is how to "bridge the gap" between now and future resource revenues. The second issue is to address the citizens' role in long-term fiscal policy. He noted that prior to statehood, the state benefited greatly from federal funds. Upon statehood, the state entered a "subsistence era" during which it relied heavily on extraction of its natural resources. The oil era provided a huge infusion of money, which allowed for formation of accounts such as the Constitutional Budget Reserve fund (CBRF). He predicted that the next era may be the "gas era."

REPRESENTATIVE ROSES noted there had been an income tax and a school tax at one point.

[7:59:33 AM](#)

REPRESENTATIVE CISSNA referenced a document she provided the committee dated April 20, 2007 and titled "Subject: Ways and Means Fiscal Policy Discussion." She suggested that components for fiscal policy include a stable investment climate and job security, and perhaps the permanent fund provides part of the resources necessary to meet these goals. She emphasized that policy makers need to take the steps necessary to implement agreed-upon strategies. She indicated that some type of missions and measures tools may be helpful.

[8:03:13 AM](#)

REPRESENTATIVE ROSES suggested that there are currently two ways to bridge the fiscal gap: cut expenses, or use the permanent fund. He opined that as long as there is reluctance to do either of these, the only approach available to provide the current level of services is to raise additional revenues. He opined that the discussion should center on the philosophical issue of whether the legislature will commit to spending within the state's income limits. He noted it is difficult to satisfy all user groups, yet restrain spending. He offered that measures to increase taxes are based on the desire to generate more revenues to maintain current program growth rates. If the decision is made to spend more than one has, then one must determine whether to use savings, or raise additional revenues. He offered that there is a difference between spending for needs and spending for "wants."

[8:06:37 AM](#)

CHAIR HAWKER set forth that there are trade-offs in making the determinations of whether to reduce spending or raise revenues. He noted that Alaskans only have to tax themselves to the degree they are unwilling to use permanent fund earnings for public services, a situation he described as the "Alaska Dilemma."

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REPRESENTATIVE ROSES opined that it is poor business practice to borrow money when there are funds available in a savings account. Likewise, he suggested that the state does not need to generate additional revenues when there are available savings accounts. He said that when the permanent fund was being debated, literature in support of establishing the fund emphasized that it could fund projects "which could broaden Alaska's narrow based economy and bring more stability to our State," referring to the document titled "Why was the Permanent Fund established?" He offered that the \$500 million inducement for the gas pipeline being offered in HB 177 could perhaps come out of the permanent fund since it would help develop a new source of state revenue. However, he opined that there are significant political costs if a legislator recommends use of permanent fund earnings.

[8:10:22 AM](#)

REPRESENTATIVE FAIRCLOUGH stated that the first issue is that there seems to be a lack of confidence in legislative decisions,

perhaps due to the difficulty in predicting revenues in light of fluctuating oil prices. This possible mistrust may contribute to hesitation to use permanent fund earnings, she indicated. She offered that any fiscal plan must offer spending safeguards to help ensure public confidence. She opined that the citizenry understands the basic issues regarding fiscal matters and that education is a significant factor in obtaining support for policy choices. She said that education will help explain certain spending decisions based on policy, such as support of rural areas and marine transportation system. She suggested that being able to quantify spending is a valuable process and contributes to public understanding of state spending decisions. She expressed frustration with constant attempts to derail attempts at economic growth. She noted that the timber business has suffered significantly due to attempts of groups to stop timber harvests and in spite of possible environmental benefits to harvesting some older timber stands. She offered that she would like to see progress towards "bridging the gap" between now and the gas pipeline. She opined that the North Slope producers are in a powerful position with respect to the gas pipeline and are aware of the state's fiscal issues. She expressed concern that the producers may have even more leverage in the future as oil revenues continue to decline. She suggested that any fiscal plan must contain some type of limitation on government spending before the public would support use of the permanent fund earnings. She offered that it is an interesting concept to use the permanent fund as the resource for the inducements being offered in HB 177, but opined that now is not the time for that discussion. She closed by stating her belief that people would be more likely to support use of permanent fund earnings if they believed the money was being wisely spent.

[8:19:10 AM](#)

CHAIR HAWKER agreed that any attempts at fiscal planning must overcome the public's lack of confidence in the legislature's approach to fiscal matters. Secondly, he noted that there is need to spend responsibility and to support economic development.

[8:20:25 AM](#)

REPRESENTATIVE SEATON agreed that humans naturally seek to obtain more than one has. He noted that the permanent fund is doing very well financially, although the state's income stream may be declining. He emphasized that the state has large

savings accounts and opined it is somewhat ridiculous to hamper policy decisions just to avoid causing potential minor reductions in the amount of individual permanent fund dividends. He noted that there are permanent fund earnings which can be used. He reminded the committee that the legislature appropriates up to 50 percent of the fund's earnings for the dividend annually. Since these large savings accounts have effectively been "taken off the table" the state must work to generate revenue without taxing its citizens, he opined. He offered that it is difficult to formulate a fiscal plan to solve long-term problems in light of the reluctance to take steps to solve currently known fiscal problems, such as that of unfunded pension fund liabilities or community revenue sharing.

[8:25:40 AM](#)

REPRESENTATIVE CISSNA reminded the committee that there are significant differences in the wants and needs of Alaska's citizens. She agreed that human nature is to obtain as much as possible for the lowest cost possible. She opined that the citizens of Alaska have more interest and concern about government than citizens of other states. She set forth that the citizens are concerned about the issues of unfunded pension liabilities. She suggested that determining spending patterns and identifying "sacred cows" when formulating fiscal plans would be beneficial. She offered her belief that money is going places "that we are not being really aware of or owning up to," and suggested that be looked at.

[8:30:07 AM](#)

REPRESENTATIVE FAIRCLOUGH noted that the permanent fund dividend is a common thread among all Alaskans and suggested there may be ways to look at this common thread in a new way to help find a financial path that is palatable for all concerned.

[8:31:57 AM](#)

REPRESENTATIVE WILSON opined that the committee members can work to envision the future to come up with strategies for the future. She expressed the need to examine public perception as "perceptions are reality." Once the perceptions are determined, then education efforts can be used to correct any inaccuracies and to explain future plans. She offered that perhaps educational efforts regarding the state's positive environmental efforts would be helpful to change any negative public perception in this area. She suggested that the permanent fund

dividend program be evaluated to consider the possibility of a future limit on the growth of the dividend amount. She suggested that, if done now, dividend receipts could plan on knowing that their dividends would be capped at a certain point and that the additional earnings would be used for other purposes. She noted that flat funding in areas such as education results in a budget reduction for those areas. She opined that education efforts regarding long-term fiscal matters may be difficult due to differences in individuals' abilities to evaluate possible future scenarios.

[8:38:58 AM](#)

CHAIR HAWKER agreed that it would be useful to consider some type of limit or cap on the growth of permanent fund dividends, and perhaps some mechanism to allocate earnings between dividends and other public purposes.

[8:39:34 AM](#)

REPRESENTATIVE GRUENBERG suggested that there are some common threads to the comments made and opined that order can come out of chaos. He noted that there are several different audiences to consider including the public and those within the legislature itself. He suggested that this committee has the luxury to consider a broad and basic mandate when reviewing the state's approach to fiscal matters. He opined that this committee's task may be to focus people's attention on fiscal issues. He predicted that the state will begin to do long-range planning in the near future. He suggested the committee could focus on "bridging the gap" from now until the start of the gas pipeline by defining the gap and suggesting methods to sustain fiscal stability in light of a possible gap between revenues and spending.

[8:45:42 AM](#)

REPRESENTATIVE ROSES reminded the committee that communities started imposing fees for water and sewer costs as state funding to communities lessened. When revenue sharing ceased, many communities increased property taxes, he explained. As a result, citizens have been paying some share of costs for services, he opined. He suggested that citizens do pay for services because communities will issue bonds or assess sales taxes to get around spending limits caused by taxation caps.

[8:48:58 AM](#)

REPRESENTATIVE WILSON agreed that local communities pay for services, but at different rates. She suggested that some smaller communities pay more in taxes than larger ones.

CHAIR HAWKER noted that there is a geographic difference across the state in the amount of taxes paid.

[8:51:43 AM](#)

REPRESENTATIVE FAIRCLOUGH set forth the possibility of a roundtable discussion with the administration with regard to fiscal matters, especially in light of the political climate supporting ethical, honest, and transparent behavior leading to change. She clarified that she understands that the state currently has a poor cash flow, but significant savings accounts available. She offered that such an approach may be helpful to the formulate a future vision for financial planning.

[8:54:06 AM](#)

REPRESENTATIVE GRUENBERG expressed support for actions which may focus some attention on this committee's work and provide additional support for the passage of HB 125.

CHAIR HAWKER reminded the committee of the need to be mindful of the separation of powers and the possible controversial nature of some issues presented.

REPRESENTATIVE GRUENBERG suggested that communication with the administration may help to set a tone and provide a positive start for the discussion of fiscal issues.

CHAIR HAWKER explained that the future schedule would be determined next week, noting that the committee had considered all bills referred to it.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at [8:57:03 AM](#).