

**SB**

**373**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

DATE: 3/31/94

FURTHER:

Date of 5-Day Notice: 4-7-94  
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 4-19-94

The Finance Committee considered **SENATE BILL NO. 373**

"An Act relating to a comprehensive state financial plan and to the Solving Alaska's Fiscal Emergency (S.A.F.E.) Commission; and providing for an effective date."

and recommends:

replace with \_\_\_\_\_ CS SB 373 (FINANCE)  
or  adopt previous \_\_\_\_\_ CS \_\_\_\_\_  
 attaches amendment(s)

same title  
 new title  
 technical title change (HB only)

adopts \_\_\_\_\_ Letter of Intent

further referral to the \_\_\_\_\_

do pass

do not pass

no recommendation

individual recommendations

**NEW FISCAL NOTES**

Department	Date	Zero	Fiscal
LAA	4/19/94		300.0 / Reapprop.

**PREVIOUS FISCAL NOTES**

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

DO PASS.

*Tim Kelly*

OTHER RECOMMENDATIONS:

*Steve Davis*  
*Ben A. Thompson No Rec*

1. *Tim Kelly*  
Co-Chair: Signature/Recommendation

2. *Steve Davis*  
Co-Chair: Signature/Recommendation

# FISCAL NOTE

STATE OF ALASKA  
1994 LEGISLATIVE SESSION

NO. \_\_\_\_\_  
BILL VERSION: SB 373  
PUBLISH DATE: \_\_\_\_\_

Revision Date: \_\_\_\_\_  
Title: "An Act relating to a comprehensive state financial plan...."  
Sponsor: Senate Finance  
Requestor: Senate Finance

Department Affected: Legislature  
BRU: Senate Finance Committee  
Component: Senate Finance Committee

COMPONENT SERIAL NO:

**Expenditures/Revenues: (Thousands of Dollars)**

OPERATING	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	50.0	0	0	0	0	0
CONTRACTUAL	250.0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>300.0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>CAPITAL</b>	0	0	0	0	0	0
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<b>REVENUE FUND SOURCE</b>	0	0	0	0	0	0
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**FUNDING: (Thousands of Dollars)**

GENERAL FUND	*300.0	0	0	0	0	0
FEDERAL FUNDS						
OTHER FUND SOURCE						
<b>TOTAL</b>	<b>*300.0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

\*Funding from reappropriated Senate Finance Committee funds.

**POSITIONS:**

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year impact: \_\_\_\_\_

**ANALYSIS: (Attach a separate page if necessary)**

SB 373 establishes the Solving Alaska's Fiscal Emergency (S.A.F.E.) Commission, consisting of 9 members, who will develop and update a comprehensive four-year financial plan for the State. The Commission will submit a final report to the Legislature on or before February 1, 1995.  
(See page 2 for continuation)

Prepared By: Karla Schofield, Deputy Director  
Division: Administrative Services

Phone: 465-3852  
Date: 4/19/94

Approved By: Pamela A. Stoops, Executive Director  
Agency: Legislative Affairs Agency

Date: 4/19/94

Distribution (by preparer): Leg. Finance, Legislative Sponsor, Requestor, OMB, Gov. , & Impacted Agency(ies).

CONTINUATION OF FISCAL NOTE: SB 373

Travel

Travel funds for members of the Commission. 50.0

Contractual

Contractual funds for contracting with financial and budgeting experts. 250.0

300.0

4-19-94  
TKZ  
Adopted

WORK DRAFT

WORK DRAFT

WORK DRAFT

8-LS1876J

Cook

4/19/94

Replace  
"Emergency"  
with  
"Exigency"  
Adopted

CS FOR SENATE BILL NO. 373( )  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
EIGHTEENTH LEGISLATURE - SECOND SESSION

BY

Offered:

Referred:

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to a comprehensive state financial plan and to the Solving  
2 Alaska's Fiscal Exigency (S.A.F.E.) Commission; and providing for an effective  
3 date."

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

5 \* Section 1. SOLVING ALASKA'S FISCAL EMERGENCY COMMISSION. (a) There  
6 is created in the legislative branch the Solving Alaska's Fiscal Emergency (S.A.F.E.)  
7 Commission to develop a comprehensive six-year financial plan for the state. The commission  
8 consists of the governor or the governor's designee, two public members appointed by the  
9 governor, the president of the senate or the president's designee, two public members  
10 appointed by the president of the senate, the speaker of the house of representatives or the  
11 speaker's designee, and two public members appointed by the speaker of the house of  
12 representatives. The public members may not be elected officials of the state. The members  
13 of the commission shall elect public members to serve as chair and vice-chair of the  
14 commission.

1 (b) The commission shall

2 (1) review and identify anticipated state expenditures, recurring revenue,  
3 reserves, and potential revenue sources;

4 (2) review and identify fiscal assumptions concerning state finances that have  
5 been made by planners and financial managers in government and the private sector;

6 (3) recommend strategies for generating sustainable sources of future state  
7 revenue and legislation to implement the recommendations;

8 (4) if new taxes are recommended, investigate specific tax structures and  
9 revenue consequences and submit draft legislation to implement the recommendations;

10 (5) disseminate information and solicit public input from the various regions  
11 of the state in the development and review of the proposed financial plan and tax proposals;

12 (6) review state programs, especially formula-driven programs, and recommend  
13 deductions in state expenditures to reach a sustainable level;

14 (7) recommend structural changes to the way the state budget is prepared to  
15 ensure that the governor and the legislature have information on which to base decisions.

16 (c) The commission may

17 (1) hire staff;

18 (2) hold public hearings; and

19 (3) adopt rules for the conduct of its business.

20 (d) Public members of the commission are entitled to per diem and travel expenses  
21 authorized under AS 39.20.180.

22 (e) The commission shall submit a final report to the legislature on or before  
23 February 1, 1995. The report must contain a comprehensive state financial plan for fiscal  
24 years 1996 - 2001, together with recommended legislation to implement the plan. The  
25 commission is terminated February 1, 1995.

26 \* Sec. ? This Act takes effect immediately under AS 01.10.070(c).



APR 01 1994

March 29, 1994

Senator Drue Pearce, Co-Chair  
Senate Finance Committee  
State Capitol  
Juneau, Alaska 99811

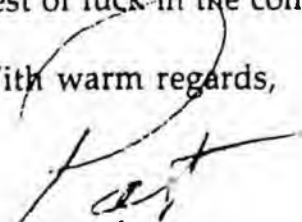
Dear Drue:

Thank you so much scheduling time in your busy Finance Committee schedule for members of the Commonwealth Board to present the organization's budget recommendations.

We greatly appreciated the opportunity to share these recommendations with you and Committee members and your thoughts on possible implementation. Enclosed is a copy of some specific suggestions for a financial planning commission which we faxed to your office earlier this week. Thank you for your consideration of introducing this proposed legislation. We stand ready to assist you further on this in any way we can.

Best of luck in the coming weeks, which I know can be trying.

With warm regards,

  
Pat Pourchot  
Executive Director

Enclosure

# CWN PROPOSED LEGISLATION CREATING THE ALASKA COMMISSION FOR FINANCIAL PLANNING

## Establishment

An Alaska Commission for Financial Planning established by legislation to develop and update a comprehensive four-year financial plan for the state.

The Commission would be appointed immediately upon passage and would conduct work during the interim. A final report containing a proposed four-year financial plan would be submitted to the Legislature and the Governor by February 1, 1995.

The Legislature would have to pass a resolution supporting, modifying or rejecting the proposed plan within 45 days of submission.

After the first year, the Commission would annually review and update the financial plan. Plan updates would be submitted to the Legislature and the Administration by September 15 of each year beginning in 1995 and would be addressed within 45 days of the beginning of the following legislative session.

## Membership

The Commission would consist of the following members:

- 1) A member of the House of Representatives appointed by the Speaker
- 2) A member of the State Senate appointed by the President
- 3) An official of the Administration appointed by the Governor
- 4) A Trustee of the Permanent Fund appointed by the Chairman
- 5) An official of the University of Alaska appointed by the President of the UA
- 6-11) 2 members of the public selected by each of the following: The Governor, the presiding officer of the Senate, the presiding officer of the House.

The Commission would select a chair and vice-chair from among the public members. Members would serve without compensation but are entitled to travel expenses and per diem. Designees would not be permitted.

All public members would initially serve until April 1, 1995. Thereafter, public members would serve staggered terms of three years (i.e. two members would be appointed annually).

## Duties

- Review and identify anticipated expenditures, recurring revenues, reserves, other potential revenue sources and fiscal assumptions for each of the next four fiscal years.
- Quantify any expected shortfall between revenues and expenditures for each of the next four fiscal years and recommend methods of addressing the shortfall.
- Recommend strategies for generating sustainable sources of future revenue and recommend any needed legislation.
- If new taxation actions are recommended, investigate specific tax structures and revenue consequences and submit a draft taxation proposal when the financial plan is submitted.
- Disseminate information and solicit public input from the various regions of the state in the development and the review of a draft financial plan and any taxation proposal.
- Hire staff and consultants as needed to conduct the business of the Commission.



# BUDGET RECOMMENDATIONS FOR ALASKA

**BREAKING THE FALL**

## **BREAKING THE FALL: BUDGET RECOMMENDATIONS FOR ALASKA**

Declining oil production and low oil prices are bringing Alaska's state government closer to the financial cliff—but we can still save ourselves from falling over the edge.

The state currently faces a \$1 billion budget deficit and will face future deficits, because oil revenues—which pay 85 percent of government costs—are declining.

Commonwealth North (CWN) proposes budget actions the state should take *immediately*, and others it should take over the next four years.

CWN recognizes that some of these actions are politically unpopular and will be strongly resisted. But if we don't begin now, there will soon be a steep fiscal drop that will require far more draconian remedies.

These recommendations grew out of CWN's October 1993 budget conference and subsequent work by a CWN budget committee. All the tools for closing the state's "fiscal gap", as identified by Scott Goldsmith of the University of Alaska Anchorage's Institute of Social and Economic Research, are utilized in these recommendations.



March 1994



Commonwealth North is a non-profit corporation, organized and existing under the laws of the State of Alaska. It addresses state and national public policy issues and involves approximately 400 of Alaska's leaders and concerned citizens representing business, labor, education, public service and the Alaska Native community. It was founded in 1979 on a bipartisan basis by Governor William A. Egan and Governor Walter J. Hickel.

The goals of the organization include: Strengthening the private sector of our economy; Understanding Alaska's role in the larger world; Educating members on major issues affecting our state and nation; Influencing state and national public policy decisions by providing a forum for nationally recognized speakers and conducting studies of critical issues facing the state and the nation.

### **COMMONWEALTH NORTH BOARD OF DIRECTORS**

#### **Founding Co-Chairmen**

Governor Walter J. Hickel  
the late Governor William A. Egan

#### **President**

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#### **Executive Director**

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William J. Tobin

Robert B. Atwood  
Judy Brady  
Fuller Cowell  
Robert Hatfield, Jr.  
Archbishop Francis Hurley  
Jim McElroy  
Governor Bill Sheffield  
Dr. F. Thomas Trotter

### **COMMONWEALTH NORTH BUDGET STUDY COMMITTEE**

**Chair:** Lee Gorsuch  
Robert B. Atwood  
Roger Cremo  
Karen Hunt  
Bill McHugh  
Susan Ruddy

Mike Abbott  
Judy Brady  
Gene Dusek  
Marc Langland  
Nancy McHugh  
Larry Wiget

Jane Angvik  
Milton Byrd  
Joe Griffith  
Jim McElroy  
Kristen Nelson  
Thomas A. Wilson II



**935 West Third Avenue  
Anchorage, Alaska 99501  
(907) 276-1414**

# WHAT THE STATE SHOULD DO NOW

## RECOMMENDATIONS

## FISCAL IMPLICATIONS

### Cut Spending

- Freeze the operating budget below current levels. \$60 million reduction in FY 95.
- Reduce the capital budget to below historic levels. A \$100 million budget is \$150 million below historic levels and \$516 million below FY 94.
- Cap Permanent Fund Dividend expenditures at current levels. Save at least \$34 million in FY 95.

### Increase Revenues

- Increase taxes and user fees. Consider increasing "sin." motor fuel and fish taxes. Up to \$90 million in new revenues annually.
- Change the statutory priority to inflation-proof Permanent Fund first. Could add \$850 million more to principal by 2005, depending on use of Earnings Reserve.
- Encourage increased oil exploration and development. 100,000 bbl/day increase in production yields \$50-100 million/year.

### Get A Plan

- Create Alaska Finance Commission with administrative, legislative and public members to produce a four-year financial plan. Year-to-year predictability and stability of revenues and expenditures. *UNANIMOUS APPROVAL*
- Develop a plan for saving, consolidating and providing prudent access to reserves and non-recurring future revenues. Existing and future reserves (\$1-\$3 billion) protected from short-term liquidation. Total reserves available would be predictable.
- Create income tax commission including legislative, administrative, and public members to hold hearings, analyze tax structures and submit a tax proposal to the legislature in Jan. 1995. Revenues (\$250-400 million) from an income tax will take a minimum of two years from enactment to fully realize.

*Structure - must ... that produce totals ...  
... of bogged down components -  
... changes as a model ... the parts don't  
... it's whole.*

*Asst. Sec. ...*

# PUTTING THE BUDGET TOOLS TO WORK

## REDUCE STATE SPENDING

In recent years state spending has far exceeded normal recurring revenues. The State has used windfalls, tax settlements, and reserves to fill the gap.

Alaska must cut spending before taking any other steps to balance the budget. The State can significantly reduce spending over time by holding the budget at current levels and absorbing inflation and population growth. Such action would allow the state to maintain basic services and avoid serious disruption of Alaska's economy, which relies heavily on state spending. Officials would be forced to set spending priorities, increase efficiency, and make cuts.

Alaska must immediately draw up a long-term financial plan. Successive administrations and legislatures have simply budgeted from year to year, depleting a large share of reserves, making state spending volatile, and risking Alaska's long-term financial health.

## SAVE RESERVES

Despite the State's lack of discipline in spending reserves in recent years, considerable reserves remain—including more than \$800 million in the Constitutional Budget Reserve Fund (CBR), \$1.1 billion in the Earnings Reserve Account (ERA) of the Permanent Fund and perhaps \$1 to \$3 billion in outstanding legal disputes.

We assume that the State will spend as much as \$800 million of existing reserves this year to meet unexpectedly large deficits for fiscal years 1994 and 1995. We also assume that the legislature will address the nearly \$1 billion court-ordered deposit to the CBR. Still, as much as \$1.2 billion in reserves will remain—either in the CBR or in the ERA. But, projected deficits for the next two to three years could equal most of these remaining reserves.

Neither the CBR nor the ERA appears adequately protected from easy, short-term access or, on the other hand, structured to allow realistic flexibility to meet unforeseen future circumstances. We must determine a better way to consolidate and husband the reserves we still have and those we expect to get in the future. Any restrictions on these funds that would bind future legislatures would require a constitutional amendment.

## PROTECT THE PERMANENT FUND

The legislature can't spend the principal of the Permanent Fund, but it can appropriate the earnings. About half is used to pay dividends to Alaskans. Paying dividends takes precedence over any other use of earnings.

Earnings should go toward inflation-proofing the Fund first. In the future under current law paying dividends will use so much of the earnings that there won't be enough left to fully inflation-proof the Fund, and there will be no earnings available to help pay for general government.

The amount that goes toward paying dividends should first be capped and then reduced \$50 million per year over the next several years. The dividend program could continue, although dividends would be smaller. Remaining earnings would stay in the earnings reserve and be available to help pay for general government.

## BROADEN TAX BASE

Increasing some existing taxes and user fees—like alcohol, tobacco, motor fuel and fish taxes—could fill a small part of the gap and help pay for state services.

Alaska will need an income tax in the near future. If it could raise an estimated \$250-400 million annually, it is progressive, it is deductible against federal taxes and it taxes wages of non-resident workers. It could also help capture and pay for benefits of development, without impeding the competitiveness of the development.

The State should immediately create a tax commission to determine by January, 1995, how best to structure an income tax. It would take at least two years after enactment for full tax revenues to flow into the state treasury.

## PROMOTE ECONOMIC DEVELOPMENT

The lion's share of state revenues in the foreseeable future will—despite the overall decline in production—still be from oil development. Development of new, smaller oil fields is possible and should be encouraged.

The State should continue to promote development of a gasline to carry natural gas from the North Slope, the lifting of the ban on the export of North Slope oil, and the opening of the Arctic National Wildlife Refuge to oil development. But we can't count on those developments for future state revenues.

The State should provide a positive climate for development. Resource developments other than oil would provide relatively little state revenue under the current tax system. But new developments can benefit local governments through property and other local taxes—which could help offset reduced state aid to local governments. Also, a state income tax could capture the benefits of new economic development and jobs by taxing increased personal income.

# WHAT THE STATE SHOULD DO OVER THE NEXT FOUR YEARS

## RECOMMENDATIONS

- Hold future budgets below inflation and population growth. Reductions achieved by:
  - Limiting growth of formula/entitlement programs
  - Phasing out unique programs not based on need.
  - Restructuring programs for efficiencies, privatization opportunities, possible local government responsibility and wage, benefit savings.
- Reduce, but not eliminate, total Permanent Fund Dividend expenditures over time.
- Reimpose a personal income tax.
- Establish a consolidated account for existing reserves and future non-recurring revenues with restrictive access provisions, including super majority vote and maximum annual withdrawal.
- Emphasize equities in Permanent Fund investments.
- Re-evaluate the inflation-proofing mechanism and dividend program to reflect Permanent Fund unrealized capital gains, earnings and asset allocations.
- Provide a positive economic and regulatory climate for future developments.
- Continue to promote the marketing of North Slope natural gas, the opening of Alaska National Wildlife Refuge and lifting of the oil export ban.

## FISCAL IMPLICATIONS

Up to 5% annual reduction in inflation-adjusted dollars; Reduces state spending by \$100-120 million annually, or a cumulative budget cut of nearly \$500 million by 1998.

Reducing expenditures by \$50 million/year would save \$278 million in FY 98. Would permit individual dividends of approximately \$675 in FY 98.

Could raise \$250-400 million in revenues annually.

Existing and future reserves (\$1-3 billion) would be protected from short-term liquidation. Total reserves available would be known and predictable and could be used as needed over many years.

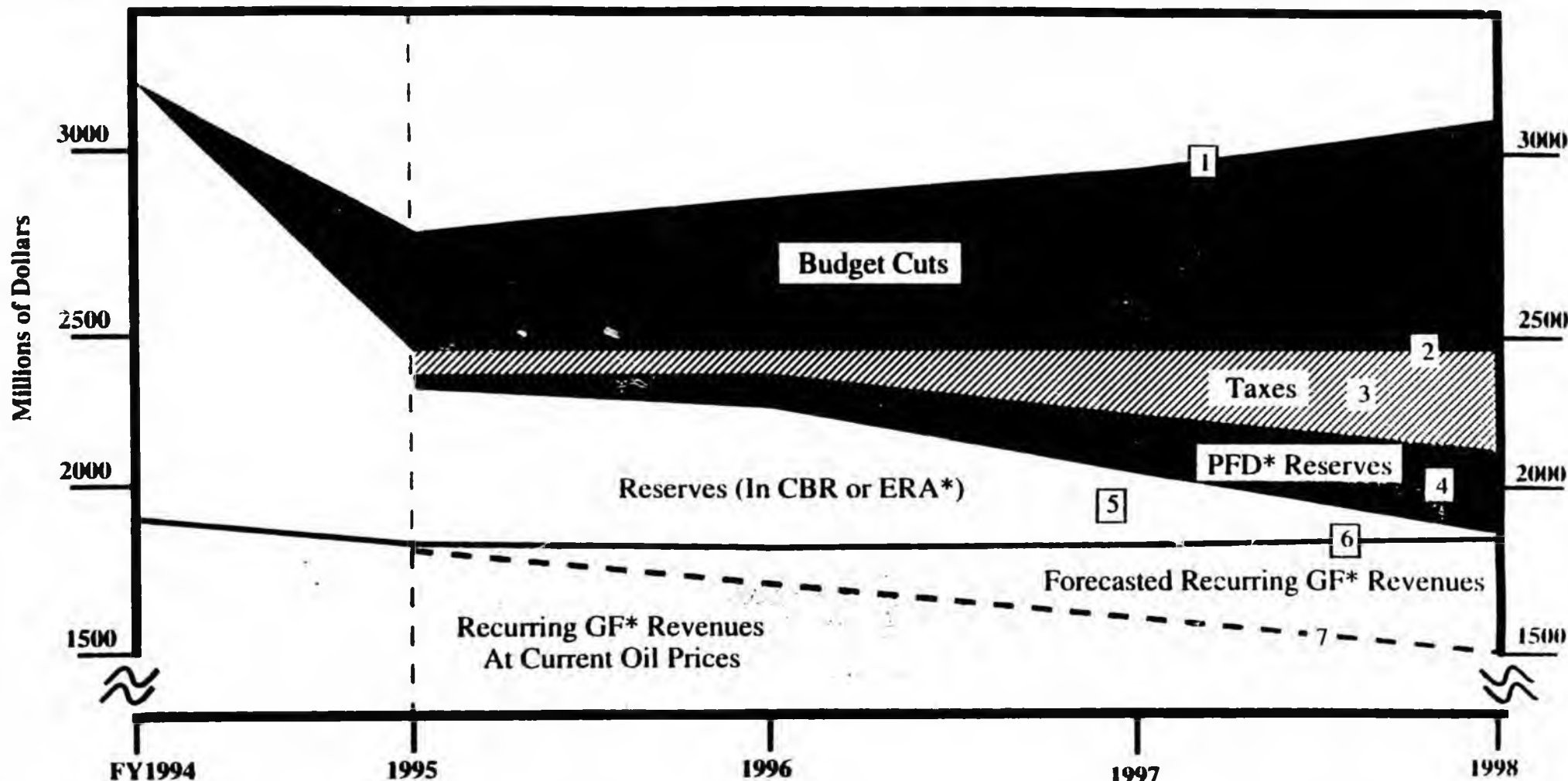
Equities have outperformed other investments over time and have earned returns well in excess of inflation. A 1% increase in the Fund's earnings equals \$186 million in FY 2000.

Currently unrealized gains are not calculated in the Fund's value. The decision to take capital gains may be affected by potential impacts on annual earnings, inflation-proofing and dividends. Some inflation-proofing is occurring through equity investment.

Diversified development would build an employment base to help offset declining oil revenues.

A gasline could contribute \$250-450 million annually, ANWR development \$0.8-\$2.5 billion annually and the export ban repeal \$150-200 million.

# FISCAL IMPLICATIONS OF CWN RECOMMENDATIONS



**Notes:**

1. Maintenance level budget (operating budget 3% growth, \$300 mil. capital)
2. CWN recommended total spending cap (\$2.46 billion)
3. Income tax comes in 1/2 year in 1997, full year 1998
4. PFD reductions from status quo; increase \$ in ERA available for appropriation
5. Existing reserves remaining in FY98 - about \$500 million
6. Dept. of Revenue forecast: FY94, Actuals; FY95, 2/94 forecast; FY96-98, Fall '93 low-case (\$15-17/bbl.)
7. Estimated revenues at current oil prices(\$13.25/bbl.)

CBR: Constitutional Budget Reserve Fund  
 ERA: Permanent Fund Earnings Reserve Account  
 PFD: Permanent Fund Dividends  
 GF: Unrestricted State General Funds

# COMMONWEALTH NORTH BUDGET CONFERENCE



# CLOSING THE GAP

**October 20 - 21, 1993  
Anchorage, Alaska**



Commonwealth North is a non-profit corporation, organized and existing under the laws of the State of Alaska. It addresses state and national public policy issues and involves approximately 400 of Alaska's leaders and concerned citizens representing business, labor, education, public service and the Alaska Native community. It was founded in 1979 on a bipartisan basis by Governor William A. Egan and Governor Walter J. Hickel.

The goals of the organization include: Strengthening the private sector of our economy; Understanding Alaska's role in the larger world; Educating members on major issues affecting our state and nation; Influencing state and national public policy decisions by providing a forum for nationally recognized speakers and conducting studies of critical issues facing the state and the nation.

**A report by**  
Commonwealth North  
935 West Third Avenue  
Anchorage, Alaska 99501  
(907) 276-1414



February 1994

Dear Conference participant and Commonwealth North member:

I am pleased to present this summary of the proceedings and conclusions of the Commonwealth North Budget Conference held in October, 1993. Over 125 members and guests participated in the Conference. The findings and conclusions are the product of five work groups involving nearly 60 citizens. I commend the work groups for their interest and time in seeking solutions to one of the most critical issues facing Alaska.

On behalf of Commonwealth North, I want to thank Governor Walter Hickel, former Governors Jay Hammond and Bill Sheffield, the state officials, state legislators and other presenters who shared their views and valuable information with us. We are also indebted to the facilitators, resource people and recorders who worked with each discussion group.

Recent court rulings and falling oil prices have further heightened our awareness of the seriousness of our budget problems. But, these short-term crises and their short-term fixes should not deflect our view from the fundamental long-term "budget gap" and the need for hard choices in the future.

I recommend this budget conference summary to you as a thoughtful set of considerations and recommendations on how Alaska could confront and manage the serious fiscal problems associated with long-term declines in oil production.

Sincerely,

Lee Gorsuch  
President

*Founding Co-Chairmen Governor Walter J. Hickel and the late Governor William A. Egan*  
• Lee Gorsuch, President • H. L. "Skip" Bilhartz, Vice President • Jeff Lowenfels, Vice President  
• Perry Eaton, Vice President • Jane Angvik, Secretary • Marc Langland, Treasurer  
• Bill Allen • Robert B. Atwood • Richard F. Barnes • Judith M. Brady • Janna Brattain  
• Fuller Cowell • Governor Steve Cowper • Robert Hatfield Jr. • Judge Karen L. Hunt  
• Archbishop Francis Hurley • James Linxwiler • Loren H. Lounsbury  
• Jim McElroy • William McHugh • John Morgan • Susan L. Ruddy • Governor William Sheffield  
• William J. Tobin • Dr. F. Thomas Trotter

935 West Third Avenue • Anchorage, Alaska 99501 • 907-276-1414 • FAX 907-276-6350



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## *Introduction*

Commonwealth North was founded with the goal of bringing together Alaska's business and civic leaders to learn about, discuss and make recommendations on major public policy issues facing our state. Perhaps no issue affecting the economic and social fabric of Alaska looms larger than the inexorable decline in production from the North Slope oil fields. Taxes and royalties from these fields account for nearly 85% of current revenues to state government.

It is clear that major public policy decisions must be made over the next 10 years to bridge "the gap" expected between current revenue sources and spending levels. UAA's Institute of Social and Economic Research (ISER) laid out five approaches to address this gap: 1) Budget reductions; 2) Use of reserves; 3) Implementation of new taxes; 4) Use of Permanent Fund earnings; and 5) Increased economic development. Each and all of these involve tough fiscal, economic and political choices.

In November of 1992 Governor Hickel hosted an Economic Summit which brought together leaders from all over the state to review state revenue and spending projections, discuss the ISER fiscal tools and to make recommendations for future actions. Some things have changed since then, but the critical problem created by declining revenues still lies largely unaddressed.

This conference was designed to follow the format of the Governor's Economic Summit. Participants were asked to review and discuss the Summit recommendations, the ISER strategy and events following the Summit. Commonwealth North members and invited guests were asked to develop recommendations for actions needed over the next 10 years. It is believed that the views and recommendations of concerned citizens and civic leaders can influence our public policy makers and shape Alaska's future.

## *Proceedings*

Over 125 members of Commonwealth North and invited guests participated in at least part of the two-day conference held October 20 and 21, 1993. Approximately 60 people participated in one of the five small discussion groups which formulated recommendations (see Appendix I for a list of group participants).

The conference began on October 20 with a two-hour budget and revenue briefing by Shelby Stastny, Director of the Office of Management and Budget, and Chuck Logsdon, Petroleum Economist for the Department of Revenue. A view of future revenues by Tom Williams of BP Exploration (Alaska) and legislative perspectives by Rep. Mark Hanley and Rep. Kay Brown were also presented.

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The following morning, October 21, a breakfast briefing was held with Governors Hickel, Sheffield and Hammond who gave their experiences and views on needed budget actions. Following the Governors, the following presentations were made:

- Operating budget overview and reserves, Shelby Stastny, Director OMB
- Revenues and taxes, Darrel Rexwinkel, Commissioner Dept. of Revenue
- The Permanent Fund, Jim Kelly, Alaska Permanent Fund Corporation
- Economic development, Paul Fuhs, Commissioner Department of Commerce and Economic Development
- Defining the "gap" and putting the pieces together, Scott Goldsmith and Lee Gorsuch, UAA ISER

After the presentations people broke into five discussion groups. Members were preassigned groups in an effort to create diverse group memberships. Each group had 11-13 members including a facilitator, a recorder and at least one resource person having budget expertise.

The groups were to review the information presented by the speakers, the results of the Governor's Economic Summit and subsequent legislative actions. Each participant was given a notebook with written materials tracking the presentations on spending, revenues, taxation, the Permanent Fund, economic development and the ISER strategy. The groups had approximately four and one-half hours to discuss the issues and make recommendations as to actions needed to meet the projected budget "gap." Each group presented a summary of its recommendations to all the reassembled groups at the end of the day.

Appendices II and III illustrate the projected "gap" and major fiscal tools suggested in the ISER strategy. See Appendix IV for summaries and comparisons of the Governor's and other economic summits.



# Budget Conference Summary

## *Areas of General Agreement*

- **The "Gap."** All the working groups agreed that there was a fiscal "gap" now, that it was growing, that it will be substantial in the near future and that actions need to be taken now.
- All the groups felt that no single action was sufficient to meet the "gap", but that most, if not all, the fiscal tools identified in the ISER strategy must be implemented by 2005.
- **Spending.** Most groups recognized the real political and programmatic problems of further large budget cuts. However, various approaches were suggested to find efficiencies, re-prioritize and hold the line on future spending increases. Most assumed that savings in real dollars could accrue over time if programs were not allowed to increase with inflation and population growth. No specific programs were consistently targeted for cuts or reductions.
- **Reserves.** All groups recognized the need to use liquid reserves but felt that better mechanisms were needed to capture and husband reserves and non-recurring revenues for future use, rather than spending them as they become available.
- **Taxes.** All groups recommended new taxes for meeting the "gap", and all suggested the reimposition of the personal income tax as the preferred form. It was felt that the income tax was the most progressive (least impact on those with lowest income), could capture non-residents' income earned in Alaska, and was the best method for the state to pay for and benefit from economic developments.
- **Permanent Fund.** All groups recommended that the Permanent Fund principal and inflation-proofing monies not be used. No group recommended eliminating the dividend. However, a majority recommended that the dividends be capped, and that earnings beyond dividends and inflation-proofing be used for general government or deposited in the Permanent Fund to generate future earnings.
- **Economic Development.** Most groups felt that any new economic developments would be based largely on market conditions and economic decisions outside the control of the state. However, a stable tax policy and removal of regulatory hurdles by the state would be helpful. No group believed that large-scale economic development would result in revenues substantially reducing the budget "gap" by 2005.

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## *Other Recommendations*

- Two groups gave serious consideration to a proposal by Roger Cremo in which all reserves and natural resource revenues would be deposited in the Permanent Fund. A fixed percentage would be allocated from the Fund for expenditure each year to maintain a stable and predictable budget and economic climate. Permanent Fund dividends would be paid out of the same earnings stream in competition with all other spending. Additional non-resource revenues would be needed to meet expected expenditures.

There remain questions on the mechanics of the proposal, particularly the method and length of the phase-in until the "pay-out" from the Fund would reach a constant percentage of the principal.

- Two mechanisms were suggested for helping reduce spending. The first was a "Gramm-Rudman" type of forced ratcheting down. The second was the creation of a new Commission similar to the Federal Base Closure Commission. The Commission budget recommendations would have to be accepted or rejected *in toto* by the Legislature or Administration.



# Group 1

## Summary of Conclusions/Recommendations

### **The Budget Gap**

The "budget gap" is real and it will grow substantially over the next 10 years. A target "gap" of \$2.3 billion was utilized by the year 2005.

### **Spending**

An initial budget cut of \$300 million or roughly 10% should be made. Then, the budget should be reduced annually by holding it constant or not letting it rise with inflation. Real dollar reductions of \$900 million would be targeted for 2005.

### **Reserves**

The group assumed reserves of \$2-4 billion from litigation and tax settlements over the next 10 years, and that most would be needed to balance the budget. Approximately \$300 million would be needed annually on average.

### **Taxes**

"Like it or not" the group felt increased taxes were required in the next 10 years. Most of the estimated \$500 million needed from new taxes would come from reimposition of an income tax. One advantage of such a tax would be the capturing of non-residents who utilize state resources and employment. Other taxes mentioned were increased fish taxes and a school tax.

### **Permanent Fund**

The principal and inflation-proofing should not be spent or altered. However, monies from the Earnings Reserve Account and current dividends would be needed. By 2005, \$200 million would be expended annually from the earnings reserve and \$200 million from monies that would otherwise go to the dividends (currently about \$530 million goes to dividends).

### **Economic Development**

Revenues from new or increased economic development were not substantially relied upon to fill the "gap." New revenues of \$20 million each year would result in \$200 million in revenues in 2005.



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## Group 1

### Facilitator:

Jane Angvik                      Alaska Native Heritage Park

### Participants:

Mike Abbott	Alyeska Pipeline Service Company
Bill Blessington	Port of Anchorage
Julius Brecht	Wohlforth, Argetsinger
Louann Cutler	Preston, Thorgrisom
Dick Green	Natural Garden Supply
Mark Holland	Exxon Company USA
Jim Maley	Alaska Children's Services
Joe Marks	Marenco/Anchorage School Board
Craig Renkert	UAA Small Business Development Center

### Resource:

Scott Goldsmith                      University of Alaska Anchorage/ISER

### Recorder:

Alice Galvin                      Anchorage Telephone Utility

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## **Group 2**

### **Summary of Conclusions/Recommendations**

#### **The Budget Gap**

The "budget gap" is real and it will grow substantially over the next 10 years.

#### **Spending**

While no target numbers were used, it was generally felt that some type of "Gramm-Rudman" approach to the budget was necessary to force cuts and let the system "sort out" and look for efficiencies and priorities. A target of 1-2% real cuts annually was discussed. A review of programs is needed to institute needs-based standards, including student loans and pioneer homes. Institute a mechanism to reward efficiencies, especially in the school foundation program.

#### **Reserves**

No specific recommendations were made, although there was considerable interest in a proposal advocated by Roger Cremo wherein all reserves and natural resource revenues would be placed in the Permanent Fund. A fixed amount of earnings would be earmarked annually for expenditure.

#### **Taxes**

While most felt reimposition of an income tax would be needed in the next 10 years, there was considerable debate on the timing of enactment. A point of agreement was that the framework of an income tax should be established in the near future at a zero rate which could be increased later as needed. One advantage of such a tax would be the capturing of non-residents who utilize state resources and employment. Other taxes mentioned were increased taxes on fisheries and tourism.

#### **Permanent Fund**

No specifics were recommended, however, as mentioned above, there was considerable interest in the Cremo proposal. Under this plan the Permanent Fund dividend would be paid out of the same annual earnings allocation forcing competition with all other budget items.



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## Economic Development

There should be efforts to "Alaskanize" our industries such as fishing and tourism to increase employment and revenue opportunities. There appears little beyond a good business climate that will significantly alter decisions to develop new resources.

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## Group 2

### Facilitator:

Tim Bradner                      Alaska Economic Report  
    Alaska Journal of Commerce

### Participants:

Dick Decker                      United We Stand  
Gene Dusek                      Municipality of Anchorage  
Harold Heinze  
Joe Henri                      Southcentral Timber/UA Regent  
Carol Heyman                      Anchorage Chamber of Commerce  
Gary Light                      ARCO, Alaska  
David Roderick  
John Wheatley                      Willis Coroon Corporation  
Esther Wunnicke

### Resource:

Kay Brown                      Alaska State Representative

### Recorder:

Teeny Metcalfe

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## **Group 3**

### **Summary of Conclusions/Recommendations**

#### **The Budget Gap**

The "budget gap" is real, is here now, is getting bigger and needs to be addressed.

#### **Spending**

There needs to be a new way of dealing with spending cuts to avoid political traps and to maintain a long-range view. It was recommended that a new Commission be established similar to the Federal Base Realignment and Closing Commission. This Commission would review all programs from a bottom-up, zero-base budgeting standpoint. It would look at alternative delivery systems. Recommendations would have to be accepted or rejected *in toto* by the Legislature and the Administration. If rejected, the recommendations would go to the voters.

#### **Reserves**

All reserves should be deposited in the Permanent Fund pursuant to a plan similar to that proposed by Roger Cremo. They would then be part of the principal from which earnings would then be allocated annually for the expenses of government.

#### **Taxes**

The income tax should be reimposed immediately and proceeds placed in the Permanent Fund. Earnings would then be used under a "Cremo-type" plan. A severance tax on our fisheries should be investigated.

#### **Permanent Fund**

No use of the principal or inflation-proofing except as transition funding. In accord with the "Cremo-type plan" dividends would be paid out of the annual earnings allocation along with all other budget items.

#### **Economic Development**

Large block economic leasing should be undertaken. Actions taken for development must be related to market-driven programs. An in-depth review of the existing regulatory environment should identify regulations inhibiting economic development. Ensure a stable tax policy to foster a stable business environment.





## **Group 4**

### **Summary of Conclusions/Recommendations**

#### **The Budget Gap**

The "budget gap" is real, it is big and getting bigger.

#### **Spending**

There was a recognition that the need and demand for state services and programs were growing, and that some spending increase was inevitable with inflation and population growth over time. When looking for cuts, look where most of the money is going—education, social services, corrections. Growth in spending should be controlled through re-prioritization of resources, less-costly preventative strategies, looking at life cycle costs of capital expenditures and requiring local matches and personal contributions to programs.

#### **Reserves**

We need to get reserves off the table to allocate them more judiciously. Half of all liquid reserves and future settlements should go into the Permanent Fund. The other half should be placed in the Constitutional Budget Reserve, but the rules changed to require access only by 2/3 vote (rather than current 3/4, or 51% escape clause).

#### **Taxes**

The income tax should be reimposed as preferable to other kinds of taxes. Income taxes have the advantage of capturing non-residents who benefit from Alaskan employment, resources and services. Increased taxation on our fisheries is justified.

#### **Permanent Fund**

Instituting an income tax and capping the Permanent Fund dividend are not mutually exclusive. It was recommended that the PFD be capped at \$500 and that the balance of dividend monies be deposited in the Permanent Fund. Extra earnings would yield approximately \$500 million to the General Fund in 2005.

#### **Economic Development**

Stable taxation is critical to economic development. New development must pay its own way. The method of paying for added government services needs to be identified and planned for up-front of any developments. An income tax seems a preferable "capture" mechanism.



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## Group 4

**Facilitator:**

Clay McDowell                      Anch. Assembly Policy and Budget Office

**Participants:**

Bruce Carr	Alaska Railroad Corporation
Jo Fenety	Senator Drue Pearce's Office
Prent Gazaway	Gazaway and Associates
Alicia Iden	
Ken Reither	Exxon Company USA
Steven Shropshire	Northern Forum/Green Connection, Inc.
Kym Swift	Common Sense for Alaska

**Resource:**

Jim Kelly	Alaska Permanent Fund Corporation
Mark Hanley	Alaska State Representative

**Recorder:**

Nancy Schoephoester	ARCO Alaska, Inc.
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# Group 5

## Summary of Conclusions/Recommendations

### **The Budget Gap**

The "budget gap" is real, it is getting bigger but it is unpredictable year to year because of wide revenue swings due to settlements, etc.

### **Spending**

There was a recognition that much of the state budget was composed of programs like education having ever-growing pressures, and that large cuts were not practical. However, "rationalization" of the budget and gaining efficiencies over time was needed and possible. Needs-basing of programs was desirable. A target of 0% real dollar increase in the budget should be established over the next 10 years resulting in \$300 million in real savings by 2005 from the ISER figures.

### **Reserves**

We need to allocate reserves more judiciously. There needs to be a better mechanism for capturing and retaining settlements and extraordinary monies as they come in to avoid the temptation of spending them all in a single year. It was recommended that reserve spending be "smoothed" to approximately \$200 million annually to help meet the "gap."

### **Taxes**

It was felt that approximately \$500 million would be needed in new taxes by 2005. Of this, most would come from a personal income tax. Other taxes could include increased user fees, fishery taxes, and motor fuel taxes (dedicated). Sales taxes were best left to the province of local governments. It was felt an income tax had the advantage of capturing non-residents working in the state and that it was the best method of capturing and paying for new development of our non-oil resources.

### **Permanent Fund**

The dividend program should be capped at current total spending levels. Excess monies in future years should be deposited in a specially enacted Dividend Reserve Fund in the Permanent Fund. Access would be possible, though difficult. Unlike the corpus of the Fund these monies would be accessible when needed, but would be invested along with other Permanent Fund monies. Unlike the current Constitutional Budget Reserve, access would not provide the current "loophole" (a majority vote of the Legislature when less revenues than in prior year).



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## **Economic Development**

The state can help somewhat on economic development through removal of regulatory hurdles and funding through agencies such as AIDEA, but most economic development decisions are outside the control of state. The group assumed that the beginning of a gasline and some additional marginal oil field developments would result in \$350 million in increased revenues by 2005 over DOR projections.

## **Other Recommendations**

The group felt that strategies to meet the "gap" were as much a political problem as an economic or financial one. It was felt considerable leadership and education within our community as well as the Legislature and the Administration was needed to avert short-term crises in the future.

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## **Group 5**

### **Facilitator:**

Larry Wiget

Anchorage School District

### **Participants:**

Don Argetsinger  
Larry Crawford  
Gordon Glaser  
Jim McElroy  
Nancy McHugh  
Kristen Nelson  
Pat Pourchot  
Scott Thorson

Argetsinger and Associates  
Municipality of Anchorage  
ASEA  
Locher Interests  
  
Petroleum Information Services  
Commonwealth North  
Network Business Systems

### **Resource:**

Mike Greany

Legislative Finance Division

### **Recorder:**

Sudy Sanders

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## APPENDIX I

### Participants

Abbott, Mike  
Anderson, Jerry  
Argetsinger, Don  
Blessington, Bill  
Brecht, Julius  
Byrd, Milton  
Carr, Bruce  
Crawford, Larry  
Cutler, Louann  
Decker, Dick  
DiMatteo, C. Joe  
Dusek, Gene  
Fenety, Jo  
Furnace, Walt  
Gazaway, Prent  
Glaser, Gordon  
Green, Dick  
Heinze, Harold  
Henri, Joe  
Heyman, Carol  
Holland, Mark  
Iden, Alicia  
Light, Gary  
Levesque, Norman  
Lounsbury, Loren  
Macklin, Sharon  
Maley, Jim  
Marks, Joe  
McElroy, Jim  
McHugh, Nancy  
Mimoto, Sayoko  
Nelson, Kristen  
Reither, Ken  
Renkert, Craig  
Roderick, David  
Shrophshire, Steve  
Swift, Kym  
Thorson, Scott  
Wheatley, John  
Williams, Tom  
Wunnicke, Esther

Alyeska Pipeline Service Company  
Municipality of Anchorage  
Argetsinger & Associates  
Port of Anchorage  
Wohlforth, Argetsinger, *et al*  
Charter College  
Alaska Railroad Corporation  
Municipality of Anchorage  
Preston, Thorgrimson, Shidler *et al*  
United We Stand, Inc.  
AK Council on Prevention of Alcohol & Drug Abuse  
Municipality of Anchorage  
Office of Senator Drue Pearce  
Alaska Support Industry Alliance  
Older Persons Action Group  
ASEA/AFSCME Local 52  
Natural Garden Supply

Southcentral Timber Devlpmt/UA Board of Regents  
Anchorage Chamber of Commerce  
Exxon Company USA

ARCO Alaska, Inc.  
AK Municipal Bond Bank Authority  
International Management Group  
Sharon Macklin - Government Relations  
Alaska Children's Services, Inc.  
Marenco, Inc./Anchorage School Board  
Locher Interests

Anchorage School District  
Petroleum Information Services  
Exxon Company USA  
UAA Small Business Development Center

Northern Forum/Green Connection, Inc.  
Common Sense for Alaska  
Network Business Systems  
Willis Coroon Corportation of Anchorage  
BP Exploration (Alaska)

### Facilitators

Angvik, Jane  
Bradner, Tim  
Griffith, Joe  
McDowell, Clay  
Wiget, Larry

Manager, Alaska Native Heritage Park  
Editor, Alaska Economic Report  
Exec. Mgr. Finance. Chugach Electric Company  
Director, Anch. Assembly Policy and Budget Office  
Director, Gov't Affairs/Anchorage School District



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## **Recorders**

Galvin, Alice  
Metcalf, Teeny  
Pieper, Cindy  
Sanders, Sudy  
Schoepoester, Nancy  
Wilson, Tom

Anchorage Telephone Utility

Commonwealth North

ARCO Alaska, Inc.  
Hughes, Thorsness *et al*

## **Resource**

Brown, Kay  
Goldsmith, Scott  
Gorsuch, Lee

Greany, Mike  
Hanley, Mark  
Kelly, Jim  
Frasca, Cheryl

Alaska State Representative  
Professor, University of Alaska Anchorage/ISER  
Dean, School of Public Affairs, University of  
Alaska Anchorage  
Director, Legislative Finance Division  
Alaska State Representative  
Research and Liason Officer, AK Permanent Fund  
Deputy Director, Office of Management and Budget

## **Coordinator**

Pourchot, Pat

Executive Director, Commonwealth North

## **Presenters**

Rep. Kay Brown  
Paul Fuhs

Scott Goldsmith  
Lee Gorsuch

Governor Jay Hammond  
Rep. Mark Hanley  
Governor Walter J. Hickel  
Jim Kelly

Dr. Chuck Logsdon  
Darrel Rexwinkel  
Governor Bill Sheffield  
Shelby Stastny

Alaska State Legislature, House of Representatives  
Commissioner, Department of Commerce and  
Economic Development  
Professor, University of Alaska Anchorage, ISER  
Dean, School of Public Affairs, University of  
Alaska Anchorage  
Governor of Alaska (1974 to 1982)  
Alaska State Legislature, House of Representatives  
Governor of Alaska (1968 to 1970, 1990 to present)  
Research and Liason Officer, Alaska Permanent  
Fund Corp.  
Chief Petroleum Economist, Dept. of Revenue  
Commissioner, Department of Revenue  
Governor of Alaska (1982 to 1986)  
Director, Office of Management and Budget

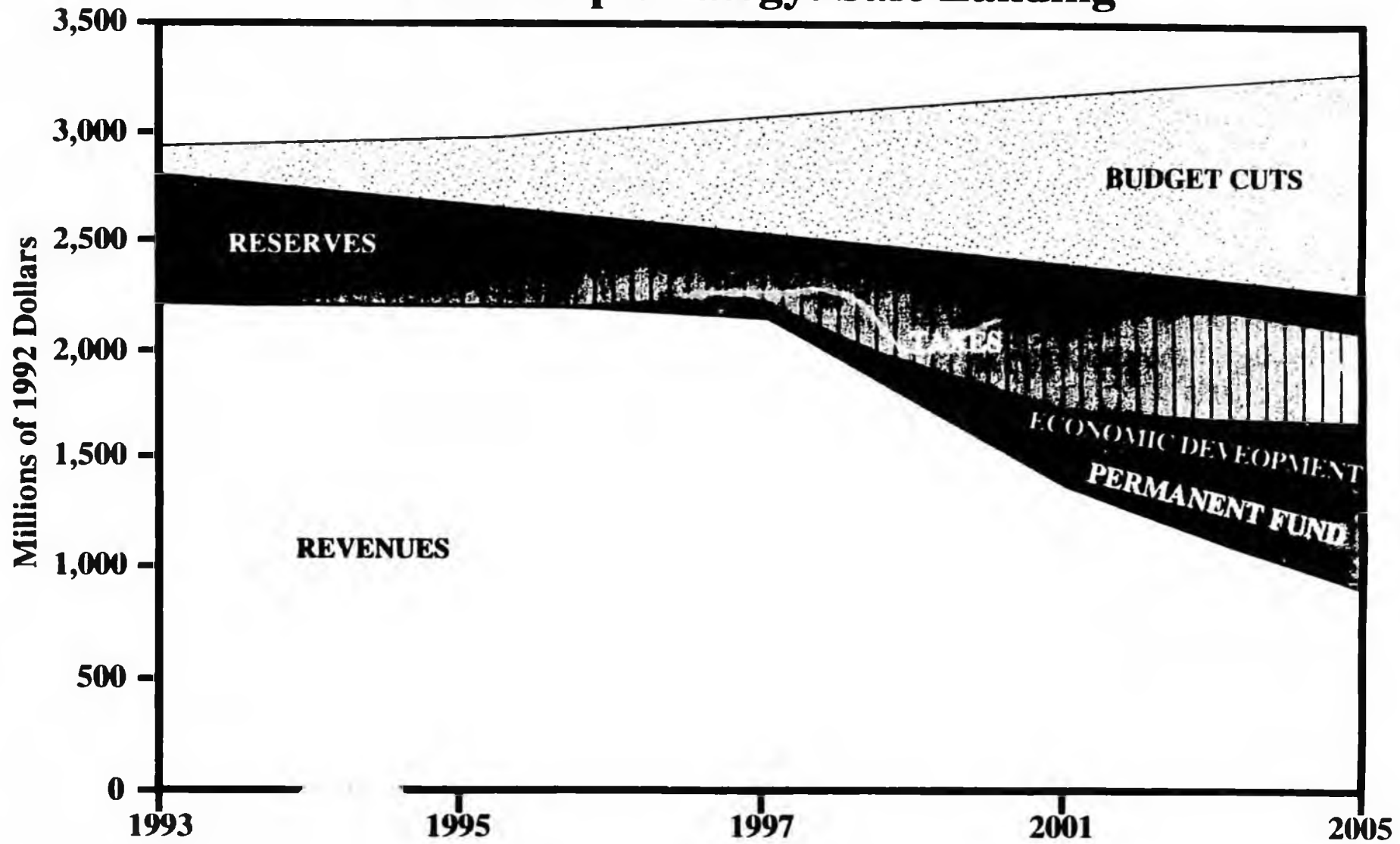
## Fiscal Outlook: FY 94 - 99

	<b>FY94</b>	<b>FY95</b>	<b>FY96</b>	<b>FY97</b>	<b>FY98</b>	<b>FY99</b>
Oil Price \$/bbl.	13.25	15.04	18.74	19.85	20.42	21.00
Production MMbbl/day	1.645	1.682	1.644	1.513	1.387	1.278
<b>REVENUES:</b>						
Unrestricted General Fund Forecast*	1,771.0	1,820.0	2,051.1	1,993.3	1,902.5	1,760.0
Other UGF Revenues	200.0	80.0	125.0	125.0	125.0	125.0
<b>TOTAL UGF REVENUES</b>	<b>1,971.2</b>	<b>1,900.0</b>	<b>2,176.1</b>	<b>2,118.3</b>	<b>2,027.5</b>	<b>1,885.0</b>
<b>EXPENDITURES:</b>						
Operating	2,384.0	2,363.0	2,417.3	2,486.2	2,557.0	2,629.9
Capital	616.0	100.0	300.0	300.0	300.0	300.0
Loans & Transfers	180.0	37.0	37.0	37.0	37.0	37.0
<b>TOTAL EXPENDITURES</b>	<b>3,180.0</b>	<b>2,500.0</b>	<b>2,754.3</b>	<b>2,823.2</b>	<b>2,894.0</b>	<b>2,996.9</b>
<b>ANNUAL DEFICIT</b>	<b>-1208.8</b>	<b>-600.0</b>	<b>-578.2</b>	<b>-704.9</b>	<b>-866.5</b>	<b>-1,081.9</b>
					<b>TOTAL</b>	<b>-4,692.4</b>

\*Does not include settlement or reserve monies

NOTE: This table is for illustrative purposes only and does not reflect Administration policy or decisions

# Fiscal Gap Strategy: Safe Landing



APPENDIX III

## Closing The Gap – Safe Landing Strategy

(Millions of 1992 Dollars)

	1993	1994	1997	2001	2005
Maintenance Level GF Spending	\$2,921	\$2,950	\$3,040	\$3,163	\$3,291
Less: Revenues from Existing Sources	\$2,270	\$2,245	\$2,232	\$1,467	\$982
Equals: Fiscal Gap	\$651	\$705	\$808	\$1,696	\$2,309
<b>New Use of Resources:</b>					
Budget Cuts	\$100	\$200	\$525	\$875	\$1,100
Taxes	\$0	\$110	\$235	\$340	\$350
Use of Permanent Fund	\$0	\$0	\$0	\$150	\$440
Economic Development	\$0	\$0	\$45	\$120	\$260
Reserves & Assets	\$550	\$395	\$0	\$210	\$159
<b>Resources Used</b>	<b>\$2,920</b>	<b>\$2,950</b>	<b>\$3,037</b>	<b>\$3,162</b>	<b>\$3,291</b>
<b>Shortfall</b>	<b>\$1</b>	<b>\$0</b>	<b>\$3</b>	<b>\$1</b>	<b>\$0</b>

**Budget Cuts** – Gradually reduce state spending to hit a sustainable spending target of about \$2.1 billion. This necessitates a reduction of some and elimination of other state services to a level more closely resembling other states.

**Taxes** – Phase in taxes on income, property, and resources at national average rates. Reserve the sales tax for local government.

**Permanent Fund** – Gradually reduce the Dividend program and reinvest all available earnings, including inflation proofing and the earnings reserves to maximize its long-term real income generation capacity. The future earning stream will be able to pay for at least 25% of the cost of government.

**Economic Development** – Assume gradual and moderate non-petroleum resource development and new petroleum-related developments after 2000, which may be the construction of a gasline and/or a development in ANWR. The state can influence economic development but has less control here than in the use of the other tools. Therefore, while pursuing economic development, the state should simultaneously be bringing spending in line with a sustainable target.

**Transition Funds** – Use reserves and some assets to avoid the shock of large budget cuts and/or new taxes happening all at once. Keep a fund to act as a shock absorber in the event of a drop in oil prices.

# APPENDIX IV



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## SUMMARIES OF BUDGET CONFERENCES

Governor's Economic Summit	November 29 - December 1, 1992
Common Ground Fiscal Policy Conference	March 13-14, 1993
Alaska Credit Union League	March 19 and 20, 1993
Kenai Regional Economic Summit	April 25-27, 1993
Commonwealth North Budget Conference	October 20 and 21, 1993

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### THE "GAP"

**Governor's Summit.** All groups concurred that there is a significant "gap", and that all the ISER identified fiscal actions will be needed.

**Common Ground.** All the groups recognized a significant budget "gap" and employed all or most of the ISER actions to meet revenue shortfalls.

**Alaska Credit Union League.** General agreement that a substantial fiscal "gap" exists and that most or all the ISER actions will be needed in the near future.

**Kenai Regional.** All groups recognized the existence of a sizeable "gap" and most used all the ISER actions to address it.

**Commonwealth North.** All the working groups agreed that there was a fiscal "gap" now, that it was growing, that it will be substantial in the near future and that actions need to be taken now. All the groups felt that most, if not all, the actions identified in the ISER budget report must be implemented by 2005.

### SPENDING

**Governor's Summit.** All identified state budget reductions as the first priority for action. Several "unique" programs were consistently identified for cuts or elimination including the longevity bonus program, power cost equalization and pioneer homes.

**Common Ground.** Sensible spending cuts should be made with particular emphasis on Alaska's unique programs. Some programs should be made self-sufficient like the seafood marketing program.



**Alaska Credit Union League.** General agreement to reduce spending through phasing out or elimination of "unique" programs, formula funding containment, services based on need and freezing of state salaries and benefits to bring to the level of private sector.

**Kenai Regional.** Most groups suggested substantial budget cuts and use of caps or ceilings for annual spending. The longevity bonus program was consistently targeted for cuts or elimination.

**Commonwealth North.** Most groups recognized the real political and programmatic problems of further large budget cuts. However, various approaches were suggested to find efficiencies, re-prioritize and hold the line on future spending increases. Most assumed that savings in real dollars could accrue over time if programs were not allowed to increase with inflation and population growth. No specific programs were consistently targeted for cuts or reductions.

## **RESERVES**

**Governor's Summit.** Most groups proposed the spending of reserves to help smooth the volatility of future revenues. Some suggested depositing reserves in the Permanent Fund, some would consolidate all reserves in a single account with earnings going to the general fund.

**Common Ground.** Some or all reserves (including future windfalls) should be deposited in either the Permanent Fund or the Constitutional Budget Reserve Fund to bolster future earnings. Some groups would utilize a portion of the reserves directly as transitional funds for general government.

**Alaska Credit Union League.** Recognition that reserves have to be used as last-resort transition funds. One suggestion was to deposit reserves in Permanent Fund and earnings used for general government.

**Kenai Regional.** Half the groups would deposit some or all of the reserves in the Permanent Fund while half would utilize as transition funds.

**Commonwealth North.** All groups recognized the need to use liquid reserves but felt that better mechanisms were needed to capture and husband reserves and non-recurring revenues for future use, rather than spending them as they become available.

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## TAXES

**Governor's Summit.** Most groups recommended reimposition of the personal income tax. Most of the groups supported increased motor fuel and "sin" taxes.

**Common Ground.** General agreement on reimposition of personal income tax. Considerable support for increased motor fuels, "sin", "tourism" and fisheries taxes. Some recommended "school" or payroll tax.

**Alaska Credit Union League.** General recognition that new taxes will be needed including: personal income, "sin" taxes, taxes on other natural resources and payroll taxes. Taxes which captured non-resident wages were favored.

**Kenai Regional.** All groups supported reimposition of the personal income tax. Most favored an increase in motor fuel taxes. None favored a state sales tax.

**Commonwealth North.** All groups recommended new taxes for meeting the "gap", and all suggested the reimposition of the personal income tax as the preferred form. It was felt that the income tax was the most progressive (least impact on those with lowest income), could capture non-residents' income earned in Alaska, and was the best method for the state to pay for and benefit from new economic developments.

## PERMANENT FUND

**Governor's Summit.** All groups opposed use of the principal of the Permanent Fund. Most favored capping dividends for use either for state operations or to reinvest excess earnings in the Permanent Fund principal to increase future earnings.

**Common Ground.** No use of the principal of the PF or any change to full inflation-proofing. Most groups recommended capping the dividends for either deposit to the Permanent Fund principal or for general fund use.

**Alaska Credit Union League.** Earnings of the PF, including funds now going to PFDs, will be needed to bridge the "gap."

**Kenai Regional.** Most groups recommended some plan to use Permanent Fund earnings to support state government. Most supported capping the Dividend and putting saved earnings back into the principal of the Fund.

**Commonwealth North.** All groups recommended that the Permanent Fund principal and inflation-proofing monies not be used. No group recommended eliminating the dividend. However, a majority recommended that the dividends be capped, and that earnings beyond dividends and inflation-proofing be used for general government or deposited in the Permanent Fund to generate future earnings.



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## ECONOMIC DEVELOPMENT

**Governor's Summit.** While all expressed the importance of future economic development, many expressed concern not to rely too heavily on speculative projects for future revenues, and that developments produce net revenues to the state above costs. Most supported the development of ANWR, construction of a gasline and lifting the export ban on Alaskan oil. Most identified the need to settle the mental health lands issue. Half the groups recommended streamlining the state's regulatory and permitting systems.

**Common Ground.** Most groups assumed that either oil declines would not be as precipitous as projected, or that there would be additional small fields developed. Most also assumed revenues from construction of a gasline after the year 2000.

**Alaska Credit Union League.** Strong emphasis was placed on economic development. Governmental impediments in regulation and permitting should be removed, and incentives, including tax breaks, subsidies and infrastructure development, employed.

**Kenai Regional.** Most groups relied on revenues from the completion of a gas pipeline after 2001. Several groups supported aggressive marketing of our natural resources, settlement of the mental health lands issue and repeal of the export ban on Alaskan oil.

**Commonwealth North.** Most groups felt that any new economic developments would be based largely on market conditions and economic decisions outside the control of the state. However, a stable tax policy and removal of regulatory hurdles by the state would be helpful. No group believed that large-scale economic development would result in revenues substantially reducing the budget "gap" by 2005.