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SB 32 file



Alaska State Legislature  
Senate

JUNEAU, ALASKA

TO: Senator Parr, Chairman  
Senate Health, Education & Social Services

FROM: Senator Ferguson *JRF*

SUBJ: Senate Bill 32, Endowment Fund

DATE: January 30, 1981

For your information, attached is a paper by Lee Gorsuch which applies to Senate Bill 32, the Endowment Fund.

## AN ENDOWMENT FUND FOR PUBLIC SCHOOLS IN ALASKA

Alaska has a unique need and opportunity to develop the financial means to sustain public education in Alaska well beyond the balance of this century. Interest in building such a sustaining source of revenues has been growing in recent months, not only among school districts and municipalities but also among state legislators. The concept being advanced under the rubric of an endowment for public schools is neither new nor complex. Simply stated, it proposes that the state set aside a portion of its surplus revenues in an investment fund, the earnings of which would be appropriated by the legislature to support public schools. The size of the fund and its investment performance would determine the proportion of public school expenditures the endowment could support. The earnings and how they are to be distributed would remain subject to the normal appropriation and legislative powers of the State Legislature.

Investing surplus revenues to support future governmental functions or specific public purposes is also not new to Alaska. The Alaska Permanent Fund, the Alaska Renewable Resources Corporation, and numerous other enterprise and special revenue funds all lay a claim of one sort or another on public revenues. Although these various state investment funds differ in important ways, they nonetheless represent ample precedent for the practice of investing public funds to support public purposes.

Indeed, the vehicle necessary to implement the public school endowment concept may already exist in Title 37.14 of the Alaska Statutes. That statute, entitled the Public School Fund, mandates that one-half of one percent of total receipts derived from the management of state land, including royalties and bonuses, be transferred to the fund. The principal of the fund is retained for investment, and the earnings of the fund may only be appropriated for the support of education. The Commissioner of Revenue manages the Public School Fund, subject to the oversight of a five-member advisory committee. Although current contributions to the fund are nominal (less than three million dollars has accumulated to date), the fund and the authorizing legislation may provide the framework for building a long-term financial base for public education.

Numerous questions about the need for and wisdom of creating a large education endowment have already been raised, and many others are likely to follow. Among the more frequently raised issues are:

1. Is not Financing Education a Local Responsibility?

Unlike many public services, education is a constitutional obligation of the state. Much to its credit, Alaska is in the forefront of most states in affording each school-age child an equal opportunity to secure a basic public education. The Alaska School Foundation Program ensures that every school district in Alaska will receive sufficient funds to offer its children a basic education, regardless of the district's relative wealth or poverty.

AN ENDOWMENT FUND  
FOR PUBLIC SCHOOLS IN ALASKA

By

Lee Gorsuch  
c/o Anchorage School District  
4600 DeBarr Road  
Anchorage, Alaska 99503

December 30, 1980

3. How Much Money Would Have to Go into such a Fund to Sustain a Significant Portion of Public Schools' Expenses?

Petroleum revenues now comprise approximately 95 percent of this year's total state revenues. Current estimates of contributions to the Alaska Permanent Fund, at the mandatory rate of 25 percent, report an accumulation of approximately 17.6 billion dollars by 1995. Assuming an investment return of 10 percent, the Fund would yield an estimated 1.75 billion dollars in 1995, about 105 percent of the projected total public school's budget for that year. Thus, a 20-percent rate of contribution to the endowment fund (computed on the same basis as the Permanent Fund) would ensure the availability of approximately 94 percent of public schools' revenue requirements in 1995.

4. Does not the Permanent Fund Accomplish the Purpose of the Endowment?

No, unlike the Permanent Fund, the earnings from the endowment could only be used to support education, not to make cash distributions to citizens or to support governmental operations in general.

Inasmuch as public education comprises almost a third of the state's budget and is clearly a constitutional responsibility of the state, it seems both prudent and timely to pursue a means of securing long-term financial security for our public schools. Furthermore, as illustrated above, the projected earnings of the Permanent Fund at current rates of contribution are insufficient to cover both future public education costs and a reasonable portion of other governmental operations.

One alternative to the endowment that is frequently advanced is simply to increase the rate of contribution to the Permanent Fund. This alternative neither appears to enjoy broad legislative or public support nor does it clearly establish the high financial priority that the state has historically given public education. Unlike additional contributions to the Permanent Fund, which are likely to be the subject of much debate and disagreement, safeguarding the financial future of public education is a public goal which enjoys broad popular support. In short, the endowment is the more likely and certain means of securing a long-term financial future for public education in Alaska.

5. Would not the Legislature be Losing Control of the State's Budget by Creating the Endowment?

No, under the endowment fund concept, public schools would remain subject to the appropriation powers of the Alaska Legislature and to other powers granted to organized local governments. Both the amount of the earnings to be used for public schooling and the distribution of the earnings among school districts would be determinations made by the Alaska Legislature, much as they are today. Presumably, the Alaska School Foundation Program would continue to serve as the formula for computing how much money each school district would receive, and the

Currently, the state pays 100 percent of the expenses of twenty-one rural school districts (REAA's) and 78 percent of the costs of thirty-one local school districts (including Anchorage). The remaining 22 percent of revenues for the local school districts comes largely from local property taxes. This year, in an effort to provide relief for property tax payers, the Legislature may enact legislation to reimburse communities for their local taxes and thereby finance 100 percent of all public school expenses in Alaska.

Numerous states which have relied heavily in the past upon local sources of revenue, mainly local property taxes, to support public education have been successfully challenged in the courts, for example California in Serrano v. Priest, 1971, and New Jersey in Robertson v. Cahill, 1973. These states are now required by their respective state supreme courts to find alternative means of equitably financing public education.

For states facing fiscal deficits, court mandates to reorganize the financing of public education pose a most serious problem; for Alaska, the possibility of such mandates reinforces the wisdom of using today's surplus revenues to build a sustaining source of future revenues for funding public education in the years ahead. Furthermore, an endowment for public schools would ensure that local property taxes would not be required to bear the major burden of financing public education should oil revenues begin to diminish in the 1990s, as presently forecast.

## 2. Does Alaska Really Need an Endowment Fund?

If further substantial discoveries of oil are made on state lands before the end of this decade, the answer may be no, not for another ten years; however, until such discoveries are made, the answer is unequivocally yes.

Last year the state appropriated approximately 400 million dollars to support the operation of our public schools. This amounts to over twice the value of the repealed personal income taxes. Even if we were to combine all personal, business, sales, and property taxes of state and local governments last year (excluding oil-related income), we could not have financed last year's education budget, not to mention other essential state and local governmental services. These conventional sources of revenue simply cannot support today's level of operation, much less sustain public education in future years. By 1990, inflation and growth of the student population will push state aid for public education to one billion dollars; by the year 2000, state aid will total approximately 2.5 billion dollars. Furthermore, any expansion of public education services, such as vocational education, is likely to push the required revenue estimates higher still. Clearly, some means of generating revenues other than through conventional taxes will be required if Alaska is to continue to meet its constitutional mandate and provide a quality education for its school-age children.

legislative process would fix the total amount of earnings to be appropriated each year. Thus, under the endowment proposal, the process of funding public schools would remain similar to what it is today; only the source of revenues would be altered.

In summary, the endowment fund is a sound and opportune proposal. It would secure the future of public education in Alaska and ensure that all children of our state will have an opportunity of getting a good education.

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## Hiring freeze retroactive to Nov. 5

By PHILIP SHANDLER  
The Washington Star

WASHINGTON — The Reagan administration, in a reportedly unprecedented action, has decided to make its freeze on federal hiring retroactive to Nov. 5, the day after Reagan was elected.

This became known Saturday as the Office of Management and Budget issued guidelines to federal agencies for implementing the freeze, which President Reagan had announced Tuesday, shortly after his inauguration.

OMB officials had said Tuesday that the freeze probably would be retroactive to Dec. 31. But in the last day or so, a decision was made at the White House to push it back to Nov. 5, officials said Saturday.

The decision means that hundreds, if not thousands, of persons who in the last few months have been given so-called letters of commitment telling them they would be hired by the govern-

ment, will be now told that they don't have the promised jobs.

The decision is likely to be challenged in court by job-seekers. Some who telephoned The Star after the tentative Dec. 31 cutoff was mentioned, angrily said they believed Reagan was renegeing on a contractual obligation.

Past job freezes, officials said Saturday, either were not retroactive, or if they were retroactive, were not total.

Former President Carter, for example, imposed a freeze last March 14 that was retroactive to Feb. 29. But it was limited, permitting the filling of one of every two vacancies in agencies. Thus, letters of commitment given between Feb. 29 and March 14 could be honored for the most part although with delays in some cases, officials said.

"I can't remember a freeze quite like this one," a knowledgeable official said Saturday.

Reagan had promised during his campaign

that he would freeze federal hiring to cut spending. Even before his inauguration, some advisers believed it should be made retroactive, officials said Saturday, because they had learned that some agencies were giving more letters of commitment to job-seekers than reasonably could be honored under Carter's 2-for-1 limitation.

Some Reagan advisers, on the other hand, are said to have questioned the fairness, if not the legality, of any retroactive freeze. And a Dec. 31 deadline was settled on tentatively as a compromise between starting the freeze Inauguration Day and, making it retroactive to Reagan's election.

The Dec. 31 date was contained in a draft set of guidelines sent by OMB Wednesday to the Office of Personnel Management, which oversees agency personnel operations.

What prompted the decision to push the freeze back to Nov. 5 could not be learned.

While Reagan described the freeze as "strict" and "across the board," it will not apply to political jobs — that is, executive-level appointments (sub-Cabinet), non-career positions in the Senior Executive Service (so-called super-grade jobs), or Schedule C jobs, which are political positions at GS-15 and below.

The guidelines issued Saturday also exempted hiring for positions in the Executive Office of the President "that are necessary for an orderly transition and operation of the new administration."

And they said agency heads could grant exemptions for "emergency situations involving directly the safety of human life or the protection of property."

Hiring by the U.S. Postal Service, which is semi-autonomous, also isn't covered by the freeze.

It still is not clear how much Reagan wants to shrink the federal work force with his freeze.