

**ALASKA STATE LEGISLATURE  
HOUSE SPECIAL COMMITTEE ON FISCAL POLICY**

April 2, 2012

4:35 p.m.

**MEMBERS PRESENT**

Representative Anna Fairclough, Chair  
Representative Alan Austerman  
Representative Bob Herron  
Representative Lance Pruitt  
Representative Tammie Wilson  
Representative Scott Kawasaki  
Representative Chris Tuck

**MEMBERS ABSENT**

Representative Craig Johnson (alternate)

**COMMITTEE CALENDAR**

PRESENTATION: UNDERSTANDING ALASKA'S BUDGET

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

CADY LISTER, Senior Consultant  
Information Insights  
Anchorage, Alaska

**POSITION STATEMENT:** Presented a PowerPoint titled  
"Understanding Alaska's Budget."

SHANNA ZUSPAN, AICP  
Agnew::Beck  
Anchorage, Alaska

**POSITION STATEMENT:** Presented a PowerPoint titled  
"Understanding Alaska's Budget."

**ACTION NARRATIVE**

[4:35:23 PM](#)

**CHAIR ANNA FAIRCLOUGH** called the House Special Committee on Fiscal Policy meeting to order at 4:35 p.m. Representatives Fairclough, Kawasaki, T. Wilson, and Herron were present at the call to order. Representatives Austerman, Tuck, and Pruitt arrived as the meeting was in progress.

**Presentation: Understanding Alaska's Budget**

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CHAIR FAIRCLOUGH announced that the only order of business would be a presentation about Understanding Alaska's Budget.

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CADY LISTER, Senior Consultant, Information Insights, explained that the consulting groups, Information Insights and Agnew::Beck, were hired to "create a toolbox to assist with public understanding of the state budget and to design a process that would engage the public in a meaningful dialogue about our fiscal future." She shared that this toolbox resulted from recommendations of the 2010 Fiscal Policy working group, a subcommittee of the House Finance Committee. She declared the goal of the project to be an increase of the awareness and engagement for the general public "and to provide them with the knowledge and tools that they need to be able to participate in meaningful dialogue about our shared fiscal future." She explained that this presentation was phase one of two distinct phases, and was covered under the current contract. She shared that the second phase, should the legislature decide to move forward with it, would be to conduct the public outreach effort using these tools and designs created in the current phase. She summarized phase one, declaring that there had been completion of an extensive literature review, informant interviews, a statewide telephone survey, and testing using the developed material and process. She noted that the remaining tasks were for integration of the committee's input and training for any legislators and staff who were interested in using the material and process for public meetings.

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MS. LISTER suggested that the public forums include content area experts to explain each slide in the presentation. She referenced slide 2, "Meeting Agenda" and explained that the basic agenda was designed for a three hour presentation. She

outlined the meeting agenda to include, in order of presentation: a pre-survey for information sharing and education, a question and answer period, a small group exercise, a report-out from each group, a post survey, and a closing. She directed attention to the more detailed agenda [Included in members' packets].

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MS. LISTER explained that participants would be asked to answer a series of questions at the beginning of each meeting, slide 3, "Tell us what you think?" She noted that an electronic audience survey, ConSensor, would be used whenever possible, although a paper copy would also be available. She specified that the participants were asked about preferences and priorities regarding state services, to gauge the level of knowledge and interest in Alaska's fiscal issues. She shared that some of the questions were asked at both the beginning and the end of the meetings, to catalog any change in response from the additional information and dialogue. She confirmed that the results of the meetings could easily be summarized and analyzed in both aggregate and locally.

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MS. LISTER explained slide 4, "Fast Draw," which conveyed key concepts necessary to talk about Alaska's fiscal future in a 90 second video.

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MS. LISTER called attention to slide 5, "Where does Alaska's Money come from?" which covered revenue, spending, savings, and the fiscal gap, and began the informational portion of the public meeting slides. She moved on to slide 6, "Oil Revenue," and described that the three primary sources of revenue for Alaska's money were oil, federal government, and earnings on investments. She stated that oil revenue to the state was about \$9.2 billion in FY 2012, more than 50 percent of the total revenue and nearly 90 percent of the general fund. She explained that the general fund was the primary source for payment of state services, and that oil revenue was dependent on the number of barrels produced, the price of oil, and the tax structure imposed by the state.

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MS. LISTER explained that although the federal funds paid to Alaska were about \$3.1 billion in FY 2012, about 20 percent of the total revenue, they were not included in the state's general fund, slide 7, "Federal Dollars." She detailed that Alaska received more federal funding per capita than any other state and this was an historically stable funding stream for Alaska. She clarified that federal money was for specific purposes, including Medicare and large infrastructure projects. She opined that the amount of federal funding could be jeopardized in the future.

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MS. LISTER moved on to slide 8, "Savings & Investments," and remarked that this was the third source of revenue for Alaska, but it was rarely used to pay for government operations. She pointed out that most of the earnings revenue was from the permanent fund, and this was used to pay dividends and protect the permanent fund principal from inflation. Addressing slide 9, "All Other Revenue," she reported that the remainder of state revenue was grouped into other revenue, which accounted for 6 percent of the total revenue and 9 percent of the general fund. She clarified that some of this revenue was restricted, to be used for specific purposes. She listed the other revenue sources to include taxes on alcohol, tobacco, and state corporate income.

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SHANNA ZUSPAN, AICP, Agnew::Beck, moved on to slide 10, "Where does Alaska's Money go?" She detailed that Alaska's projected expenditure for FY 2012 was \$13 billion, divided into four categories, as shown on slide 11, "Total State Spending": operations, which included statewide expenses and agency budgets, 66 percent; capital projects, 21 percent; savings payments, 8 percent; and permanent fund dividends, 5 percent.

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MS. ZUSPAN explained slide 12, "Per Capita Spending," analyzing that Alaska spent more per Alaskan than any other state, and reporting that states with low populations tended to have a higher per capita spending.

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MS. ZUSPAN summarized slide 13, "State Agency Spending," which depicted the annual operating and capital budgets for each of the 18 state departments. Directing attention to slide 14, "Budgets over \$1 Billion," she detailed that the four largest state agencies were Department of Health and Social Services, Department of Education and Early Development, Department of Transportation & Public Facilities, and the University of Alaska.

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MS. ZUSPAN, reviewing slide 15, "The last 10 years: State Operations," commented on the increases to agency expenses, for both department and statewide operating costs. Slide 16, "The last 10 years: Total Spending," also depicted spending, but the bar graph included the deposits to both savings and the permanent fund dividends.

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MS. ZUSPAN moved on to slide 17, "How much does Alaska have in Savings?" and listed those savings: the constitutional budget reserve, the permanent fund earnings, the permanent fund principal, and specialized state savings accounts.

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MS. ZUSPAN evaluated slide 18, "Permanent Fund," which charted the earnings of the fund since 1978 to its current principal of \$40 billion. Explaining slide 19, "Constitutional Budget Reserve," she shared that the reserve was a mechanism used to offset annual deficits, although it had to be re-paid.

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MS. ZUSPAN, slide 20, "Other Savings," stated that there was \$2.1 billion in dedicated savings for public education, revenue sharing, and power cost equalization funding; and, another \$4.6 billion in the statutory budget reserve for general use funding.

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MS. LISTER spoke about slide 21, "What is a fiscal gap?" and slide 22, "So What's the problem?" She explained that any government could have a deficit in years when revenue fell short of expenses, but that it should be repaid in good years. She defined fiscal gap as a persistent or structural deficit that

occurred when the regular sources of revenues were insufficient for spending, even in good years.

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MS. LISTER disclosed that oil production, which paid for the majority of Alaska's government services and projects, was declining while the state budget was increasing, slide 23, "Declining Oil Production" and slide 24, "Declining Oil Revenue." She declared that high oil prices would not protect Alaska from declining oil production forever.

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MS. LISTER moved on to slide 25, "The Future: Spending Projections," and stated that the costs of government were expected to increase at about 6 percent per year. She opined that solving a potential fiscal gap could not be achieved through budget cuts alone without destroying state services. Considering slide 26, "Unless something changes," she declared that Alaska's spending would exceed its revenue in the next few years, as reflected on the chart of revenue from FYs 2007 - 2021, and that the state would need to spend savings by FY 2015.

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MS. LISTER, referring to slide 27, "Fiscal Gap: What can we do?" shared that although there was still some time, current projections showed that savings would be spent by 2030. She emphasized that this expenditure of savings did not include the principal of the permanent fund. She listed some options, which included: encourage new oil exploration, support a natural gas pipeline, use the permanent fund earnings, develop other natural resources, bring back personal income tax, create a statewide sales tax, tax other industries, increase savings now for the future, and cut the budget. She declared it to be very unlikely to find a "silver bullet" solution, that it would take efforts to both increase the revenue and reduce the growth of spending. She established that these slides were the framework for the information and education portions of the public meetings.

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MS. ZUSPAN announced that, after the question and answer session in the public meetings, the small group exercise would begin, slide 29, "Small group business planning exercise." She explained that they would form into small groups, and engage in

a business planning activity. She described that the distributed worksheets allowed the groups to make changes to the current budget structure, while following certain attached rules, and pointed out some of the strategies and alternatives that would be available. She then detailed ways to identify new revenue sources and apply them to the budget, including the building of a pipeline, the creation of a sales tax, or the use of permanent fund earnings for state services. At the end of the break-out session, each group would report to the other groups, and determine the impacts from these decisions.

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MS. LISTER finished up with slide 31, "Tell us what you think?" and discussed the post-meeting survey. She shared that some of the questions were similar to those asked prior to the meeting in order to reflect any changes for issues or preferences.

MS. ZUSPAN, offering suggestions for the future use of this information, proposed informal constituent meetings, formal public meetings throughout the state, or a fiscal policy summit of participants in the public meetings. This meeting would take these suggestions and provide recommendations.

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CHAIR FAIRCLOUGH opened discussion.

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REPRESENTATIVE T. WILSON stated her appreciation that the public did not have to stay for the entire [three] hour meeting and she asked about the timing of the small group exercise.

MS. ZUSPAN explained that the small group exercise would take place after the 45 minutes allocated to the worksheets.

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REPRESENTATIVE HERRON expressed his praise for the proposed public meeting agenda and its toolbox approach for better public understanding. He offered his belief that while some people would stay for the entire exercise, others would just "want to come and sort of catch the flavor." He asked if it was possible to offer a snapshot for anyone who was not able to attend for the entire three hours.

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MS. LISTER directed attention to the accompanying website which offered much more in-depth information than the presentation. She stated that there were also materials at the meeting which people could take.

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MS. ZUSPAN pointed out that there was a break in the agenda between the presentation and the business planning exercise, which allowed for an easy exit. She shared that a similar three hour presentation had fully engaged the participants.

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CHAIR FAIRCLOUGH explained that this was an opportunity to focus the information and visual materials for legislators to present in their communities. She opined that these choices for additional economic investments should be addressed "sooner rather than later for the health of Alaska's economy as well as the health and well-being of the people of Alaska."

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REPRESENTATIVE AUSTERMAN asked if the proposed website would contain this same information.

MS. LISTER replied that it would contain this, as well as other information.

REPRESENTATIVE AUSTERMAN, using examples of the presentation that needed explanation, expressed concern that people visiting the website could not get their questions answered immediately. He specified that the definition for savings was sometimes confused with earnings.

CHAIR FAIRCLOUGH advised that the ability to click on a picture on the website would allow access to background information.

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REPRESENTATIVE HERRON recommended use of the previously presented video, "fast draw," as a background explanation.

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REPRESENTATIVE AUSTERMAN, directing attention to slide 8, "Savings & Investments," suggested that the proportion of the piggy bank be more closely aligned to the actual size of the savings. In reference to slide 9, "All Other Revenue," he noted that expansion of the economic base should also be included.

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CHAIR FAIRCLOUGH directed attention to slide 27, "Fiscal Gap: What can we do?" and proposed to re-prioritize the choices on the list, with "Cut the Budget" moving closer to the top of the list from the bottom of the list. She reiterated that there were choices for additional revenue and budget cuts.

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REPRESENTATIVE AUSTERMAN clarified that there was still time to react to the future needs. He offered his belief that it was important to discuss the creation of new industries in Alaska, and not to focus solely on the increase of taxes.

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REPRESENTATIVE HERRON, directing attention to slide 25, "The Future: Spending Projections," reflecting that it was too general, asked what was true inflation when a 6 percent projected rise in operating cost was factored.

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CHAIR FAIRCLOUGH suggested the addition of a tab at the bottom showing actual inflation rates or the consumer price index. She pointed out that non-negotiable contracts were drivers to significant increases in the state operating budget.

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REPRESENTATIVE HERRON opined that there was no one factor to generalize the use of 6 percent as the percent of annual cost increase.

CHAIR FAIRCLOUGH, observing that labor was a significant percentage of the operating budget, asked if there was any data for the actual increase of wages. She declared that non-bargaining unit wages were under consideration for an increase when the bargaining unit contracts were increased.

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REPRESENTATIVE AUSTERMAN requested that another graph show the increase to state operating costs based solely on Alaska inflation.

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REPRESENTATIVE TUCK, reflecting on the Anchorage School District budget, reported that the two most significant factors for increases were energy and PERS/TERS. He opined that these increased exponentially faster than any other expenses. Noting that Alaska's energy costs were significant, he suggested that the graph for inflation increases include a comparison with the national rate, as well. He asked about the increased cost of health care.

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MS. ZUSPAN explained that the projected 6 percent increase was the publicized forecast of high level spending growth from David Teal, Legislative Finance Division, and she offered to delve into this for more key components.

CHAIR FAIRCLOUGH shared that, although the PERS/TERS obligation had been "held flat at 22 percent," the anticipated growth of health care costs was increasing the contribution level from the state. She opined that this obligation would "top off at somewhere around \$1 billion of annual payments." She confirmed that this one allocation would be a significant percentage of a \$9.6 billion budget.

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REPRESENTATIVE TUCK, directing attention to slide 14, "Budgets over \$1 billion," asked to clarify that the funding for each department was reflective of the general fund percentage as a total of the department budget and not as a percentage of the total general fund. He moved on to slide 22, "So What's the Problem?" and stated that this would be better illustrated with a curve similar to that on slide 23. He asked that slide 23, "Declining Oil Production," and slide 24, "Declining Oil Revenue," be combined to show the production, revenue, and oil price on one page.

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CHAIR FAIRCLOUGH suggested a drop down box to provide more information that the public might request on oil production and operating costs.

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MS. LISTER confirmed that there were more graphics on the proposed website, and that "story telling pop up boxes so that you have to view the images in a certain order" were an excellent tool to show how it will all come together.

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REPRESENTATIVE TUCK expressed his agreement with Representative Austerman that the presentation show the option for developing new industries as a source of revenue. He reflected on the need for low interest loans to fund new energy projects instead of "giving the money away." He opined that this revenue from loan re-payments would allow Alaska to finance more projects in the future.

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CHAIR FAIRCLOUGH expressed her agreement with Representative Tuck. Musing about private business partnerships with the state, in order for the state to have a rate of return, she opined that the private community would have concerns about competition with other private businesses in negotiating partnerships with the state, even though the appropriation process allowed for this selective support by the state.

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REPRESENTATIVE HERRON asked if the complete on-line presentation package would work in regions with slow or no broadband.

MS. LISTER replied that although the website was designed for rural communities, it was not intended to be used as part of the public meeting process.

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CHAIR FAIRCLOUGH clarified that the presentation would be a paper product, available anywhere in the state.

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REPRESENTATIVE TUCK offered his agreement that the information should be quickly available.

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CHAIR FAIRCLOUGH noted that slide 12, "Per Capita Spending," should be footnoted that it was FY 2012 and it included capital and operating spending.

MS. ZUSPAN clarified that slide 12 conveyed information from FY 2010, and she would report back whether it reflected capital and operating spending.

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MS. LISTER, in response to Representative Austerman, explained the conundrum in defining whether state spending included distribution of dividend checks, or placement of funds into the reserve account.

REPRESENTATIVE AUSTERMAN offered his belief that this could be confusing to the public.

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MS. ZUSPAN proposed a change to the slide description to read "spending on savings and dividends."

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CHAIR FAIRCLOUGH recommended inclusion of "permanent fund and savings" as spending. She explained that, although these items were considered spending by an accountant, they were budgeted as savings by state legislators.

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REPRESENTATIVE TUCK asked to clarify whether "spending on savings" included the permanent fund dividend and other state savings accounts. He posed that the permanent fund dividend be listed as a separate category.

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CHAIR FAIRCLOUGH submitted that a drop down box could clarify the details. She asked if the enhanced technical details would affect access to the website for Rural Alaska.

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REPRESENTATIVE HERRON, declaring the importance for clarity with the initial slide, pronounced that his constituents considered the permanent fund to be a dividend, not an expense.

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CHAIR FAIRCLOUGH advocated to use "share" instead of "spend" when describing the distribution of the permanent fund dividend.

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REPRESENTATIVE AUSTERMAN, directing attention to slide 8, "Savings & Investments," advised a change of title to "Earnings & Investments." He opined that the permanent fund generated earnings on investments, and not savings.

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CHAIR FAIRCLOUGH, referring to slide 8, submitted that the graphic for the piggy bank be a size to visually reflect the relative size of the earnings. She emphasized that it was also necessary to clarify that there was limited access to some of the savings accounts, such as the permanent fund and the constitutional budget reserve. She concurred with Representative Austerman for a change of wording to "Earnings & Investments."

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MS. LISTER observed that it was necessary to carefully present the permanent fund in order to not "overwhelm the conversation." She agreed that the determination of permanent fund dividends as spending was tricky because they were a source of operational revenue. She offered her belief that, although most Alaskans did not realize that the permanent fund earnings could be used for government operations, it was important for them to grasp how the earnings could be used.

REPRESENTATIVE TUCK, referring to slide 12, proposed deleting the second paragraph, "If you include "spending" on savings, the figure is \$17,000 per person."

[5:45:07 PM](#)

REPRESENTATIVE AUSTERMAN, referring to slide 5, "Where does Alaska's Money come from?" put forward that "savings" in the pie graph be replaced by "earnings." He noted that the "earnings" in the pie graph could be further divided to reflect the spending of those earnings.

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REPRESENTATIVE PRUITT agreed that clarification was necessary, to recognize that the money was coming from investments.

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CHAIR FAIRCLOUGH indicated that the permanent fund was not part of a discussion for fiscal policy and planning, and she emphasized that there was not any current consideration for accessing the permanent fund. Recapping that, although annual investments were to ensure the longevity of the permanent fund, Alaskans could choose to use permanent fund earnings to provide for state government.

REPRESENTATIVE AUSTERMAN clarified that, although he did not want to spend the permanent fund, it needed to be treated as an asset.

CHAIR FAIRCLOUGH, referring to slide 12, offered her belief that it was necessary to inform Alaskans for how much was being invested in Alaska to provide for Alaskans. She proposed that the silhouetted figures at the bottom of the slide represent areas of expense and allocation.

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REPRESENTATIVE PRUITT submitted that slide 13, "State Agency Spending," also have graphic representations for the spending by each agency.

CHAIR FAIRCLOUGH offered her belief that Alaskans valued health care, and wanted to ensure access to the health care. She questioned how to illustrate the cost and the unsustainable trajectory of health costs based on revenue.

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MS. LISTER reflected that while health care and education were both highly valued in the survey, there was a clear understanding that they were quite costly to the state. She

expressed agreement that the cost of health care was somewhat underestimated by Alaskans.

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MS. ZUSPAN referenced slide 13, "State Agency Spending," and explained that the original format was a pie chart which included budget and revenue source for each department; however, the focus group had spent too much time trying to decipher it. She pointed out that slide 13, and slide 14, "The Last 10 Years: State Operations," were a result of this response. Per this experience, she opined that too many graphics could overwhelm the message.

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REPRESENTATIVE AUSTERMAN referenced a chart that had been presented by David Teal, Legislative Finance Division, which used a line graph to depict year by year inflation, along with "those two big elephants in the room," the decline in oil production and the increase in operating costs. In response to Ms. Lister, he said that audiences were immediately impacted by this chart.

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CHAIR FAIRCLOUGH, referring to slide 12, "Per Capita Spending," suggested it show that the "lion's share of our budget" was to the Departments of Education and Early Development, Health and Social Services, and Transportation & Public Facilities.

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REPRESENTATIVE HERRON opined that it was difficult to explain to ordinary people that the increase in oil revenue was masking the decline in oil production, while they were making daily decisions between the purchase of food or fuel. He offered his belief that Alaskans had lost their share of discretionary spending.

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REPRESENTATIVE PRUITT stated that this presentation was a good baseline and could be utilized. He opined that the general public needed more information to better understand the key pieces.

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REPRESENTATIVE AUSTERMAN indicated his desire to convey to the public an understanding for the sources of revenue and that, as these were non-renewable, action would be necessary to "fill that gap that's going to be created and be prepared." He reflected on the necessity for determining the new business climate and the new tax base.

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REPRESENTATIVE TUCK expressed his appreciation for the process, declaring that motivation resulted from education. He opined that the dialogue would achieve good solutions for the state, that constituents, especially those who did not usually participate, would attend these presentations and become involved.

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CHAIR FAIRCLOUGH suggested a change to the background color of the graphics to better accommodate reproduction on non-color copiers. She summarized that the purpose of this meeting had been for direction toward finalizing this presentation of Alaska's finances in the future. She asked that any comments be remitted to her office by April 9.

[6:03:40 PM](#)

**ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Fiscal Policy meeting was adjourned at 6:03 p.m.