

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, TOURISM, AND
ARCTIC POLICY

December 9, 2015
9:29 a.m.

MEMBERS PRESENT

Representative Bob Herron, Chair
Representative Cathy Tilton
Representative Dan Ortiz
Representative Adam Wool (via teleconference)

MEMBERS ABSENT

Representative Craig Johnson
Representative Charisse Millett
Representative Louise Stutes

OTHER MEMBERS PRESENT

Representative Bryce Edgmon (via teleconference)
Representative David Guttenberg (via teleconference)

COMMITTEE CALENDAR

OVERVIEW(S): COMMONWEALTH NORTH ACTIVITIES

- HEARD

PRESENTATION(S): UNLOCKING THE POTENTIAL OF THE PERMANENT FUND;
ALASKA'S CURRENT ECONOMIC CLIMATE; AND SECURING ALASKA'S FISCAL
FUTURE AND ARCTIC OPPORTUNITY

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

MARY ANN PEASE, President
Commonwealth North
Anchorage, Alaska

POSITION STATEMENT: Co-presented an overview of the activities
of Commonwealth North.

CHERYL FRASCA, President-Elect
Commonwealth North
Anchorage, Alaska

POSITION STATEMENT: Co-presented an overview of the activities of Commonwealth North.

SCOTT GOLDSMITH, Professor Emeritus
Institute of Social and Economic Research (ISER)
College of Business and Public Policy
University of Alaska Anchorage
Anchorage, Alaska

POSITION STATEMENT: Presented "Unlocking the Potential of the Permanent Fund: A Game Plan for Meeting Alaska's Fiscal Challenge".

NEAL FRIED, Economist
Research Section
Department of Labor and Workforce Development
Juneau, Alaska

POSITION STATEMENT: Presented "Alaska's Current Economic Climate".

MARTIN CARY, Vice President and General Manager
Managed Broadband Services
General Communication, Inc. (GCI)
Anchorage, Alaska

POSITION STATEMENT: Presented "Alaska's Current Economic Climate".

ACTION NARRATIVE

[9:29:12 AM](#)

CHAIR BOB HERRON called the House Special Committee on Economic Development, Tourism, and Arctic Policy meeting to order at 9:29 a.m. Representatives Tilton, Ortiz, Wool, and Herron were present at the call to order. Representatives Edgmon and Guttenberg were also present.

OVERVIEW(S): COMMONWEALTH NORTH ACTIVITIES

[9:30:29 AM](#)

CHAIR HERRON advised the meeting is a coming together to listen to Alaskans on Alaska's economic outlook, and announced that the

first order of business would be an overview of the activities of Commonwealth North.

[9:31:26 AM](#)

MARY ANN PEASE, President, Commonwealth North, discussed Commonwealth North's focus on energy related issues and projects. She discussed slide 2 of the PowerPoint presentation and advised that Commonwealth North continues to focus on public policy issues related to Alaska, and that Cheryl Frasca will take over as president next year. She offered that Commonwealth North is a public policy membership organization founded in 1979 by Governors William A. Egan, and Walter J. Hickel, with a mission to address critical issues affecting Alaska in an objective and non-partisan manner and to offer recommendations. She said that the dedicated board of directors meet in various study groups, action collisions, and policy committee meetings and put a lot of due diligence into public policy issues.

MS. PEASE referred to slide 3, and paraphrased [original punctuation provided]:

We have completed eight major studies on Alaskan public policy including the strategic importance of the arctic in U.S. policy decisions, Railbelt energy, rural and alternative energy. We've also looked at Alaska's oil tax structure, the state budget, and have kind of a roadmap for transportation and energy infrastructure development.

Our reports provide members and policy makers, and legislators, and Alaskans who are our major stakeholder, the fundamental tools needed to make changes and think about those public policy issues that, you know, direct our future.

[9:34:32 AM](#)

MS. PEASE continued and discussed slide 7:

One of our most recent reports which Cheryl will go into in a little bit more detail is The State's Operating Budget: Critical Crossroads, Choices and Opportunities which has been widely distributed among policy makers, the state chamber, and is shaping many of the discussions that we see before our state's fiscal future.

[9:34:54 AM](#)

CHAIR HERRON referred to the above report and requested an example of significant criticism, and a significant "you hit the nail on the head."

[9:35:13 AM](#)

CHERYL FRASCA, President-Elect, Commonwealth North, advised that she chaired the fiscal policy study group with Eric Wohlforth, and explained the following:

Criticism from our study group was that we only wanted to talk about the operating budget, and ah so, they really wanted to go and talk about more revenue, but we know the focus of the reports really focus on [the] spending side of the fiscal gap which frankly, not a lot of organizations spend time doing. So I'd say the limited scope of it was the negative feedback we got.

And the other would be ... we didn't specify ... ah ... specific spending cuts in more identified areas that we felt should be evaluated further ... um ... and made more recommendations about how to approach it.

On the spending cuts side, we didn't have the time to do that or the resources necessarily, but if necessary that is an area if the study group wants to go down that path, we will continue.

[9:36:22 AM](#)

MS. PEASE advised that one of the studies performed, with Representative Bryce Edgmon, was Energy for a Sustainable Alaska, The Rural Conundrum, and during that study group reviewed issues associated with transportation, delivery, alternative energy, renewable energy sources, propane, and the extremely high cost in many rural parts of the state. The goal was to get off of the diesel benchmark that many of the villages use, but each village and community were so different in that there was no "single bullet" that would magically correct the energy situation. She listed the transportation difficulties, icing of the rivers and streams during winter, the distance, and the ever-changing price which many of the (indisc.) are linked to in terms of fluctuations in oil, and there is the high cost

of any renewable or other alternatives. She advised that the "other" report prepared by Commonwealth North a few years ago discussed the Railbelt predicament of running out of natural gas and the possibility of importing LNG. Obviously, she said, the programs that were put in place to incentivize the revitalization of Cook Inlet resulted in new wells being drilled, new energy sources online, and instead of importing LNG, the state resumed exports of LNG to Asia, and is looking at the development of other LNG projects in Cook Inlet both for the interior of Alaska as well as smaller scale for export.

[9:38:34 AM](#)

MS. PEASE pointed out that LNG is very critical in Cook Inlet as not only does it provide a backstop for energy for Southcentral during the cold winter months, it also incentivizes additional exploration drilling and development. Currently, she explained, should a producer/explorer decide to go after several gas wells, the gas would basically be stranded and financing on stranded gas is extremely difficult. Therefore, smaller LNG projects could provide backup for the state's winter needs and be available for summer export. Thereby, matching the principle of "supply and demand."

[9:39:21 AM](#)

CHAIR HERRON asked the date of this [report].

MS. PEASE opined that it was approximately four years ago.

CHAIR HERRON surmised that if it was a predicament four years ago, what is it today.

MS. PEASE responded that it is "an opportunity. It's true ... the Railbelt opportunity is what we would be looking at with the new suppliers. We didn't have Furies, we didn't have the Cook Inlet energies of the world, we didn't have Apache {Corporation} in full force, Buchaneer [Energy Limited] has changed hands is now operating under other entities, both Cook Inlet Energy as well as Cosmopolitan under BlueCrest [Energy]." She pointed out that all of those are exploring for oil and gas, have been successful, and need a market to continue their exploration programs. Early development wells could show possibility, but it is not until getting into full-on production that there is security, she remarked. Currently, she noted, it is difficult to get it onto fully production in that there could be minimal quantities that would be funded for the development, but full

production requires a substantial investment without a market today.

[9:40:44 AM](#)

REPRESENTATIVE ORTIZ referred to the recent tax credit incentive program to help solve the Railbelt predicament and asked whether, based on the state's current fiscal situation, it is the position of Commonwealth North that it would be a good decision by the state to scale down that incentive program that was put in place during the time of the Railbelt predicament.

MS. PEASE advised that their study group that meets every other Friday has had several presentations from the Cook Inlet producers, as well as the State of Alaska. The study group's interest is regarding sustainable long-term economic opportunity and believes there is opportunity to restructure the existing tax credit system, but doing away with it completely would be premature. She acknowledged that it needs to be restructured, but something still needs to be in place that will continue exploration and development in Cook Inlet on a go forward basis.

[9:42:28 AM](#)

MS. PEASE referred to the Energy Action Coalition [slides 4-6], and stated that "great" groups of presenters come in with specific expertise in various areas, such as new coal gasification projects that Furie Operating Alaska is looking at to link energy, to the developers, explorers and producers, and utilities. She pointed to their web site and advised there is a complete compilation of all of the presenters over the last three to four years that shows how things have changed in the Railbelt over time. Commonwealth North brought in state experts, Department of Natural Resources (DNR) discussed the upgraded 19 trillion cubic feet of gas potential in Cook Inlet under the recently released USGS study, and many other experts in DNR, Department of Revenue (DOR), and other parts of the state administration that have supported Commonwealth North's efforts and review of materials.. Commonwealth North has looked at taxing, different revenue sources for oil and gas - offshore as well, and it tends to focus more on the Railbelt, she remarked, but they have spread their wings into other parts of the state.

MS. PEASE described Commonwealth North's annual legislator meet and greet today, and said the keynote speakers will be Senate President Kevin Meyer and House Speaker Mike Chenault regarding

their 2016 legislative agenda. The speeches will be followed by table conversation between Alaska legislators, Commonwealth North attendees, and members. Another program, she offered is with the University of Alaska Anchorage debate team wherein they review various forms of policy issues. She described it as a different perspective from these young debaters, and this year they debated whether the permanent fund should be used. It was judged by former judges, and the judges' decisions were split right down the middle. She offered that the argument the permanent fund should not be used had slightly more attendee participation.

MS. PEASE, in response to Chair Herron's question of whether it was a tie, Ms. Pease agreed that it was a tie.

[9:46:31 AM](#)

CHAIR HERRON asked the results of the previous "legislator meet and greet."

MS. PEASE answered that the dialogue was focused on the recent announcements on the AKLNG project, and what progress was being made with the producers at that point in time. There was a fiscal overtone, she said, but that always seems to be part of the fiscal policy discussion, how the economy is doing, budget constraints, percent of market value, and what needs to be done in terms of the reserves.

[9:47:59 AM](#)

REPRESENTATIVE TILTON advised she was at the meeting last year and the discussions at her tables involved the fiscal policies of what was happening in the state, and especially around the health and social services area.

MS. PEASE said, "I always forget about the health and social services issues, and you are right, they do come up."

REPRESENTATIVE TILTON noted it is a large part of the budget.

[9:48:28 AM](#)

CHAIR HERRON advised he is a member of Commonwealth North, and asked Ms. Pease to describe the population of Commonwealth North.

MS. PEASE described it as a diverse organization focused on public policy, it is non-partisan and not a lobbyist for any specific group. Most of the members, she pointed out, are not oil and gas, mining, or renewable energy, and is a cross-section focused on public policy. Commonwealth North looks at issues for the betterment of Alaskans, and does not have a particular industry it is lobbying on behalf of. Commonwealth North has also been looking into education, she said.

[9:49:51 AM](#)

REPRESENTATIVE EDGMON referred to the February report, and paraphrased as follows [original punctuation provided]:

Alaskans basically saying, look we've had fiscal cliffs for the last 25-years ... oil prices come and go, but in the end we've always been saved by an uptake in oil prices.

REPRESENTATIVE EDGMON continued that Alaskans, by and large, mostly throughout the state are unwilling to accept any suite of hard choices that have to be made. He asked whether that is still the perception, almost a year later, that Alaskans still do not think there is a fiscal crisis, and do not think tough choices have to be made.

[9:51:41 AM](#)

MS. FRASCA responded that since last February several other organizations have performed public surveys with the results that there is not a large percentage of Alaska that do think Alaska does has a fiscal problem, and that there is a dramatic decline in state revenues. A recommendation from the report is to engage Alaskans in a true series of dialogues where community members are provided with balanced information, who come together to discuss current circumstances. Thereby, enabling them to talk around a table to their neighbors, family members, and associates from work about the choices and trade-offs they would be willing to make. She continued that they could consider their values as to the choices government faces, which is different from a traditional town hall meeting. She described this as a true dialogue engagement process that could help people truly understand the circumstances and the choices legislators must make, and give legislators the political permission to make the difficult choices. In that manner, the public will understand and legislators will have their permission.

9:54:35 AM

MS. FRASCA explained that she is the incoming president for Commonwealth North and has chaired the fiscal policy study group for a number of years. She said they have been involved in a number of policy related issues since 1997, when the discussion was balancing the role of state government {slide 9}. Commonwealth North performs its work through study groups that meet weekly or every other week, and invite subject matter experts to discuss fiscal policy issues. She referred to the February 2013 report (slides 10-12) "Long Term Economic Sustainability for the State of Alaska," and stated that the bottom line recommendations include: 1. scrutinize all spending, not just general fund spending; 2. all revenues are on the table and available to ensure priority services can be funded; and 3. reform budget and other practices that inhibit achieving #1 and #2. She explained that all revenues need to be on the table and available to fund the highest and most important services of state government. When dividing the pie, she stated, there are federal designated funds, other state funds, and general funds that make up approximately 45 percent of the pure general fund. She related that that is the only part that is getting "as scrutinized." With regard to the reports, recommendations, and areas they examined formula-driven reviewed were formula driven programs, and that K-12 receives a lot of scrutiny, and noted this was before Medicaid expansion so they discussed the optional services under Medicaid and the cost of those versus the whole Medicaid program. She said other formula driven costs are recurring and foundational throughout the whole enterprise, such as state employee salaries and benefits. [She referred to a slide by the Department of Administration that was not available during the meeting.] She pointed to the slide and said that if a state employee had been in the same position for ten years, 2002-2012, that their wages would have increased 63 percent, while the Anchorage inflation increased approximately 30 percent, and the cost of living adjustment was approximately 22 percent. She asked "if that is the type of mechanism because there are more than just a cost of living allowance that state employees contracts provide, that it does provide for merit increases as well as annual cost of living adjustments." She remarked that enterprise-wise, this crosses all departments, is important to examine, and that the Department of Administration is in negotiations with two of the state's largest unions, "but that is the way in which you make these kinds of institutional changes."

9:59:09 AM

MS. FRASCA explained that they looked at health care for state employees, retirees, Medicare, Medicaid, and the private sector that all bear the increased costs [slide 13]. She explained that the 2013 slide was prepared by the Department of Administration to the health care commission, and interestingly, the red bars represent employer amounts paid for their employee's health insurance, and the blue bars represent the contributions of employees. In 2012, she pointed out, private employees paid \$4,495 of health care, and employers paid \$10,704; public employees paid \$3,368, and employers paid [\$12,381]; and with regard to the State of Alaska's economy plan employees, the State of Alaska pays 100 percent of the cost. She suggested that this is an area to examine for potential enterprise-wise type savings, realizing that these changes are the result of collective bargaining negotiations.

10:00:45 AM

MS. FRASCA said they reviewed information from the perspective of what Commonwealth North believes the legislature should do that included a rigorous timely review of all state programs and services [slides 14-16]. She suggested a series of questions [for the review]: is this an appropriate government responsibility; if so, how effective is the program, and the results; what is the cost to deliver these results; and is the state the only entity that can deliver the service. They recommended the following: the governor's budget delivered November 15; returning to the Alaska State Constitution of 120 day session and if necessary a special session focusing on the budget work and scrutiny of programs and services, not necessarily the wheeling and dealing to get a three-fourth vote; a revenue limit - establish limit on savings in any one year; create a Joint Ways and Means Committee to review the governor's November 15 budget and funding plan that, thereby allows, at the beginning of session, a proposed resolution laying out the revenue limits - she continued that if the governor's budget comes in November 15, the committee would be able to implement a contingency mechanism for mid-year spending reductions when there is a significant drop in revenue; deposit all savings into the statutory budget reserve so a three-fourth vote is no longer necessary to access the CBR while money remains in the CBR; and if all else fails, establish BRAC-type commission or process to resize government that can make recommendations to the governor and the governor could make his tweaks, submit it to the legislature, and the legislature would have a certain length of

time to reject it, as taking no action means it would be approved.

10:05:41 AM

MS. FRASCA offered that engaging Alaskans could include: a statewide dialogue through which Alaskans could be engaged to better understand the state fiscal issues and constructively comment on solutions; citizen panels providing input into the governor's proposed budget; and management review of state programs by a citizen team to offer a different perspective on state management [slide 17]. She advised that they are continuing to stay engaged on the issues.

10:07:14 AM

REPRESENTATIVE ORTIZ related that Ms. Pease mentioned several times within the presentation the need to prioritize state spending to the highest, most important services, and asked whether there has been any process performed by Commonwealth North to create a priority list of importance and what the state should, or should not, be doing.

MS. FRASCA answered that they have not, but could. She explained that when she discusses that issue she is discussing the constitution, the public protection aspect, public good, troopers, corrections, and things that individual communities cannot do themselves, and opined that those are the highest responsibilities of government. Ironically, she pointed out, those are funded by pure general funds and have the highest competition from limited dollars. She reminded the committee that many years ago Senator Fred Dyson passed a bill requiring the departments to prioritize their programs. Although, she explained, it is not performed as he wanted, there is a list of the priority of programs from [the department's] perspective. She offered that Commonwealth North can review those lists and offer observations, but at the same time each program's effectiveness information is required. She explained that time and resources are involved in obtaining information, compiling and reviewing it, and having thoughtful discussions with each department.

10:09:23 AM

CHAIR HERRON commented that when discussing the competition for the limited number of general fund dollars "usually what happens

is, it's not necessarily what's the best program, it's who is the strongest politician."

**PRESENTATION(S): UNLOCKING THE POTENTIAL OF THE PERMANENT FUND;
ALASKA'S CURRENT ECONOMIC CLIMATE; AND SECURING ALASKA'S FISCAL
FUTURE AND ARCTIC OPPORTUNITY**

[10:10:01 AM](#)

CHAIR HERRON announced that the next order of business would be "Unlocking the Potential of the Permanent Fund: A Game Plan for Meeting Alaska's Fiscal Challenge," by Dr. Scott Goldsmith.

[10:10:23 AM](#)

SCOTT GOLDSMITH, Professor Emeritus, Institute of Social and Economic Research (ISER), College of Business and Public Policy, University of Alaska Anchorage, said he is an economist with the University of Alaska Anchorage, Institute of Social and Economic Research, has lived in Alaska for 40-years, and that his area of concentration has been state fiscal policy. He paraphrased, [slide 2] of his presentation, "Unlocking the Potential of the Permanent Fund: A Game Plan for Meeting Alaska's Fiscal Challenge," take away message as follows [original punctuation provided]:

There is no solution to our Fiscal Challenge without use of the earning of the Permanent Fund. We can use those earning without compromising either the Permanent Fund or the Permanent Fund dividend. Use of the earnings is challenging since no other state, and probably no other nation, has had a fiscal structure relying primarily on the earnings of its accumulated wealth. We have several proposals for implementing the use of earnings to help us start thinking about the best solution. Crafting a successful solution, or game plan, will require everyone working together.

[10:12:01 AM](#)

DR. GOLDSMITH said the fiscal challenge is the unrestricted general fund fiscal gap [slide 3]. He pointed out: the black line is the current trend in spending; the "pies" at the bottom of the graph depict the current source of revenue; the orange is non-petroleum revenues; black is oil revenues; green is an estimate of additional oil revenues the state may take in that are not currently projected by the Department of Revenue; and

red is the CBR with the gap between spending and revenues currently running about \$3.5 billion. He commented that the gap doesn't go away.

DR. GOLDSMITH remarked that time is running out in that the constitutional budget reserve at the beginning of this fiscal year was in the neighborhood of \$5 billion [slide 4], and at the start of next fiscal year the reserve will be down to about \$2 billion, or less.

DR. GOLDSMITH noted that solutions have been proposed over the years to deal with the fiscal challenge that he puts into categories, such as "Zombie Solutions" that have been shown to be dead, but won't die and keep coming back [slide 5]. He explained that diversifying the economy or investing in renewable energy are things to work on, but will not solve the problem this year. He described the next category as "Nickel and Dime Solutions" that are reasonable to consider but only generate approximately \$5-\$10 million [slide 6]. He explained that \$10 million, over the course of one year, solves one day's worth of fiscal gap problem; therefore, 365 of those nickel and dime solutions would be necessary. He allowed that they should be considered but will not solve the \$3.5 billion problem.

[10:14:56 AM](#)

REPRESENTATIVE ORTIZ commented that several solutions depicted on the slides are solutions the governor will suggest adopting in the next session. However, he asked, would any of the solutions actually be harmful to Alaska's economy, and whether Dr. Goldsmith is nervous about adopting any of the solutions.

DR. GOLDSMITH responded that all of those solutions would have some negative impact on the economy because all of the solutions take purchasing power out of the private sector, and when that happens there is a negative impact on jobs and the economy.

REPRESENTATIVE ORTIZ surmised that Dr. Goldsmith would not recommend any of those.

DR. GOLDSMITH disagreed with that statement, and clarified that one has to be very careful when thinking of implementing any new tax because any new tax will have some negative impact.

[10:16:31 AM](#)

CHAIR HERRON pointed out that some taxes are called "sin taxes" that will have an economic effect on that industry and less money in the pocket book. Yet, he pointed out, a school tax is a tax wherein a citizen has "skin in the game," in that they have more interest in what is going on. He said, that is where the argument is, that there should be some of these taxes so the citizens are paying attention.

DR. GOLDSMITH agreed that having skin in the game is an important consideration, but if the legislature wants to have skin in the game they should impose "broad based taxes," such as an income tax or general sales tax. He explained that the solutions these taxes will affect is a small share of the population, such as tobacco products, but then there will be some indirect effect on the broader economy. (Indisc.).

[10:18:26 AM](#)

REPRESENTATIVE WOOL referred to the "nickel and dime solutions" that are all specific users, except the school tax which would be for the general population, and wouldn't go just to schools.

DR. GOLDSMITH opined he is correct in the manner people are talking about that tax.

REPRESENTATIVE WOOL surmised that it is more along the lines of an income tax.

DR. GOLDSMITH responded that it is not based on income per se, but it would be broad based, generally.

[10:19:13 AM](#)

DR. GOLDSMITH pointed to his third category of solutions [slide 7], "Silver Blank Solutions, not the Silver Bullet Solutions." He offered that the following two suggestions certainly have merit and should be considered [original punctuation provided]:

Those would be to squeeze more out of the petroleum industry, or to optimize our financial asset portfolio to increase the rate of return, but these are very complicated questions, complicated issues, that require a lot of thought and a lot of discussion before implementation. And ... they are not short-term solutions, and they may not be long-term solutions either in terms of the amount of money these can generate.

[10:19:48 AM](#)

DR. GOLDSMITH explained that it comes down to three real tools [slide 8]: more budget cuts, broad based taxes or reduction of the permanent fund dividend; or using the earnings from the state's assets. He said that given the size of the gap, pick any three.

CHAIR HERRON said "You've chosen all three."

DR. GOLDSMITH recommended choosing all three and there are a number of people who "dance" around the three available tools who do not realize the need to use all three. He posed the question "what if we do nothing," and postpone dealing with the \$3.5 billion gap this year [slide 9]. He pointed out that the economy would go into a tailspin because the state may be able to convince the general public that the problem can be postponed, but the investment community and the business community will not be fooled in that it understands the magnitude of the problem and will respond in a negative manner [slide 10]. He posed the question of how to fill the fiscal gap without using the permanent fund and suggested the following scenario: [slide 11] cut the budget by \$700 million and take \$400 million out of operations; and take \$300 million out of the investment tax credit for the petroleum industry; which drops the general fund budget for 2015 down to about \$4.5 billion. He said that has some impact on the size of the fiscal gap, but it is still huge. He then suggested, within the scenario, [slides 11-14] adding an income oil sales tax at approximately the national average rate which would generate about \$700 million - \$1,000 per capita, and it has a positive impact but there is still a huge fiscal gap. He then doubled the oil production tax and said it has some impact but at low oil prices it has a very modest impact. He noted that if things work out for the state, the gas line will begin generating revenues in nine-ten years, assuming natural gas revenues of about \$2 billion a year in the future. He pointed out that it would go a long way in filling the gap in the future, but there is still a short-term hold even though introducing these new measures have extended the life of the constitutional budget reserve for several years.

[10:24:16 AM](#)

DR. GOLDSMITH explained that in taking the permanent fund earnings off the table there would be some negative economic consequences [slide 15-18]. He further explained that the

budget cuts will take money out of the economy and cut employment directly and indirectly, and taxes on households will also take purchasing power out of the economy and have a negative effect. Reducing the investment tax credits will have some negative effect on the petroleum industry, and business community confidence will be at a low point because the state will not have solved the problem in substantive long-term fashion. In the meantime, he remarked, the permanent fund is continuing to grow with the principal and earnings reserve from about \$52-\$55 billion today, over the next 24-25 years up to close to \$200 billion a year total annual earnings increasing about tripling, and the permanent fund dividend would increase to over \$3,000 per year.

[10:26:03 AM](#)

DR. GOLDSMITH offered an alternative method to trying to fill the fiscal gap including use of the permanent fund earnings [slides 17-18]. He offered a scenario of cutting the budget the same way as before down to \$4.5 billion, use the earnings of the permanent fund each year, and not pay the dividend to help fund the general fund. He described this as a significant contribution to filling in the gap and extending the life of the Constitutional Budget Reserve for 6-8 years. Then, he pointed out, if a gas line comes in, things look better in terms of the state's ability to fund the unrestricted general fund [slide 19]. He offered that if the gas line, in a couple of years, appears it will not happen, an alternative is to impose a broad based tax, a sales tax or an income tax [slide 20]. Thereby, use of the earnings of the permanent fund, in addition to the tax and cutting the budget, extends the life of the Constitutional Budget Reserve for about 15-years. Under this scenario, he advised, the permanent fund is not able to grow as rapidly as it would have, but the permanent fund does continue to increase in value, continues to be inflation proof, and continues to grow in real terms because it is still receiving contributions from royalties from oil, gas, and other resources [slide 21].

[10:28:41 AM](#)

DR. GOLDSMITH noted that the permanent fund earnings continue to grow and the permanent fund dividend continues at about the same level as today, about \$2,000. Using the earnings of the permanent fund does impact the size of the dividend, he related, but in exchange, about \$1-\$2 billion in additional annual revenue can be used to reduce the size of the fiscal gap [slides 22-23]. In the event the earnings of the permanent fund

earnings are used, the economic impact is a plus for the economy for two reasons [slide 23]. First of all, he said, using the permanent fund earnings means that money is not drawn out of the pockets of Alaskan households or businesses so purchasing power is not reduced; and secondly, it sends a strong signal to the business community within the state, and outside the state, that the State of Alaska stepped up to the problem and crafted a solution. He remarked that there will be an inevitable, horrendous "tug of war" in Juneau among the various ideas of those who do not want an income tax, or sales tax, or dividend cut, or budget cuts, and suggested dealing with the easiest solutions first, such as using the earnings of the permanent fund [slide 24]. When discussing implementation of the strategy for using the earnings of the permanent fund, it gets complicated [slide 25], he said. The slide depicts how the Alaska fiscal structure works and, he noted, the general public does not understand it so the messaging to the public has to be very simple. There are at least four complicated proposals on the table for use of earnings of the permanent fund [slide 26]. He offered that each proposal addresses the problem of how to access the earnings of the permanent fund a little differently in terms of what would be included in the permanent fund and how to draw from the permanent fund. He explained that each of the four alternatives emphasizes one of the elements of this type of solution: POMV is a 15-year proposal concentrating on the idea of accessing the total earnings of the permanent fund and methods for better management of the corpus of the permanent fund; a statutory version of POMV, Senate Bill 114, because it is easier to pass a law than pass constitutional amendments, and it emphasizes that this is an easy solution with few moving parts; Governor Bill Walker's proposal is the Statutory Sovereign Wealth Fund that concentrates on the idea of stabilizing the stream of revenue moving forward and recognizes that historically one of Alaska's main problems has been that revenues gyrate up and down and with that, expenditures. He described the proposal as complicated with many moving parts; and the sustainable spending approach is to balance the needs of the present generation with the needs of future generations recognizing that Alaska's petroleum revenues are a non-sustainable resource. He said all of these proposals are simply proposals and none are written in stone.

[10:35:57 AM](#)

DR. GOLDSTEIN offered a "pitch" for his proposal of having sustainable revenue spending, and defined it as [original punctuation provided]:

A spending level based on current and projected future petroleum revenue stream which, if adopted now, could be maintained consistently long into the future -- adjusted for inflation and population growth.

DR. GOLDSMITH explained that future generations would share equally in the petroleum wealth of Alaska [slide 27].

[10:36:39 AM](#)

DR. GOLDSMITH shared criteria to consider when discussing how to move forward and using the permanent fund earnings [slide 28]. He pointed out that Alaskans want an alternative resulting in: stability of the revenue stream and what can actually be spent in a year; disciplining Alaska's spending level; sustainable solutions over the long-term; fairness to all Alaskans of this generation; understandability by the public at-large; implementation today and for the long-term; flexibility and ability to deal with an uncertain future; protection of assets; and minimizing unintended consequences. He described that as particularly important because this is uncharted territory in opening up and using the earnings of the permanent fund, and an unintended consequence is how the state protects the corpus of the permanent fund. Historically, he explained, the permanent fund has grown as much as it has due to the permanent fund dividends, in that they have protected the corpus because the public understands the relationship there. He pointed out that if the dividend is eliminated or to fund the dividend by some other means, such as a portion of the stream of royalty revenues, then the "bulwark" would be removed protecting the corpus of the permanent fund. The public may decide that the permanent fund is not that important as they are receiving their dividend from another source of revenue and, he warned, that is something legislators need to be very careful about and to consider the consequences of breaking that link. He explained that the strategy this year in moving forward would be budget cuts and structured use of the permanent fund earnings; and next year, continue the budget cuts and have the inevitable four-way tug of war [slide 29]. He said with this strategy, one thing is implemented at a time, beginning with the easiest, and recognizing that the fiscal gap solution is something that will take many years to get to where the state wants to be. He emphasized that the legislature must start implementing a game plan immediately or the state will be in dire economic straits.

[10:40:59 AM](#)

REPRESENTATIVE ORTIZ noted that a portion of the presentation reflected moving forward with a fiscal solution without impacting the current amount of the permanent fund dividend of approximately \$2,000, and it can continue. He then noted that Governor Walker's plan reduces that dividend to approximately \$1,000 based on a dividend generated from oil revenues per se, or oil tax revenue as opposed to the permanent fund itself. Representative Ortiz asked why Dr. Goldsmith's permanent fund dividend is able to maintain the \$2,000 level.

DR. GOLDSMITH opined that the governor's proposal, in moving forward, the dividend would be paid out of 50 percent of the royalties, primarily from oil and gas and other resources as well, and that is estimated to result in about \$1,000 dividend. He explained that the remainder of the royalties would go into the permanent fund corpus, the production taxes would go into the corpus, and out of the permanent fund earnings comes the annual flow for the unrestricted general fund revenues. Dr. Goldsmith asserted that in looking forward, the state can take between \$1-\$2 billion a year out of the earnings of the permanent fund if the state was able to access the total earnings - including the unrealized gains, and at the same time continue to generate a dividend from the rest of the earnings. He explained that there are enough earnings being thrown off by the permanent fund that it can fund both the dividend and a significant contribution of the unrestricted general fund on an annual basis, and still be inflation proof. He is not saying, he clarified, that the state could continue the existing dividend forever, "but that if we were to implement this policy today of just using the earnings, we could still pay it ... the same dividend as we would have without using the earnings."

[10:44:44 AM](#)

CHAIR HERRON referred to [slide 26] "Proposals for Use of Earnings" and the four points and, he noted the danger of returning to Juneau, trying to do something in 2016, and coming up with a sausage formula by taking of piece of each of them, and it may not work. "Obviously," he stated, that will take a lot of political courage for the legislature to figure something out.

DR. GOLDSMITH related that the sausage formula may work, "and that's the up side."

[10:45:36 AM](#)

CHAIR HERRON announced that the next order of business would be a presentation by Neal Fried, Research Section, Department of Labor and Workforce Development.

[10:46:03 AM](#)

NEAL FRIED, Economist, Research Section, Department of Labor and Workforce Development, said that he will offer a quick overview of the [current] Alaskan economy, trends and current numbers. He advised that the [Resource Section] is preparing a forecast for 2016 that will be available in early January. He noted that the broad psychologies "out there" are defined [in slides 1-3] and said he doesn't believe it "really even matters." While the employment growth has not been fast over the years, he explained, the growth will not necessarily continue in 2016. With regard to the percent of employment change from previous years for Alaska and the U.S., [slides 4-6], he said Alaska has been growing and during the last three years continues to grow slightly at less than one percent. He related that unemployment is not a "great" economic indicator, but Alaska's unemployment rate, around 6.0-6.2 percent rate, has not changed at all in the last four-five years, while the nation's unemployment rate has dramatically declined. He reminded the committee that the nation had a long way to recover and Alaska did not, and in fact the only time in history that Alaska's unemployment rate was below the nation was during the great recession.

[10:49:40 AM](#)

REPRESENTATIVE ORTIZ quiered why Alaska has less unemployment rate volatility than the nation.

MR. FRIED clarified that, historically, Alaska does not have less volatility and he suspected it possibly had more. During this period, he pointed out, Alaska was largely untouched by the great recession, while for the rest of the country this was probably the most dramatic recession the country had experienced since the great depression. Interestingly, he said, within Alaska's whole history this is the only period of time it enjoyed lower unemployment rates, and that population in Alaska has a larger effect on the unemployment rate, more so than elsewhere. He noted that [slides 7-8] represent the latest GDP numbers (value of all goods and services produced in this state,) and he guessed it will come down in 2015 due to oil and the value of oil.

MR. FRIED explained that [slides 9-10] represent continual growth of the total income of Alaskan residents, and that Alaska's income figure "looks still pretty good." He referred to the comparison regarding housing and the foreclosure story and advised that Alaska's picture looks significantly better because it did not experience the great recession [slides 11-12]. He noted that housing is often considered an important economic indicator and Alaska is in a very different trend again as the value of homes have continued to increase sales, but possibly new home construction has not.

[10:53:07 AM](#)

MR. FRIED remarked that the timber industry has been "flat as a pancake" for years, mining employment looks "pretty good," but not the exploration portion of mining, and he projected that 2015 fish harvesting and processing employment in Alaska will look similar to 2014 [slides 13-15]. Although, he noted, there is stress with the salmon prices and if those low prices continue it could cause fewer employed people in the fishing industry in the future.

[10:54:54 AM](#)

REPRESENTATIVE ORTIZ asked where fishing ranks on the overall Alaskan economy, and further asked whether it ranks second only to the oil industry, or another industry.

MR. FRIED said "No, I mean you have fishing, you have government, you having fishing ... I mean, you have oil, you have federal government, and then you have, you know ... fishing and tourism are quite similar, mining is smaller, so it's trends if you look at the broader industry."

[10:55:23 AM](#)

MR. FRIED advised that these are actual oil industry numbers (counts of paychecks) that are healthy through the first half of 2015 [slides 16-19], but will probably change. He explained that during the past three months unemployment records indicate an increase in the number of individuals, previously working in the oil industry, filing for unemployment claims, and the numbers will probably get a lot softer next year. He described Alaska's oil industry as more "project based" and guessed "we are postponing some of this," such as Point Thompson. He pointed out that the national data for oil industry employment is a picture of Alaska's future to some degree, and that there

are two big struggles for this forecast: how hard the oil industry will fall in 2016; and the struggle related to the budget.

MR. FRIED referred to Alaska's visitor industry and described it as the "shining star" for next year. He noted that Alaska lost a significant piece of its civilian federal workforce, but it appears that the loss has come to an end and is now leveling off. Although, he conveyed, there has been a steady drop in state employment in that there are 1,400 fewer state jobs in October 2015 compared to last October [slides 20-22].

MR. FRIED said [slide 23] represents a long term growth of where Alaska's growth has come from and indicates vulnerabilities in the future. He said that oil and gas is interesting given that it is a very small industry from an employment standpoint. He remarked that out of all the industries, it added the second largest number of jobs in absolute numbers in Alaska's economy during the last decade.

[11:00:12 AM](#)

REPRESENTATIVE ORTIZ questioned whether this factored in jobs held by Alaskan residents versus jobs held by non-residents.

MR. FRIED responded no, it is a strict job count, but that the non-resident count has kicked up in recent years. Interestingly, he pointed out, oil and gas was almost competing with health care in growth.

MR. FRIED explained that [slides 24-26] represent the average earnings for the different industries, median household income in 2014, and a study for full-time, year-round workers adjusted for inflation. Interestingly, he pointed out, Alaska lost a lot of ground in earnings during the 1990s due to a lot of growth in lower wage industries when there was the "big retail invasion," and lost a lot of jobs in the oil patch and timber industry during this period of time which were all high paying industries. He noted recovery has taken place during the recent decade, but there was not as much growth in the lower wage industries, and he guessed the oil industry had an effect on pushing the median earnings up.

[11:02:14 AM](#)

MR. FRIED said [slides 27-36] offer similarities between the 1980s and now, and noted that oil prices and oil revenues are

falling and the economy remains very dependent on oil. He pointed out the good differences, as follows: Alaska is not preceded by an economic boom or population boom; different demographics; the problems are not a surprise; this time Alaska has savings; there is more control this time; more economic diversity, a larger service sector, Native Corporations; much lower interest rates; and "Tax Reform Act of 1986?" and, the big bad difference is that there is much less oil production. Since 1988, 2014 is the first time Alaska's population fell, which has nothing to do with the price of oil and everything to do with the national economy. He pointed out 2013-2014 represent two negative years in migration, although in 2013 there were enough births to make up the difference, but that 2015 will look somewhat like 2014. He said, "that's what's interesting is ... we just don't ... it ... it's hard to find any ... and we've been looking really hard for numbers that sort of represent this sort of ... huge uncertainty that exists ... um ... right now in our economy. It's probably just all about timing." The next slides [slides 37-38] represent the volatility in Alaska's population and the number of people moving in and out, and that car sales are doing very well in Alaska, right now.

[11:08:34 AM](#)

CHAIR HERRON noted that [Dr. Scott Goldsmith] and he are both upbeat about Alaska's opportunities moving forward, other than the price of oil. He asked, when comparing back in history to today whether there is a correlation to learn from in that history repeats itself.

MR. FRIED responded that the late 1990s and early 2000s were very much as today with low oil prices, losing jobs in the oil patch, and sizable fiscal gap, but the difference is that the gap has never been this dramatic. He said, "Of course, in the 1980s we didn't look at that ... that just sort of happened to us. I don't know of anyone that predicted what happened ... that sat around 1985 and said this is what 1986 is going to look like and were (indisc.)."

[11:10:39 AM](#)

REPRESENTATIVE ORTIZ asked whether Mr. Fried believes it is essential for the health of the over-all economy and betterment of all Alaskans, that the legislature do something significant toward the fiscal gap this year.

MR. FRIED replied yes, it is important and there's no doubt about it.

[11:11:16 AM](#)

CHAIR HERRON announced that the final order of business would be the presentation "Securing Alaska's Fiscal Future and Arctic Opportunity," by Martin Cary, Vice President and General Manager of General Communication, Inc.

[11:11:42 AM](#)

MARTIN CARY, Vice President and General Manager, Managed Broadband Services, General Communication, Inc. (GCI), said his comments come from his perspective of over 30-years' experience in working to provide opportunity to those living and working in rural Alaska. He began his career in Barrow building distance learning systems and tele-medicine systems in the late 1980s and early 1990s, and joined General Communication, Inc. (GCI) in 1997 after selling his business to GCI. He described himself as GCI's primary advocate into GCI's expansion into rural Alaska that includes infrastructure and services for hospitals, the health care market, education, business, and consumers. He explained that robust telecommunicational services are critical to Alaska's participation in a modern economy, in that telecomm and technology are the engines of economic growth and can also culturally and socially bind people together. He explained that GCI has invested the following: more than \$3 billion in its network in Alaska since 1979; and since 2008, \$800 million of that has been invested over 200 rural communities; and has deployed \$210 million in the construction of its TERRA network - terrestrial network that extends out into western and north-western Alaska. In 2008-2009, he offered, he began pursuing building TERRA because their customers were demanding more bandwidth, but mainly lower latency. The satellites they use, he explained, are parked 22,000 miles away at the Equator and even at the speed of light it takes about 125 milliseconds each way to travel. It became clear that they needed to evolve away from satellite wherever they could and move to terrestrial networks, he said.

[11:14:41 AM](#)

MR. CARY offered that along the way, GCI has become the leading Arctic telecommunications provider in the country, serving over 110 locations in the U.S. Arctic. GCI's services provide tangible benefits, increased opportunity, jobs throughout

Alaska, and it continues to build, expand, and innovate. He explained that GCI's high definition video conferencing network is used throughout the state for assisted learning. For example, the Lower Kuskokwim School District is a leader in distance learning not only in Alaska, but in the country and its superintendent, Dan Walker, has been recognized for that. The Lower Kuskokwim School District runs three simultaneous classes, serving 26 communities, from Bethel all day long, he noted. There are three teachers and three studios teaching students across their 22,000 square mile school district throughout the day. He related that Kodiak students recently performed a squid dissection via two-way videos with the SeaLife Center, because the SeaLife Center employs two teachers who provide outreach and opportunities for students throughout Alaska and the country.

[11:16:00 AM](#)

MR. CARY referred to the health care area and explained that it has changed dramatically as broadband connectivity has been expanded into rural Alaska, and other markets as well. For example, the Indian Health Service (IHS) built the Norton Sound Health Corporation a beautiful hospital a couple of years ago. He offered that as part of that, it implemented a very sophisticated, industry leading hospital management system called "Cerner." The hospital management systems are complex, he advised because in order to implement, a data center must be built in the hospital, filled with servers, it must be cooled, and power to the servers, which is expensive. Typically, he pointed out, many professional services labor must be imported to build and operate it. On the low end, he said, these hospital installations are in the \$25 million range, and have very expensive ongoing costs. He expressed that due to the fact that [GCI] built TERRA to Nome, they had other options and chose to implement a "cloud-based" version of Cerner. He relayed that the hospital is operating out of Cerner data centers across the lower-48 and they estimate they saved \$20 million in their implementation by being able to use the broadband infrastructure versus having to build the infrastructure in Nome.

[11:17:36 AM](#)

MR. CARY offered a scenario of a patient who presents in a village clinic, and a health aide that is essentially an EMT in training, in a Medivac situation. He opined that in a stressful situation they will probably transport because they do not want to make the wrong decision. Video conferencing, he offered, allows the health aide to communicate with an ER doctor in the

regional hospital and they can work with the doctor to make a decision. He opined that health corporations feel they are saving money with this, but actually they are more concerned with better patient outcomes with better service.

MR. CARY related that GCI is looking ahead and planning to spend \$200 million in capital next year, and \$150 million a year after that is their five-year forecast. Previously, he said, GCI's capital spends have run an average of \$135-\$185 million over the past three or four years. He remarked that of the above amount, \$70,000 million is slated to be spent on GCI's TERRA terrestrial network in the northwest, which would be villages around Nome, Kotzebue, "and closing the ring which is basically creating a ring to create redundancy up the Yukon River to Nenana from just north of Shaktoolik."

[11:19:23 AM](#)

MR. CARY expressed the following [original punctuation provided]:

We cannot in good faith, though, advocate for these investments, or at least I can't, if the state does not adopt a stable fiscal plan this next session. Lack of action will jeopardize future investments which will ultimately cost Alaskans jobs and contract the economy. The status quo for the state fiscal health will put many rural villages and communities at risk of disappearing. Adoption of proposals that would more readily eliminate key anchor institutions, such as schools in rural communities will have a devastating ripple effect throughout whole communities. There's no debate Alaska's economic health is in decline and there is no magic cure for the problem. As Alaskans, we must identify how we can insure an environment for growth, jobs, and investment that includes the Arctic. A sustainable, stable budget is key to the economic growth in the Arctic region and the rest of Alaska. Knowing we have communities that will survive and prosper well into the future is critical for GCI to continue its record of investments and sustainable infrastructure throughout Alaska. So we appreciate the hard work that's ahead ... um ... we look forward to working with you and the legislature, the governor, and Alaskans to help secure a long-term sustainable fiscal plan for Alaska. So, thank you very much for the

opportunity to present to you, Alaska's future is GCI's future.

[11:20:58 AM](#)

CHAIR HERRON offered that the committee asked Commonwealth North to present and Commonwealth has been and will continue to work on having a grassroots debate to encourage the legislature and executive branch to move forward given the fiscal crisis; Dr. Scott Goldsmith gave his opinion to the committee of a relatively clear path of moving forward; and Neal Fried painted the picture historically, and currently, and it does look positive. He pointed out that the private sector is also here today, and [after the testimony today and meetings around the state] Chair Herron offered a scenario of the legislature not doing anything, for whatever reason, and questioned what kind of hard decision GCI would make.

MR. CARY replied that should the legislature not act and it creates that risk especially in rural communities, the legislature will see a pull back on GCI's willingness to take those risks. He noted they are already risky investments in that they are very thin markets, and when there are proposals to close certain schools, GCI starts to evaluate whether that village is on the list, and if it is, GCI will not put money in there. GCI has spent a lot of capital in this state, the construction industry is concerned that there may be some civil construction left over from a lot of the federal money that has been in the pipeline, but there is not a lot of vertical construction in next year's pipeline at all. He related that architectural firm friends and companies that perform environmental work are all looking at next year and not seeing much in the pipeline. In the event the commercial sector starts getting nervous they will start hoarding cash, he pointed out, and if that happens and GCI's revenues start to be impacted by that, "really the only lever we've got to maintain free cash flow, which is what our investors look at, is going to be to dial back on capital spending."

CHAIR HERRON thanked the presenters and stated that clearly the legislature must do something.

[11:25:35 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, Tourism, and Arctic Policy meeting was adjourned at 11:25 a.m.