SJR

38

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. SJR 38

Revision Date:

Dept. Affected: Department of Revenue

Title: "Proposing amendments to the Constitution of the St. of AK relating to revenues from natural resources, the Alaska permanent fund, the appropriation limit and the budget reserve fund; and providing for an effective date for the amendments."

BRU: APFC

Component: APFC

Sponsor: Senator Ellis

Requestor:

COMPONENT SERIAL NO. 109

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES	-0-	70.0	208.0	271.5	271.5	271.5
TRAVEL	-0-	22.5	30.5	30.5	30.5	30.5
CONTRACTUAL	-0-	1605.5	1645.5	2849.6	4053.8	5257.9
SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
EQUIPMENT	-0-	6.0	12.0	6.0	-0-	-0-
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	1704.0	1896.0	3157.6	4355.8	5559.9

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-

REVENUE FUND SOURCE	-0-	1704.0	1896.0	3157.6	4355.8	5559.9

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other (Corporation Receipts)	-0-	1704.0	1896.0	3157.6	4355.8	5559.9
TOTAL	-0-	1704.0	1896.0	3157.6	4355.8	5559.9

POSITIONS:

FULL-TIME	-0-	1	2	1	-0-	-0-
PART-TIME	-0-	-0-	-0-	-0-	-0-	-0-
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

Estimate of current year (FY94) Impact: $ -0-

ANALYSIS: (Attach a separate page if necessary)

(See Attached.)

Prepared by: William H. Scott, Executive Director

Phone: 465-2047

Division: Alaska Permanent Fund Corporation

Date: 1/14/94

Approved by Commissioner: Darrel J. Rexwinkel, Commissioner

Date: 1/10/94

Agency: Department of Revenue

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FISCAL NOTE: DEPT. OF REVENUE

BEAM: BUSINESS, EDUCATION AND MANAGEMENT CONSULTANT
Phone: (907) 277-8295, Fax: (907) 277-8354 540 L St.,Suite #101 Anchorage, Alaska 99501-1945
KAREN ELIZABETH DEMPSTER B.A., M.ED., ED.S.
Specialist in:
Labor Relations, Contract Interpretation, Management & Budget Analysis

July 12, 1993

LETTERS TO THE DAILY NEWS 258-2157
Anchorage Daily News
P.O. Box 149001
Anchorage, Alaska 99514-9001

Dear Editor,

In response to Roger Cremo's Saturday, July 10, 1993 Compass piece, and its headline "We can indeed stabilize Alaska's economy, starting in '94", I thought of the line from a song: "There is noting to it but to do it"!

The only cogent, comprehensive and systemic plan available to deal with the curse of the Alaska boom/bust economy is the one proposed by Roger Cremo. We have a unique economy in that our vast natural resources are locked up and owned by either the state or federal government. Our largest and most significant employer is the state and federal government. And, the words of the statehood act leave us no immediate way to change this ownership situation. Our only controllable capital asset is the Permanent Fund. If, as Mr. Cremo demonstrates, we can strengthen the Permanent Fund by placing all natural resource revenues into this reservoir, then metering out the earnings for dividends and the running of state government at a sustainable and predictable rate, we can achieve stability.

Stability means no more destructive boom/bust. It means we can forward fund for education and municipal government. Because we can predict state funding levels, we can achieve long term budgeting. Instead of politicians promising us reform, then excusing the lack of reform by citing the unpredictability of funding, we can hold our representatives responsible for planning and executing a budget as promised in their campaigns.

There is nothing to it, but to do it!

Sincerely,

Karen E Dempster

Karen E. Dempster

BOB STOKES
4111 VISCOUNT CIRCLE
ANCHORAGE. ALASKA 99502

Jan. 10, 1994

Sen. Johnny Ellis
State Capitol
Juneau, AK 99801-1182

Dear Senator Ellis:

How would this be for a practice sentence in high school typing: "Now is the time for all good people to come to the aid of our beloved state"? I refer of course to the price of oil, the decline in North Slope production and the absolute necessity of getting back on a sound financial track.

There seems to be a tsunami swelling up in support of the idea put forth by Roger Cremo which incorporates the Permanent Fund into long range financial planning for the state. On the back of this letter is a copy of a column by Fritz Pettyjohn which gives a good outline of the Cremo plan and I hope you will take the time to read it.*

The initial role of the Legislature would be to get the proposed constitutional amendment in front of the people in the 1994 election this November. If the electorate rejects it, so be it. If it passes I sincerely believe the future of our children and their children in Alaska will be secured as far as we can make it so.

It is of the utmost importance that this not become a partisan issue. It is my hope that both sides of the aisle will appreciate the importance of this amendment and support it accordingly. This seems to be the opportunity of a lifetime to literally save our state by sponsoring or co-sponsoring the Cremo amendment.

Thank you for your time.

Sincerely,

Bob Stokes

Bob Stokes

*There is a typo in the column. $35 billion was reversed and should actually read $53 billion.

NB pg 2

KENAI PENINSULA CAUCUS

AN ORGANIZATION REPRESENTING
MUNICIPAL GOVERNMENTS AND CHAMBERS OF COMMERCE
OF THE KENAI PENINSULA BOROUGH
177 North Birch Street, Soldotna, AK 99669
Phone: 262-9107

To: Senator John Ellis c/o Nina
Fax: 465-2529 - - Five (5) Pages
From: Richard Underkofler, Secretary, Kenai Peninsula Caucus
Date: January 13, 1994

I am forwarding copies of Resolutions from the Kenai Peninsula Borough and the cities of Soldotna, Homer and Seward petitioning the Alaska Legislature to place a constitutional amendment on the ballot for the next general election that would enable a state wide vote on Roger Cremo's proposal to enable a percentage of the market value of the permanent fund to be withdrawn and appropriated for financing state government.

It is my understanding that you have already received the City of Kenai's Resolution endorsing this proposition. A similar Resolution will be considered by the Kenai Peninsula Caucus at a meeting to be held January 28, 1994.

Roger Cremo's proposal appears to have broad, non-partisan support on the Kenai.

Thanks for introducing a Senate Resolution that would enable this proposition to be considered by the legislature.

Rich

First National Bank
of Anchorage

January 13, 1994

Senator Johnny Ellis
Room 9
Juneau, Alaska 99801

Dear Senator Ellis:

I endorse the Rodger Cremo Plan for the management of the Permanent Fund. You can't beat the magic of compounding.

Sincerely,

D.H. Cuddy

DIVISION OF LEGAL SERVICES

LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

M E M O R A N D U M   January 14, 1994

SUBJECT: Constitutional amendment relating to revenues from natural resources (SJR 38)

TO: Senator Johnny Ellis

FROM: Tamara Brandt Cook
Director
TBC

Here is the sectional summary you requested.

Sec. 1. The existing constitutional provision relating to the permanent fund is repealed and replaced with an entirely new section related to the Alaska permanent fund. Revenue from certain listed natural resource sources received by the state are not appropriable. These revenues constitute the Alaska permanent fund and are to be invested. Income is retained in the fund. Each fiscal year, money is withdrawn in an amount equal to six percent of the average of the market value of the fund at the end of each of the quarters of the three calendar years immediately preceding that fiscal year. The money withdrawn may be appropriated. A public corporation manages the fund. Revenues dedicated by this section do not include revenues that are the subject of other dedications permitted by the constitution.

Sec. 2. The percentage to be withdrawn from the fund in sec. 1 does not apply in fiscal years 1996-2005. In FY 1996 the percentage is twenty and it decreases each fiscal year geometrically until FY 2006, when the six percent level is reached. The assets of the constitutional budget reserve fund, the earnings reserve account of the permanent fund, the Railbelt energy fund, and the statutory budget reserve fund are added to the Alaska permanent fund. The assets of the permanent fund on July 1, 1995 are retained in the fund. The provisions of the first two sections of this resolution are effective July 1, 1995. The following constitutional sections are repealed effective July 1, 1995: sec. 16, art. IX-appropriation limit; sec. 17, art. IX-budget reserve fund; sec. 27, art. XV-reconsideration of amendment limiting increases in appropriations; sec. 28, art. XV-application of appropriation limit amendment.

SECTIONAL ANALYSIS

Sec. 3. Requires the proposed amendments to be placed before the voters at the next general election (November, 1994 if this resolution is passed by the legislature this session).

TBC:pl
94-039.plm

Alaska Permanent Fund Corporation
P.O. Box 25500 Juneau, Alaska 99802-5500
(907) 465-2047

MEMORANDUM

DATE: January 18, 1994

TO: Board of Trustees

FROM: Jim Kelly
Research & Liaison Officer

SUBJECT: **20 Questions (and Answers) on the Cremo Plan**

1) What is the plan's purpose?

To stabilize state resource revenues at a sustainable level, to increase the size of the Permanent Fund, and to minimize the negative consequences of the fiscal gap.

1) How does the plan work?

The plan requires this session's legislature to propose – and the voters in the fall election to approve – an amendment to the State Constitution to provide that beginning July 1, 1995 and henceforth, <u>all</u> natural resource revenues be deposited in the Permanent Fund along with the assets of the state's two budget reserve accounts and the Railbelt Energy Fund. All future income earned by the Fund would be retained in the Fund, but there would be an annual withdrawal from the Fund based on its average market value over the past 12 quarters. The first year, the withdrawal would equal 20 percent, but then would be reduced geometrically each year until the permanent withdrawal rate of 6 percent is reached in the year 2006.

3) Will the plan stabilize state resource-derived revenues at a sustainable level?

Yes. However, that level would be insufficient, for at least the next 15 years, to fund the entire costs of state government. Matching projected state revenues with projected state spending would still require reductions in the state budget and increases in other non-resource-derived state revenues.

4) Will the plan increase the size of the Permanent Fund?

Yes, given the assumptions upon which the plan is based.

5) What are the assumptions?

The plan is based on the Department of Revenue's fall 1993 mid-case revenue projections, and assumes an annual total rate of return for the Permanent Fund of 10 percent and an annual inflation rate of 4 percent. The Alaska Permanent Fund Corporation's projections are based on the low-case revenue projections, and assume a long-term average rate of return for the Permanent Fund of 9 percent and a long-term average rate of inflation of 6 percent.

6) What happens if the more conservative estimates prove to be true?

If the Corporation's estimates prove accurate, the Fund would still grow larger than under the status quo, but the money provided each year to the treasury from the Permanent Fund would be significantly less than the plan projects.

7) Why is there a transition period before implementation of the permanent withdrawal rate?

The plan provides for a higher but gradually reduced withdrawal rate during a 10-year transition period in order to minimize the negative consequences of the fiscal gap. The economy depends to a significant extent on state spending and too sharp a reduction would directly and indirectly eliminate many jobs and sink the state into a serious recession.

8) What is the rationale for the 6 percent withdrawal rate?

Given the plan's assumptions, a 6 percent withdrawal rate provides the maximum amount of money to the state treasury while still protecting the Fund against inflation. Arguments can be made that the number should be higher or lower: the higher the rate of withdrawal, the more money is made available for state spending; the lower the number, the greater the protection to the Fund from inflation. From the Fund's perspective, it would be more prudent to base the annual withdrawals on the real growth of the Fund, not on an arbitrary number.

9) Does the plan provide the Permanent Fund with protection against inflation?

Only if the annual amount withdrawn by the treasury plus the amount "withdrawn" by inflation is less than the total earnings of the Fund for that year plus the new deposits. Using conservative estimates of all four variables – a 4 percent withdrawal rate, new deposits according to the DOR low-case revenue forecast, a 9 percent earnings rate, and a 6 percent rate of inflation – the Fund experiences a net inflation-proofing surplus in the first 15 years of the plan.

10) What has been the historic rate of inflation, and what does the Corporation project for the future?

Since 1926, inflation has averaged just over 3 percent. Since the Fund started in 1977, inflation has averaged just under 6 percent. The Corporation projects a 4 percent average rate of inflation for the next four years, and a 6 percent average rate of inflation over the long-term.

11) What have been the Fund's historic rate of return, and what does the Corporation project for the future?

Since the Permanent Fund started in 1977, the realized rate of return has averaged 11 percent. The Fund's total return for the past 9 and 3/4 years has been just over 12 percent. The Corporation projects a 8.37 percent rate of return for the next four years, and a 9 percent rate of return over the long term.

12) Does the plan provide for the payment of full dividends?

Technically, the plan would increase dividends because the current statutory dividend formula is based on the Fund's annual income, which would increase. However, using that current statutory dividend formula, the plan would produce significantly less resource revenue for state spending than would be produced under the status quo.

13) What if the dividends were capped at $1,000 per capita?

Then, dividends would be reduced from the status quo, but the revenues made available for state spending would be increased.

14) How does the plan address the fiscal gap?

As mentioned above, the plan assumes some combination of state spending cuts and revenue increases. Given the plan's assumptions, a 12% annual increase in conventional revenues and a $30 million cut in annual state spending would eliminate the fiscal gap.

15) Are the Cremo Plan's assumptions realistic?

The assumptions may be realistic, but they are not conservative.

16) What other effects would adoption of this proposal have on the Permanent Fund?

The plan would certainly create a need for more staffing and a higher operating budget for the Permanent Fund Corporation. Additionally, and more importantly, the plan might also affect public perceptions. It might blur the distinction between the Permanent Fund as a savings account and the General Fund as the state's spending account, and it might destroy the link which exists currently between the citizens and their savings account. Finally, if state government comes to rely on the Permanent Fund as its primary source of operating revenues, pressure would likely build on the Board of Trustees to take more risks with the investment policy in order to attempt to earn greater rates of return.

17) Does the plan have advantages over the current situation?

As the Commission on the Future of the Permanent Fund said about it in 1990, "A successful transition to this concept would remove substantial elements of doubt and uncertainty regarding future state revenues and the health of Alaska's economy."

18) Does it have disadvantages over the current system?

The plan forces the legislature to make a number of difficult decisions over the next several years. Based on the Corporation's estimates, it is likely that taxes would have to go up, state spending would have to go down, the dividend formula would have to be adjusted downward, and inflation-proofing would have to be curtailed.

19) What is the bottom line? Is this a good plan or not?

The plan is based on sound principles and could work, but there are significant risks involved. If the Fund's growth is significantly hindered, particularly in the early years, either by lower-than-expected oil deposits or deposits of other state reserves, low earnings or high inflation, this plan will not necessarily be an improvement over other alternatives.

20) What obstacles have to be overcome?

Before the legislature and the citizens of this state will approve this plan, they need to be convinced that it is clearly an improvement over the status quo. Unfortunately, there are a number of undesirable outcomes which might occur should actual conditions in the future vary significantly from the assumptions upon which the plan is based. Against these uncertainties, one thing is known for sure: the Permanent Fund as currently structured is not broken.

CITY OF HOMER
HOMER, ALASKA

RESOLUTION 93-99

A RESOLUTION OF THE HOMER CITY COUNCIL URGING THE ALASKA LEGISLATURE TO PLACE A CONSTITUTIONAL AMENDMENT RELATED TO THE ALASKA PERMANENT FUND ON THE BALLOT FOR THE NEXT GENERAL ELECTION.

WHEREAS, at the Kenai Peninsula Borough Mayor's 1993 Economic Summit, a proposal was made for changing the State's system of finance to achieve sustained spending, which has attracted state wide interest; and

WHEREAS, a hearing held by the Homer City Council on November 22, 1993 at the Regular City Council meeting concluded that the residents of Homer desire an opportunity to vote on this proposition.

NOW, THEREFORE, BE IT RESOLVED by the Homer City Council that the Alaska State Legislature is urged to place a constitutional amendment on the ballot for the next general election which would generally dedicate all of the State of Alaska's future natural resource revenues to the Alaska Permanent Fund, transfer assets of various state reserve funds to the Alaska Permanent Fund and enable a percentage of the market value of the Alaska Permanent Fund to be withdrawn and appropriated by the legislature for financing state government; and

BE IT FURTHER RESOLVED that the City Manager is hereby authorized and directed to forward a copy of this Resolution to the Kenai Peninsula Caucus, Senator Suzanne Little and Representative Gail Phillips.

PASSED and ADOPTED by the Homer City Council this 22nd day of November, 1993.

CITY OF HOMER

Harry E. Gregoire

HARRY E. GREGOIRE, MAYOR

ATTEST:

Mary L. Calhoun

MARY L. CALHOUN, CITY CLERK

Sponsored by: Crane

CITY OF SEWARD, ALASKA
RESOLUTION NO. 93-172

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SEWARD, ALASKA, URGING THE ALASKA STATE LEGISLATURE TO PLACE A CONSTITUTIONAL AMENDMENT RELATED TO THE ALASKA PERMANENT FUND ON THE BALLOT FOR THE NEXT GENERAL ELECTION

WHEREAS, at the Kenai Peninsula Borough Mayor's 1993 Economic Summit, a proposal was made for changing the State's system of finance to achieve sustained spending, which has attracted statewide interest; and

WHEREAS, the city of Seward desires an opportunity to vote on this proposition;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEWARD, ALASKA, that:

Section 1. The Alaska State Legislature is petitioned to place a constitutional amendment on the ballot for the next general election which would generally:

A. Dedicate all of the State of Alaska's future natural resource revenues to the Alaska Permanent Fund;

B. Transfer assets of various state reserve funds to the Alaska Permanent Fund; and

C. Enable a percentage of the market value of the Alaska Permanent Fund to be withdrawn and appropriated by the legislature for financing state government.

Section 2. The City Clerk is hereby authorized and directed to forward a copy of this resolution to the Kenai Peninsula Caucus, Senator Suzanne Little and Representative Gary Davis.

Section 3. This resolution shall take effect immediately upon its adoption.

PASSED AND APPROVED by the City Council of the city of Seward, Alaska, this 10th day of January, 1994.

Introduced by: Glick, Torgerson
Date: 11/16/93
Action: Adopted
Vote: Unanimous

KENAI PENINSULA BOROUGH
RESOLUTION 93-129

A RESOLUTION URGING THE ALASKA STATE LEGISLATURE TO PLACE A CONSTITUTIONAL AMENDMENT RELATED TO THE ALASKA PERMANENT FUND ON THE BALLOT FOR THE NEXT GENERAL ELECTION

WHEREAS, at the Kenai Peninsula Borough Mayor's 1993 Economic Summit, a proposal was made for changing the State's system of finance to achieve sustained spending, which has attracted statewide interest; and

WHEREAS, a hearing held by the Kenai Peninsula Caucus concluded that residents of the Kenai Peninsula Borough desire an opportunity to vote on this proposition;

NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

SECTION 1. That the Alaska State Legislature is petitioned to place a constitutional amendment on the ballot for the next general election which would generally:

A. Dedicate all of the State of Alaska's future natural resource revenues to the Alaska Permanent Fund;

B. Transfer assets of various state reserve funds to the Alaska Permanent Fund; and;

C. Enable a percentage of the market value of the Alaska Permanent Fund to be withdrawn and appropriated by the legislature for financing state government.

SECTION 2. That copies of this resolution be sent to Senators Suzanne Little and Judy Salo and Representatives Gail Phillips, Mike Navarre and Gary Davis.

ADOPTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH ON THIS 16th DAY OF NOVEMBER, 1993.

Betty J. Glick
Betty J. Glick, Assembly President

ATTEST:

Gaye J. Vaughan
Gaye J. Vaughan, Borough Clerk

Kenai Peninsula Borough, Alaska

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To Pat Pruzik	From Bev
Co.	Co.
Dept.	Phone # 2-8608
Fax #	Fax #

SUGGESTED BY: Mayor Williams

City of Kenai

RESOLUTION NO. 93-87

A RESOLUTION OF THE COUNCIL OF THE CITY OF KENAI, ALASKA, URGING THE ALASKA LEGISLATURE TO PLACE A CONSTITUTIONAL AMENDMENT RELATED TO THE ALASKA PERMANENT FUND ON THE BALLOT FOR THE NEXT GENERAL ELECTION.

WHEREAS, at the Kenai Peninsula Borough Mayor's 1993 Economic Summit, a proposal was made for changing the State's system of finance to achieve sustained spending, which has attracted statewide interest; and,

WHEREAS, hearings held by the Kenai Peninsula Borough, the City of Soldotna and the Kenai Peninsula Caucus, concluded residents desire an opportunity to vote on this proposition.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF KENAI, ALASKA, as follows:

Section 1: The Alaska State Legislature is petitioned to place a constitutional amendment on the ballot for the next general election which would generally:

a. Dedicate all of the State of Alaska's future natural resource revenues to the Alaska Permanent Fund;

b. Transfer assets of various state reserve fund to the Alaska Permanent Fund; and,

c. Enable a percentage of the market value of the Alaska Permanent Fund to be withdrawn and appropriated by the Legislature for financing state government.

Section 2: The Kenai City Clerk is hereby authorized and directed to forward a copy of this resolution to each member of the Alaska State Legislature and Governor Walter J. Hickel.

PASSED BY THE COUNCIL OF THE CITY OF KENAI, ALASKA, this 17th day of November, 1993.

John J. Williams

John J. Williams, Mayor

ATTEST:

Carol L. Freas

Carol L. Freas, City Clerk

CITY OF SOLDOTNA

RESOLUTION 93-20
(Requested by Mayor Bill Reeder for a Public Hearing)

A RESOLUTION URGING THE ALASKA LEGISLATURE TO PLACE A CONSTITUTIONAL AMENDMENT RELATED TO THE ALASKA PERMANENT FUND ON THE BALLOT FOR THE NEXT GENERAL ELECTION

WHEREAS, at the Kenai Peninsula Borough Mayor's 1993 Economic Summit, a proposal was made for changing the State's system of finance to achieve sustained spending, which has attracted state wide interest; and,

WHEREAS, a hearing held by the Soldotna City Council concluded that residents of Soldotna desire an opportunity to vote on this proposition.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SOLDOTNA, ALASKA:

Section 1. The Alaska State Legislature is petitioned to place a constitutional amendment on the ballot for the next general election which would generally:

A. Dedicate all of the State of Alaska's future natural resource revenues to the Alaska Permanent Fund;

B. Transfer assets of various state reserve funds to the Alaska Permanent Fund; and,

C. Enable a percentage of the market value of the Alaska Permanent Fund to be withdrawn and appropriated by the legislature for financing state government.

Section 2. The Clerk is hereby authorized and directed to forward a copy of this Resolution to the Kenai Peninsula Caucus, Senator Suzanne Little and Representative Gary Davis.

ADOPTED this 27th day of October, 1993.

Ken Lancaster
Mayor

ATTEST:

Patricia C. Burdick
City Clerk

Tuesday, February 1, 1994 2:40:04 PM 272-4117

Anchorage • Star of the North
Chamber of Commerce

Anchorage Chamber of Commerce
Resolution 4-93/94
Supporting Expenditure Controls For State Government

WHEREAS, the state of Alaska receives more in taxes on a per capita basis than any other state in the United States; and

WHEREAS, the state budget for the state of Alaska on a per capita basis is higher than any other state in the United States; and

WHEREAS, there is a current budget deficit which will increase in the future due to the decline in the royalty and severance tax revenues collected from the production of crude oil; and

WHEREAS, in light of the unpredictability of tax revenues, the people of the state of Alaska and their elected representatives have a responsibility to ensure spending discipline and responsible state government;

BE IT RESOLVED that the state of Alaska should enact a meaningful expenditure control which will result in the gradual decline in the size of the state of Alaska's current and future fiscal budgets.

George Wuerch
Chairman 1993-94

Carol Heyman
President

January 21, 1994

Resolution of the Alaska Conference of Mayors

Resolution No. 94-1

A RESOLUTION IN SUPPORT OF A LONG-TERM FINANCIAL PLAN FOR THE STATE OF ALASKA

WHEREAS, the State of Alaska, due to current oil pricing, faces a budget shortfall; and

WHEREAS, municipalities receive substantial revenues through municipal revenue sharing, municipal assistance, and other municipal aid programs; and

WHEREAS, there are numerous recommendations, including Governor Hickel's budget proposal and the Roger Cremo Plan, to resolve the budget problems faced by the state; and

WHEREAS, the Alaska Conference of Mayors wants to provide positive recommendations to the Legislature and the Governor on the budget and fiscal gap problems; and

WHEREAS, the Alaska Conference of Mayors represents over 55 cities and boroughs comprising nearly half of the population of the State of Alaska:

NOW, THEREFORE, BE IT RESOLVED that the Alaska Conference of Mayors supports a long-term financial program for the State of Alaska which provides for:

1. Expenditure reductions that are ■ meaningful, ■ not crippling to necessary services of public safety, ■ not destructive to the constitutional intent to provide for a statewide educational program, and ■ reasonable in providing for a balance of commonwealth needs such as health and welfare;

2. Tax and fee increases only after budget reductions;

3. Budget and budget mechanism changes that do not drastically threaten the state's private economic health;

4. Budget mechanism changes that will produce ■ a reduction in volatility of revenue availability over a long time period, ■ an improvement in the state's credit rating and perception, ■ a provision for safety and growth of the Permanent Fund principal, ■ widespread public understanding acceptance of the program.

BE IT FURTHER RESOLVED that copies of this resolution shall be sent to Governor Walter J. Hickel and members of the Alaska State Legislature.

BE IT FURTHER RESOLVED that this resolution shall take effect immediately.

Adopted this 18th day of January 1994 in Juneau, Alaska.

Mayor Donald Long, President

ATTEST:

Chrystal Stillings Smith
Executive Assistant

Resolution of the Alaska Conference of Mayors

Resolution No. 94-2

A RESOLUTION IN SUPPORT OF MAINTAINING FUNDING AND COMPLETING CONSTRUCTION OF THE ALASKA MARINE HIGHWAY SYSTEM OCEAN-CLASS VESSEL

WHEREAS, the Alaska Marine Highway System is critical to many of Alaska's coastal communities for basic transportation, economic development, and regional interaction; and

WHEREAS, the new ocean-going vessel will enhance the development of coastal Alaska; and

WHEREAS, the Alaska Marine Highway System was established by our present governor during his previous administration, prior to the onset of the state's "Oil Boom" wealth, and was fully funded to provide a level of service that was meeting the expectations of the traveling public and citizens of Alaska, but no longer meets the needs of the public due to the growth of population over the last 20 years; and

WHEREAS, it is imperative to continue the current rebuilding of the system to avoid costly emergency repairs, system disruptions, and a huge capital outlay when all of the current ferries reach the end of their useful life all at the same time; and

WHEREAS, an ocean-class vessel would significantly improve movement of cargo, construction equipment, visitors, and Alaskans within Southwest Alaska, Southeast Alaska, and between Southeast and Southwest Alaska at much needed, cost-efficient rates; and

WHEREAS, significant funding for the ocean-class vessel was secured from the Alaska State Legislature and approved by Governor Hickel during the 1992 and 1993 legislative sessions:

NOW, THEREFORE, BE IT RESOLVED that the Alaska Conference of Mayors urges Governor Hickel and the Alaska State Legislature to maintain the funding for the ocean-class vessel and ensure its operation beginning in 1997.

BE IT FURTHER RESOLVED that the Alaska Conference of Mayors urges Governor Hickel and Department of Transportation Commissioner Bruce Campbell to move ahead on bidding and constructing the new ocean-class vessel immediately.

Adopted this 18th day of January 1994 in Juneau, Alaska.

Donald Long

Mayor Donald Long, President

ATTEST:

Brian R. Sweiven

Mayor Brain Sweiven
Secretary/Treasurer

JOHNNY ELLIS
SENATOR

STATE CAPITOL, ROOM 9
JUNEAU, ALASKA 99801-1182
(907) 465-3704
FAX: (907) 465-2529

ALASKA STATE LEGISLATURE
SENATE

Sponsor Statement for SJR 38 "The Cremo Plan"

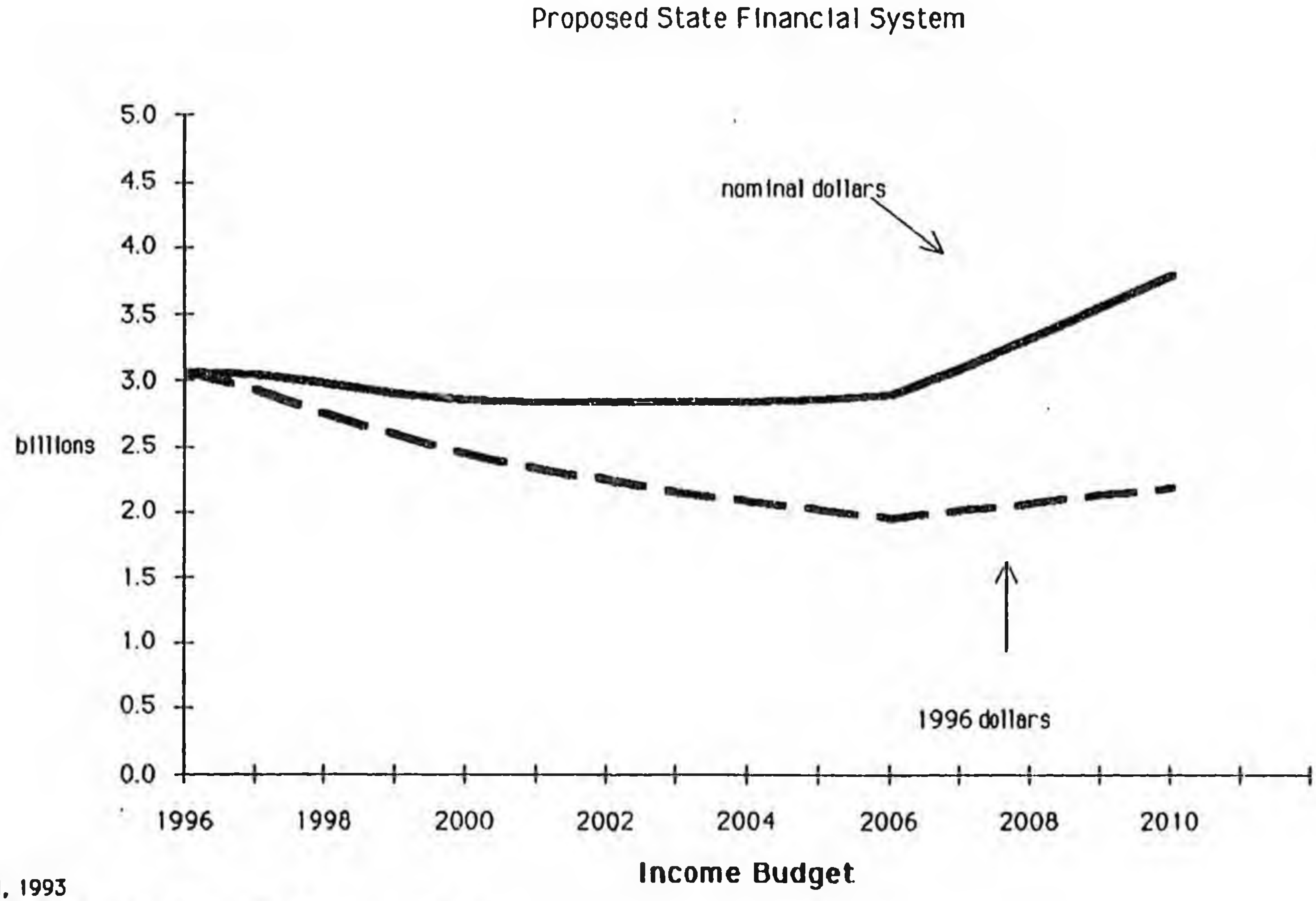
SJR 38 would allow the people of Alaska to vote on a constitutional amendment which would change the way we finance our state government.

Essentially, the amendment would remove all natural resource revenues from the appropriation process and put them into the Permanent Fund. Money systematically withdrawn from the fund would be used for the operation of state government, aid to local governments, dividends and other purposes. The object of the amendment is to get the state off the financial roller coaster that has caused fiscal and economic problems. State spending cannot be sustained at the current level. The end of our reserves is in sight, and oil revenues are falling as North Slope production slows.

It's apparent that we have to make some changes in order to get through the difficult period ahead and to prevent this from happening again in the future. The proposed constitutional provision in SJR 38 is designed to do that. It will force spending to a sustainable level by removing reserves from the table and by gradually reducing the amount of money available for appropriation. Also, by revoking the legislature's ability to go on spending sprees, it will prevent a return to unsustainable spending when oil revenues are high again.

All of us in the legislature have participated, to one degree or another, in spending as if there were no tomorrow. It's appropriate that we give the people the opportunity to change the system under which we operate. I encourage you to vote favorably on SJR 38.

SPONSOR STATEMENT

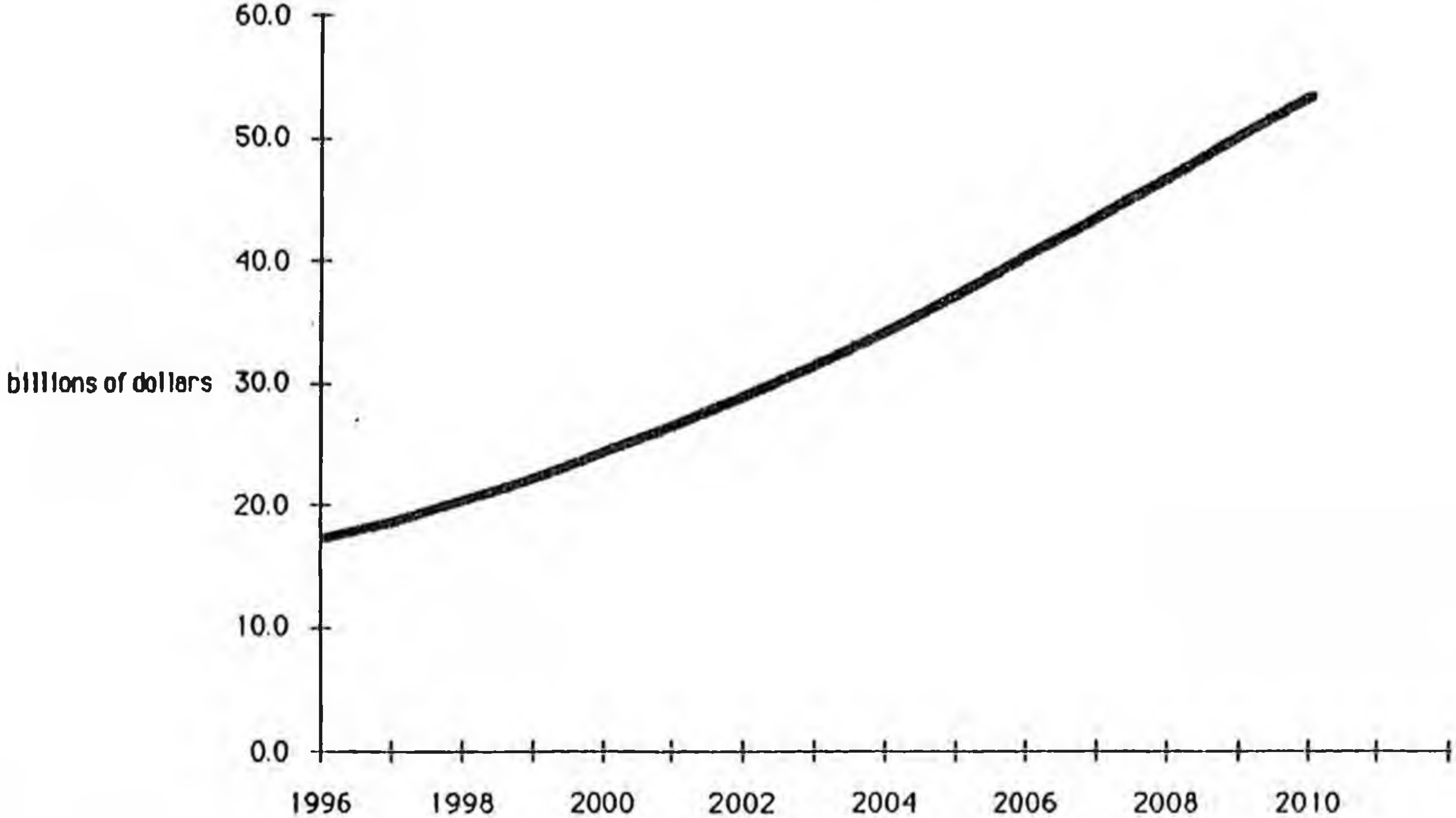


fall, 1993

20% in initial year to permanent % in 2006

CREMO ANALYSIS CHARTS

Proposed State Financial System



Permanent Fund

fall, 1993

20% in initial year to permanent % in 2006

Data: Dept. of Revenue (projections: fall, 1993, mid case)
*Permanent Fund Corp. (projections: October 31, 19[illegible], mid case)

Transitional withdrawal:	20% in initial year to permanent % in 2006
Permanent withdrawal:	6%
Total return:	10%
Inflation:	4%
Reserves:	2,500
Conventional revenue enhancement:	12%

Proposed State Financial System

(millions of dollars)

[1] Fiscal Year	[2] Perm Fund Beginning Balance	[3] Natural Resource Revenues	[4] Withdrawal from Perm Fund	[5] Perm Fund Ending Balance	[6] Conventional Revenues	[7] Income Budget	[8] Income Budget (1996 $)	Fiscal Year
1996	16,277	2,117	2,779	17,262	300	3,079	3,079	1996
1997	17,262	2,295	2,714	18,608	336	3,050	2,933	1997
1998	18,608	2,416	2,609	20,335	376	2,985	2,760	1998
1999	20,335	2,355	2,492	22,300	421	2,913	2,590	1999
2000	22,300	2,175	2,391	24,385	472	2,863	2,447	2000
2001	24,385	2,009	2,314	26,592	529	2,842	2,336	2001
2002	26,592	1,883	2,244	28,969	592	2,836	2,241	2002
2003	28,969	1,754	2,173	31,530	663	2,837	2,156	2003
2004	31,530	1,626	2,101	34,298	743	2,844	2,078	2004
2005	34,298	1,487	2,029	37,282	832	2,860	2,010	2005
2006	37,282	1,322	1,957	40,477	932	2,889	1,952	2006
2007	40,477	1,176	2,128	43,666	969	3,097	2,012	2007
2008	43,666	1,057	2,310	46,866	1008	3,318	2,072	2008
2009	46,866	966	2,499	50,100	1048	3,547	2,130	2009
2010	50,100	892	2,691	53,387	1090	3,781	2,183	2010

2 Market value (book in initial year *). Includes reserves (treated as added in twelve quarters preceding initial year).
3 Deposited into fund quarterly.
4 Function of withdrawal percentage and average of balance in twelve preceding quarters (in proposal, quarters of three preceding calendar years). Transitional withdrawal percentage decreases geometrically. Withdrawn quarterly.
5 Function of deposit, withdrawal and total return on investment.
6 In initial year, assumed. Transitionally, function of amount in previous year and enhancement percentage. Thereafter, increases at inflation rate.
7 & 8 Sum of amounts in columns 4 and 6.

Data: Dept. of Revenue (projections: fall, 1993, mid case)
* Permanent Fund Corp. (projections: October 31, 1993, mid case)

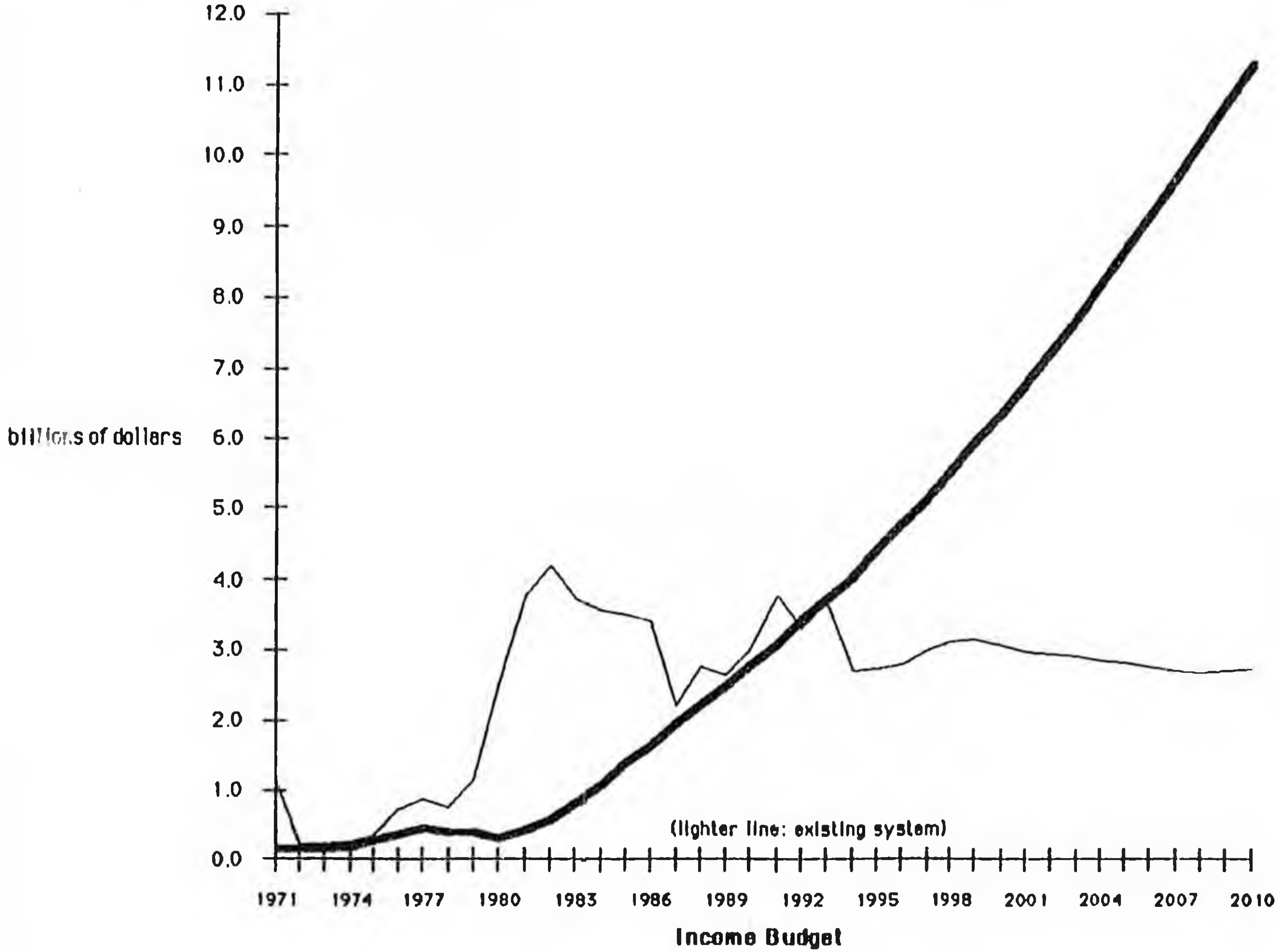
Transitional withdrawal: 20% in initial year to permanent % in 2006
Permanent withdrawal: 6%
Total return: 10%
Reserves: 2,500

Proposed State Financial System
(millions of dollars)

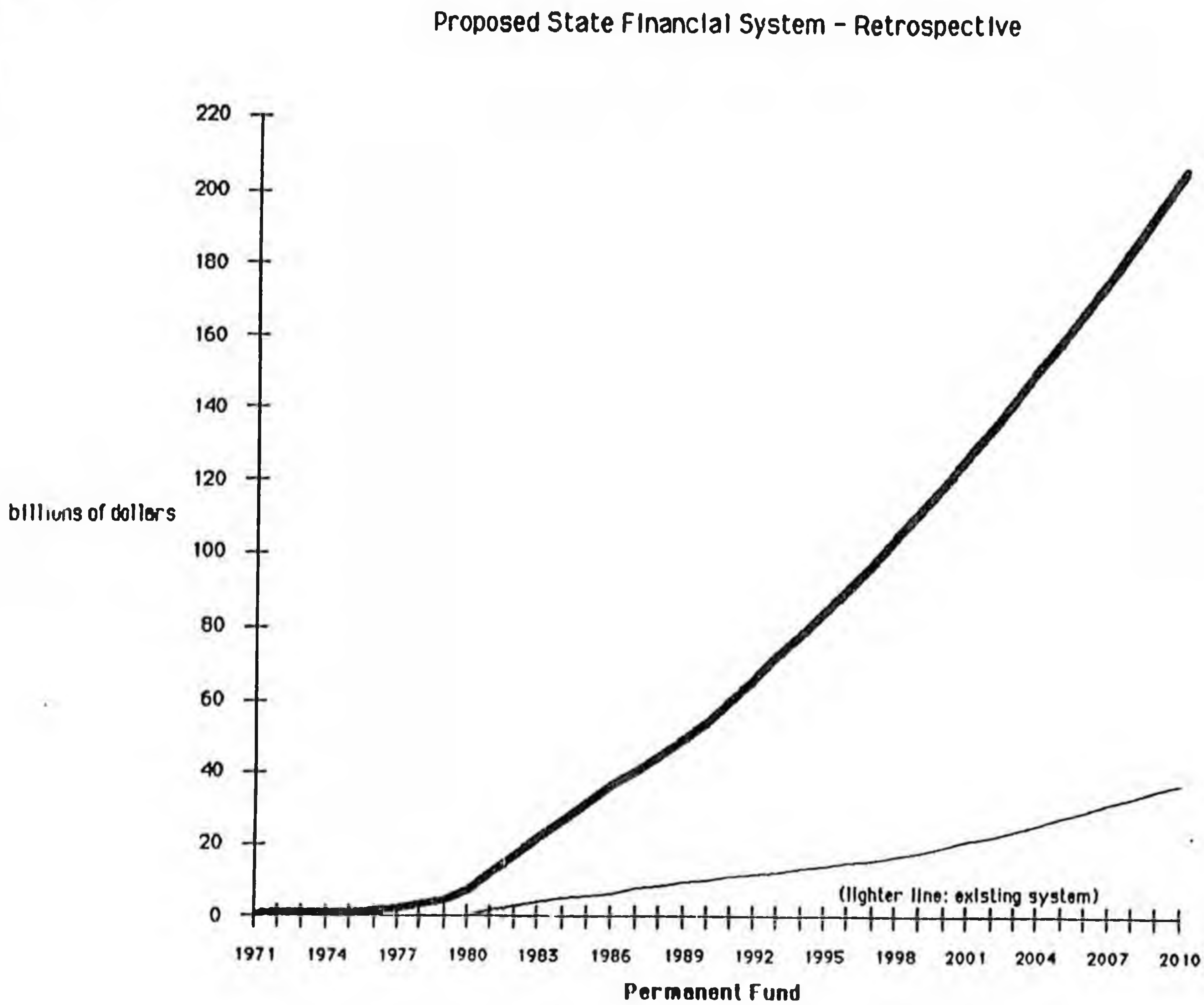
Fiscal Year	Deposit	Year Begin	2nd Qtr Begin	3rd Qtr Begin	4th Qtr Begin	Year End	Avg Prior Bal	Wdrl %	Withdrawal
1993 *		11,911.33	12,238.08	12,564.83	12,891.58	13,218.33			
1994*		13,426.67	13,735.42	14,044.17	14,352.92	14,661.67			
1995*		14,870.00	15,221.75	15,573.50	15,925.25	16,277.00			
1996	2,117.12	16,277.00	16,514.25	16,757.44	17,006.70	17,262.19	13,896.29	20.00	2,779.26
1997	2,295.33	17,262.19	17,586.35	17,918.61	18,259.17	18,608.25	15,308.75	17.73	2,714.45
1998	2,416.40	18,608.25	19,024.06	19,450.27	19,887.13	20,334.91	16,597.68	15.72	2,609.17
1999	2,354.71	20,334.91	20,808.15	21,293.22	21,790.41	22,300.04	17,879.28	13.94	2,491.82
2000	2,175.06	22,300.04	22,802.17	23,316.86	23,844.42	24,385.16	19,351.89	12.36	2,391.12
2001	2,008.86	24,385.16	24,916.66	25,461.45	26,019.85	26,592.22	21,121.66	10.95	2,313.76
2002	1,883.00	26,592.22	27,164.51	27,751.10	28,352.37	28,968.66	23,106.11	9.71	2,244.03
2003	1,754.37	28,968.66	29,585.50	30,217.75	30,865.82	31,530.08	25,242.23	8.61	2,173.42
2004	1,626.18	31,530.08	32,196.66	32,879.90	33,580.22	34,298.05	27,523.42	7.63	2,101.02
2005	1,486.83	34,298.05	35,016.69	35,753.30	36,508.32	37,282.22	29,973.73	6.77	2,028.52
2006	1,321.81	37,282.22	38,051.51	38,840.03	39,648.26	40,476.70	32,616.75	6.00	1,957.00
2007	1,175.92	40,476.70	41,244.66	42,031.83	42,838.67	43,665.69	35,465.44	6.00	2,127.93
2008	1,057.16	43,665.69	44,436.30	45,226.18	46,035.81	46,865.67	38,499.19	6.00	2,309.95
2009	965.92	46,865.67	47,644.49	48,442.78	49,261.03	50,099.73	41,648.15	6.00	2,498.89
2010	892.22	50,099.73	50,891.33	51,702.71	52,534.38	53,386.84	44,847.48	6.00	2,690.85

fall, 1993, mid case

Proposed State Financial System - Retrospective



fall, 1993, mid case



Data: Dept. of Revenue (projections: fall, 1993, mid case)

* Permanent Fund Corp. (projections: October 31, 1993, mid case)

Withdrawal: 6%

Total return: 10%

Proposed State Financial System - Retrospective

(millions of dollars)

[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
							Existing System		
Fiscal Year	Perm Fund Beginning Balance	Petroleum Revenues	Withdrawal from Perm Fund	Perm Fund Ending Balance	Non-Petrol Revenues	Income Budget	Income Budget	Perm Fund Ending Balance*	Earnings Res Ending Balance*
1971	900	47	54	986	95	149	1,138		
1972	986	48	56	1,080	104	159	219		
1973	1,080	50	59	1,184	115	173	208		
1974	1,184	80	61	1,327	134	195	255		
1975	1,327	90	68	1,489	205	272	333		
1976	1,489	392	75	1,980	287	361	710		
1977	1,980	482	86	2,607	362	448	874		
1978	2,607	492	105	3,289	279	385	765	54	
1979	3,289	906	135	4,451	252	387	1,133	139	
1980	4,451	2,601	176	7,494	125	300	2,501	483	
1981	7,494	3,697	243	11,947	186	429	3,754	1,769	59
1982	11,947	3,983	368	17,034	209	577	4,187	2,969	244
1983	17,034	3,457	570	21,874	229	799	3,748	4,021	354
1984	21,874	3,237	835	26,700	246	1,081	3,574	4,838	557
1985	26,700	3,124	1,125	31,599	283	1,408	3,490	5,741	763
1986	31,599	3,029	1,419	36,592	222	1,642	3,426	6,281	1,264
1987	36,592	1,578	1,712	40,249	243	1,955	2,204	7,864	529
1988	40,249	2,391	1,997	44,846	224	2,221	2,753	8,585	591
1989	44,846	2,074	2,266	49,297	245	2,511	2,651	9,173	635
1990	49,297	2,391	2,527	54,270	271	2,798	3,000	9,894	605
1991	54,270	3,306	2,791	60,452	291	3,082	3,776	10,888	581
1992	60,452	2,693	3,083	66,313	353	3,436	3,299	11,703	645
1993	66,313	3,075	3,405	72,845	326	3,731	3,688	12,385	965
1994	72,845	2,079	3,757	78,622	276	4,033	2,713	12,995	1,055
1995	78,622	2,077	4,126	84,605	280	4,406	2,722	13,777	1,175
1996	84,605	2,117	4,490	90,863	281	4,771	2,782	14,601	1,312
1997	90,863	2,295	4,854	97,573	289	5,143	2,985	15,486	1,462
1998	97,573	2,416	5,221	104,718	298	5,519	3,122	16,732	1,638
1999	104,718	2,355	5,609	112,127	307	5,915	3,141	17,751	1,594
2000	112,127	2,175	6,019	119,677	316	6,335	3,050	19,130	1,528
2001	119,677	2,009	6,451	127,374	326	6,776	2,975	20,575	1,436
2002	127,374	1,883	6,897	135,262	335	7,232	2,938	22,096	1,313
2003	135,262	1,754	7,353	143,346	345	7,699	2,906	23,696	1,154
2004	143,346	1,626	7,820	151,636	356	8,176	2,865	25,380	968
2005	151,636	1,487	8,298	160,131	366	8,664	2,819	27,150	754
2006	160,131	1,322	8,788	168,810	377	9,165	2,751	29,008	508
2007	168,810	1,176	9,289	177,701	389	9,678	2,705	30,960	230
2008	177,701	1,057	9,803	186,843	400	10,203	2,686	32,930	0
2009	186,843	966	10,329	196,276	412	10,742	2,696	34,743	0
2010	196,276	892	10,869	206,036	425	11,294	2,728	[illegible]	0

[2] At market value. In 1971, equal to bonuses from petroleum leasing in 1970.

[3] In proposal, various natural resource revenues. Deposited into fund quarterly.

[4] Function of withdrawal percentage and average of balance at beginning of twelve preceding quarters. Withdrawn quarterly.

[5] Function of deposit, withdrawal and total return on investment.

[6] Not including general fund interest.

[7] Sum of amounts in columns 4 and 6.

[8] Sum of appropriable petroleum revenues, non-petroleum revenues and "dividends" portion of fund income*. In 1971, includes surplus from 1970.

Date: Dept. of Revenue (projections: fall, 1993, mid case)
* Permanent Fund Corp. (projections: October 31, 1993, mid case)
Withdrawal: 6%
Total return: 10%

Proposed State Financial System - Retrospective
(millions of dollars)

[1] Fiscal Year	[2] Deposit	[3] Year Begin	[4] 2nd Qtr Begin	[5] 3rd Qtr Begin	[6] 4th Qtr Begin	[7] Year End	[8] Avg Prior Bal	[9] Withdrawal
1971	47.00	900.00	920.71	941.93	963.68	985.98	900.00	54.00
1972	48.40	985.98	1,008.71	1,032.01	1,055.89	1,080.37	931.58	55.89
1973	50.30	1,080.37	1,105.26	1,130.77	1,156.92	1,183.72	976.11	58.57
1974	80.20	1,183.72	1,218.13	1,253.40	1,289.55	1,326.60	1,023.52	61.41
1975	90.40	1,326.60	1,365.64	1,405.64	1,446.65	1,488.69	1,125.06	67.50
1976	391.50	1,488.69	1,607.05	1,728.38	1,852.74	1,980.21	1,246.89	74.81
1977	481.60	1,980.21	2,131.13	2,285.83	2,444.39	2,606.91	1,430.52	85.83
1978	492.00	2,606.91	2,771.17	2,939.54	3,112.12	3,289.01	1,755.25	105.31
1979	905.50	3,289.01	3,568.74	3,855.47	4,149.36	4,450.60	2,245.68	134.74
1980	2,601.30	4,450.60	5,183.44	5,934.59	6,704.52	7,493.70	2,927.82	175.67
1981	3,696.90	7,493.70	8,566.15	9,665.41	10,792.15	11,947.06	4,047.12	242.83
1982	3,983.20	11,947.06	13,172.07	14,427.69	15,714.71	17,033.91	6.137.76	368.27
1983	3,457.00	17,033.91	18,199.48	19,394.20	20,618.78	21,873.98	9,504.34	570.26
1984	3,236.80	21,873.98	23,036.25	24,227.59	25,448.71	26,700.35	13,918.78	835.13
1985	3,124.00	26,700.35	27,879.99	29,089.11	30,328.46	31,598.79	18,757.87	1,125.47
1986	3,028.80	31,598.79	32,801.23	34,033.74	35,297.05	36,591.95	23,652.57	1,419.15
1987	1,578.30	36,591.95	37,472.60	38,375.26	39,300.49	40,248.85	28,526.27	1,711.58
1988	2,390.90	40,248.85	41,355.92	42,490.67	43,653.78	44,845.97	33,289.08	1,997.35
1989	2,073.90	44,845.97	45,917.87	47,016.57	48,142.73	49,297.05	37,768.36	2,266.10
1990	2,390.83	49,297.05	50,494.56	51,722.02	52,980.16	54,269.75	42,117.7[illegible]	2,527.06
1991	3,305.92	54,269.75	55,758.49	57,234.44	58,848.54	60,451.75	46,513.84	2,790.83
1992	2,693.44	60,451.75	61,863.24	63,310.03	64,792.98	66,313.01	51,381.51	3,082.89
1993	3,074.54	66,313.01	67,886.06	69,498.44	71,151.13	72,845.13	56,756.08	3,405.37
1994	2,079.45	72,845.13	74,236.35	75,662.35	77,124.00	78,622.20	62,618.99	3,757.14
1995	2,077.46	78,622.20	80,062.90	81,539.61	83,053.25	84,604.73	68,761.21	4,125.67
1996	2,117.12	84,604.73	86,111.80	87,656.55	89,239.92	90,862.88	74,832.87	4,489.97
1997	2,295.33	90,862.88	92,478.84	94,135.21	95,832.98	97,573.20	80,896.57	4,853.79
1998	2,416.40	97,573.20	99,293.85	101,057.52	102,865.28	104,718.23	87,016.74	5,221.00
1999	2,354.71	104,718.23	106,502.38	108,331.14	110,205.62	112,126.96	93,476.06	5,608.56
2000	2,175.06	112,126.96	113,945.05	115,808.60	117,718.73	119,676.61	100,321.43	6,019.29
2001	2,008.86	119,676.61	121,530.30	123,430.33	125,377.85	127,374.07	107,512.21	6,450.73
2002	1,883.00	127,374.07	129,273.82	131,220.66	133,216.38	135,261.98	114,947.65	6,896.86
2003	1,754.37	135,261.98	137,208.76	139,204.20	141,249.53	143,345.99	122,558.26	7,353.50
2004	1,626.18	143,345.99	145,342.44	147,388.81	149,486.33	151,636.29	130,335.36	7,820.12
2005	1,486.83	151,636.29	153,681.87	155,778.59	157,927.73	160,130.59	138,297.73	8,297.86
2006	1,321.81	160,130.59	162,220.76	164,363.18	166,559.16	168,810.04	146,459.38	8,787.56
2007	1,175.92	168,810.04	170,951.23	173,145.96	175,395.55	177,701.39	154,821.81	9,289.31
2008	1,057.16	177,701.39	179,902.80	182,159.24	184,472.10	186,842.78	163,383.41	9,803.00
2009	965.92	186,842.78	189,114.55	191,443.11	193,829.88	196,276.32	172,151.00	10,329.06
2010	892.22	196,276.32	198,626.72	201,035.88	203,505.27	206,036.39	181,147.39	10,868.84

Data: Dept. of Revenue (projections: fall, 1993, mid case)
*Permanent Fund Corp. (projections: October 31, 1993, mid case)
Withdrawal: 6%
Total return: 10%

Proposed State Financial System - Retrospective
(millions of dollars)

							Existing System					
Fiscal Year	Perm Fund Beginning Balance	Petroleum Revenues	Withdrawal from Perm Fund	Perm Fund Ending Balance	Non-Petrol Revenues	Income Budget	Income Budget	Perm Fund Ending Balance*	Earnings Res Ending Balance*	Dividends*	Total Revenues	Perm Fund Dedication
1971	900	47	54	986	95	149	1,138					
1972	986	48	56	1,080	104	159	219					
1973	1,080	50	59	1,184	115	173	208					
1974	1,184	80	61	1,327	134	195	255					
1975	1,327	90	68	1,489	205	272	333					
1976	1,489	392	75	1,980	287	361	710					
1977	1,980	482	86	2,607	362	448	874					
1978	2,607	492	105	3,289	279	385	765	54				
1979	3,289	906	135	4,451	252	387	1,133	139				
1980	4,451	2,601	176	7,494	125	300	2,501	483				
1981	7,494	3,697	243	11,947	186	429	3,754	1,769	59	28	4,111	385.10
1982	11,947	3,983	368	17,034	209	577	4,187	2,969	244	71	4,517	400.50
1983	17,034	3,457	570	21,874	229	799	3,748	4,021	354	108	4,061	421.00
1984	21,874	3,237	835	26,700	246	1,081	3,574	4,838	557	175	3,765	366.20
1985	26,700	3,124	1,125	31,599	283	1,408	3,490	5,741	763	217	3,641	368.00
1986	31,599	3,029	1,419	36,592	222	1,642	3,426	6,281	1,264	303	3,446	323.40
1987	36,592	1,578	1,712	40,249	243	1,955	2,204	7,864	529	391	1,983	170.60
1988	40,249	2,391	1,997	44,846	224	2,221	2,753	8,585	591	424	2,747	417.90
1989	44,846	2,074	2,266	49,297	245	2,511	2,651	9,173	635	460	2,420	228.40
1990	49,297	2,391	2,527	54,270	271	2,798	3,000	9,894	605	487	2,780	267.10
1991	54,270	3,306	2,791	60,452	291	3,082	3,776	10,888	581	489	3,722	435.00
1992	60,452	2,693	3,083	66,313	353	3,436	3,299	11,703	645	488	3,149	337.80
1993	66,313	3,075	3,405	72,845	326	3,731	3,608	12,385	965	532	3,471	315
1994	72,845	2,079	3,757	78,622	276	4,033	2,713	12,995	1,055	550	2,391	228
1995	78,622	2,077	4,126	84,605	280	4,406	2,722	13,777	1,175	584	2,385	247
1996	84,605	2,117	4,490	90,863	281	4,771	2,782	14,601	1,312	614	2,425	257
1997	90,863	2,295	4,854	97,573	289	5,143	2,985	15,486	1,462	652	2,617	284
1998	97,573	2,416	5,221	104,718	298	5,519	3,122	16,732	1,638	681	2,749	308
1999	104,718	2,355	5,609	112,127	307	5,915	3,141	17,751	1,594	753	2,698	310
2000	112,127	2,175	6,019	119,677	316	6,335	3,050	19,130	1,528	816	2,527	292
2001	119,677	2,009	6,451	127,374	326	6,776	2,975	20,575	1,436	883	2,367	276
2002	127,374	1,883	6,897	135,262	335	7,232	2,938	22,096	1,313	955	2,249	266
2003	135,262	1,754	7,353	143,346	345	7,699	2,906	23,696	1,154	1,031	2,129	255
2004	143,346	1,626	7,820	151,636	356	8,176	2,865	25,380	968	1,098	2,010	243
2005	151,636	1,487	8,298	160,131	366	8,664	2,819	27,150	754	1,167	1,880	228
2006	160,131	1,322	8,788	168,810	377	9,165	2,751	29,008	508	1,238	1,724	211
2007	168,810	1,176	9,289	177,701	389	9,678	2,705	30,960	230	1,312	1,587	195
2008	177,701	1,057	9,803	186,843	400	10,203	2,686	32,930	0	1,389	1,478	181
2009	186,843	966	10,329	196,276	412	10,742	2,696	34,743	0	1,468	1,398	169
2010	196,276	892	10,869	206,036	425	11,294	2,720	36,632	0	1,551	1,335	150

Traditional vs. Cremo Budgeting

	Column 1 Non-dedicated Petroleum & Interest Revenues	Column 2 Non-petroleum Revenues	Column 3 Net GF Unrestricted Revenues (Columns 1 + 2)	Column 4 PFC Dividend	Column 5 Traditional Budget (Columns 3 + 4)	Column 6 Cremo Budget (Columns 7 + 8)	Column 7 Cremo Withdrawal	Column 8 Non-petroleum Revenues	Column 9 Traditional PF Balance	Column 10 Cremo PF Balance		Column 11 Net Withdrawal (Cols. 7 - 1/Avg. Bal.)	Column 12 Withdrawal Percentage (Geometric)
FY95				589.0					13,777.0	14,998.00	FY95		
FY96	1,553.8	262.3	1,816.1	619.0	2,435.1	2,434.2	2,171.9	262.3	14,489.0	15,873.70	FY96	4.67%	16.40%
FY97	1,582.6	270.2	1,852.8	656.0	2,508.8	2,389.8	2,119.7	270.2	15,304.0	16,894.73	FY97	3.76%	14.83%
FY98	1,595.2	278.3	1,873.5	683.0	2,556.5	2,329.9	2,051.6	278.3	16,161.0	18,101.73	FY98	2.98%	13.41%
FY99	1,477.6	286.6	1,764.2	747.0	2,511.2	2,264.1	1,977.5	286.6	17,270.0	19,387.46	FY99	3.07%	12.13%
FY00	1,321.0	295.2	1,616.2	806.0	2,422.2	2,202.1	1,906.9	295.2	18,633.0	20,678.26	FY00	3.37%	10.97%
FY01	1,187.9	304.1	1,491.9	869.0	2,360.9	2,147.7	1,843.6	304.1	19,956.0	21,995.06	FY01	3.53%	9.92%
FY02	1,070.5	313.2	1,383.7	935.0	2,318.7	2,094.4	1,781.2	313.2	21,345.0	23,359.14	FY02	3.58%	8.97%
FY03	975.9	322.6	1,298.5	1,006.0	2,304.5	2,039.4	1,716.8	322.6	22,806.0	24,789.89	FY03	[illegible]	8.11%
FY04	873.3	332.3	1,205.5	1,066.0	2,271.5	1,983.2	1,650.9	332.3	24,342.0	26,296.18	FY04	3.46%	7.34%
FY05	767.4	342.2	1,109.7	1,129.0	2,238.7	1,927.6	1,585.4	342.2	25,955.0	27,879.13	FY05	3.42%	6.63%
FY06	660.7	352.5	1,013.2	1,194.0	2,207.2	1,873.8	1,521.3	352.5	27,651.0	29,543.57	FY06	3.39%	6.00%
FY07	572.7	363.1	935.8	1,261.0	2,196.8	1,976.5	1,613.4	363.1	29,438.0	31,154.35	FY07	3.87%	6.00%
FY08	504.0	374.0	877.9	1,330.0	2,207.9	2,083.1	1,709.2	374.0	31,322.0	32,724.90	FY08	4.23%	6.00%
FY09	452.6	385.2	837.8	1,402.0	2,239.8	2,191.4	1,806.2	385.2	32,977.0	34,269.18	FY09	4.50%	6.00%
FY10	410.4	396.7	807.1	1,477.0	2,284.1	2,298.9	1,902.2	396.7	34,702.0	35,796.14	FY10	4.71%	6.00%

Traditional assumes low-case Fall 93 DoR Revenue Forecast and Permanent Fund Corporation December 31, 1993 Forecast, low-case

Cremo assumes same DoR Revenue Forecasts, PFC earnings assumptions, 10 year transition, and PFC assumptions on Earnings Reserve balance

Office of Rep. Hanley, [illegible]
February 3, 1994

COMPARISON: TRADITIONAL VS.
CREMO BUDGETING

Traditional vs. Cremo Budgeting
Notes and Assumptions for Spreadsheet

Column 1

These figures are taken from the Department of Revenue Fall 1993 Revenue Sources Book (hereafter DoR Forecast), low-case scenario, pages 38 and 39. In particular, the non-dedicated petroleum and interest revenues are determined by subtracting Non-petroleum, Non-interest Revenues on page 38, column 10, from Total Net G.F. Unrestricted Revenues on page 39, column 20.

Column 2

These figures are taken from DoR Forecast, page 38, column 10.

Column 3

These figures are determined by adding non-dedicated petroleum and interest revenues to non-petroleum revenues (columns 1 and 2), and are also found in DoR's Forecast, page 39, column 20.

Column 4

The dividend amounts are taken from the Alaska Permanent Fund Corporation financial projections as of December 31, 1993 (hereafter PFC projections) low-case scenario. Rate of return assumptions call for a nominal return of 8.37% from FY96 - 98, and 9.00% from FY99 - 2010. All numbers in the worksheet are nominal, therefore inflation projections need not be considered.

Column 5

Combining columns 3 and 4 produces the amount available to the Legislature for appropriation under our traditional system. Dividends must be appropriated from this amount.

Column 6

Combining columns 7 and 8 produces the amount available to the Legislature for appropriation under the Cremo plan. Dividends must be appropriated from this amount.

Column 7

These figures are determined by taking a percentage of the 12-quarter-average balance of the Permanent Fund. The Cremo plan assumes a transition period beginning in FY96 and ending in FY06 when a permanent 6% withdrawal rate is achieved. Percentages during the transition are determined by a geometric progression. They are as follows:

FY96 16.4%	FY97 14.83%
FY98 13.41%	FY99 12.13%
FY00 10.97%	FY01 9.92%
FY02 8.97%	FY03 8.11%
FY04 7.34%	FY05 6.63%
FY06 6.00%	

After FY06, a 6% withdrawal rate is continued.

The withdrawal amount, relative to the Cremo plan's Permanent Fund year-end balance, is a lower withdrawal percentage. For example, the withdrawal amount in FY96 is actually 13.7% of the year-end balance of the Permanent Fund.

The Cremo plan assumes the identical rate of return assumptions for the Permanent Fund as contained in the PFC projections (i.e. 8.37% from FY96 - 98 and 9.0% from FY99 - 2010).

Column 8

These figures are identical to figures in column 2.

Column 9

Figures in this column are from PFC projections.

Column 10

To achieve financial parity with the traditional model, $1.221 billion was added to the Permanent Fund in the Cremo plan, distributing this amount evenly through the 12 quarters prior to FY96. This number was taken from the PFC projections as the Earnings Reserve balance available at the end of FY95.

Column 11

In Cremo plan, subtracting resource revenues deposited into the Permanent Fund (Column #1) from the Cremo withdrawal amount (Column #7), results in the net amount actually taken from the fund. This amount is shown as a percentage of the 12 quarter average balance.

Column 12

This column contains the exact percentages in the geometric progression.

Data: Dept. of Revenue (projections: fall, 1993, low case)

* Permanent Fund Corp. (projections: December 31, 1993, low case)

Transitional withdrawal: 16.40% in initial year to permanent % in 2006 10

Permanent withdrawal: 6.00%

Total return FY95 - 98: 8.37%

Total return FY98 - 2010 9.00%

Reserves: 1,221

Proposed State Financial System

(millions of dollars)

Fiscal Year	Deposit	Year Begin	2nd Qtr Begin	3rd Qtr Begin	4th Qtr Begin	Year End	Avg Prior Bal	Wdrl %	Withdrawal
1993 *		11,804.75	12,051.56	12,298.38	12,545.19	12,792.00			
1994*		12,893.75	13,122.56	13,351.38	13,580.19	13,809.00			
1995*		13,910.75	14,182.56	14,454.38	14,726.19	14,998.00			
1996	1,773.62	14,998.00	15,210.17	15,426.78	15,647.93	15,873.70	13,243.47	16.40	2,171.93
1997	1,787.53	15,873.70	16,121.08	16,373.64	16,631.49	16,894.73	14,292.05	14.83	2,119.67
1998	1,812.30	16,894.73	17,187.17	17,485.74	17,790.55	18,101.73	15,296.39	13.41	2,051.61
1999	1,685.61	18,101.73	18,406.02	18,716.66	19,033.81	19,387.46	16,303.42	12.13	1,977.49
2000	1,512.56	19,387.46	19,692.49	20,003.90	20,321.83	20,678.26	17,384.69	10.97	1,906.93
2001	1,366.16	20,678.26	20,989.10	21,306.44	21,630.42	21,995.06	18,585.17	9.92	1,843.59
2002	1,238.70	21,995.06	22,316.85	22,645.36	22,980.75	23,359.14	19,855.68	8.97	1,781.20
2003	1,123.67	23,359.14	23,696.55	24,041.01	24,392.68	24,789.89	21,162.33	8.11	1,716.81
2004	1,009.98	24,789.89	25,145.04	25,507.61	25,877.77	26,296.18	22,502.63	7.34	1,650.91
2005	891.43	26,296.18	26,669.31	27,050.24	27,439.14	27,879.13	23,895.64	6.63	1,585.40
2006	772.51	27,879.13	28,271.38	28,671.84	29,080.67	29,543.57	25,355.38	6.00	1,521.32
2007	674.82	29,543.57	29,922.22	30,308.79	30,703.45	31,154.35	26,889.85	6.00	1,613.39
2008	598.06	31,154.35	31,522.67	31,898.69	32,282.57	32,724.90	28,486.33	6.00	1,709.18
2009	539.12	32,724.90	33,086.27	33,455.21	33,831.86	34,269.18	30,103.28	6.00	1,806.20
2010	489.82	34,269.18	34,625.78	34,989.85	35,361.54	35,796.14	31,702.88	6.00	1,902.17

Low Scenario Detailed Revenue Projections

(Millions of Dollars)

Table 22

(1) FY	(2) SEVERANCE TAX	(3) PROPERTY TAX	(4) OIL&GAS INC TAX	(5) GROSS ROYALTIES	(6) MINERAL RENTS	(7) BONUS SALES	(8) INCOME FROM PRIOR YEARS	(9) TOTAL PETROLEUM REVENUES	(10) NON-PETR NON-INTR REVENUES	(11) GEN FUND INTEREST REVENUES	(12) TOTAL REVS W/PERM FND DEDICATION
1981	1170.20	143.00	860.10	1501.60	7.90	14.10	0.00	3696.90	186.10	227.80	4110.80
1982	1581.70	142.70	668.90	1553.20	26.40	10.30	0.00	3983.20	209.00	324.70	4516.90
1983	1493.70	152.60	236.00	1447.40	54.20	73.10	0.00	3457.00	228.60	375.80	4061.40
1984	1393.10	131.00	265.10	1409.00	21.90	16.70	0.00	3236.80	245.80	282.70	3765.30
1985	1389.40	128.40	168.60	1390.30	23.70	23.60	0.00	3124.00	283.00	233.50	3640.50
1986	1107.90	113.50	133.90	1098.20	44.50	70.10	460.70	3028.80	222.40	195.20	3446.40
1987	648.50	102.50	120.40	591.60	29.10	1.00	85.20	1578.30	243.00	161.90	1983.20
1988	818.70	96.20	158.00	953.50	24.20	11.30	329.00	2390.90	223.60	132.60	2747.10
1989	698.80	89.70	166.00	818.70	18.00	23.00	259.70	2073.90	245.10	100.70	2419.70
1990	1001.60	89.80	117.20	1004.43	21.00	0.00	156.80	2390.83	271.33	117.90	2780.06
1991	1284.80	85.00	185.10	1292.83	21.30	38.30	398.59	3305.92	291.04	125.00	3721.96
1992	1053.20	69.00	165.50	1021.32	17.10	5.25	362.07	2693.44	353.40	101.80	3148.64
1993	1017.60	66.90	834.70	982.62	20.30	76.60	75.82	3074.54	325.58	70.90	3471.02
1994	877.20	63.20	156.90	781.80	21.85	1.10	9.40	1911.45	253.39	32.40	2197.24
1995	791.80	60.20	106.00	785.70	20.76	0.00	9.40	1773.86	261.67	5.00	2040.53
1996	778.10	56.70	106.00	803.70	19.72	0.00	9.40	1773.62	262.29	5.00	2040.91
1997	779.00	53.10	90.00	833.30	18.73	0.00	13.40	1787.53	270.16	27.38	2085.08
1998	774.70	49.90	87.00	869.50	17.80	0.00	13.40	1812.30	278.26	27.54	2118.10
1999	688.60	46.00	83.00	837.70	16.91	0.00	13.40	1685.61	286.61	27.90	2000.12
2000	592.50	42.80	78.00	769.80	16.06	0.00	13.40	1512.56	295.21	26.24	1834.01
2001	514.60	39.80	71.00	712.10	15.26	0.00	13.40	1366.16	304.07	24.03	1694.25
2002	450.80	36.80	69.00	667.60	14.50	0.00	0.00	1238.70	313.19	22.18	1574.07
2003	388.30	34.10	64.00	623.50	13.77	0.00	0.00	1123.67	322.58	20.77	1467.03
2004	329.20	31.50	58.00	577.20	13.08	0.00	0.00	1009.98	332.26	19.36	1360.60
2005	272.90	29.60	52.00	524.50	12.43	0.00	0.00	891.43	342.23	17.95	1251.61
2006	214.20	27.70	45.00	473.80	11.81	0.00	0.00	772.51	352.50	16.54	1141.54
2007	164.50	26.10	41.00	432.00	11.22	0.00	0.00	674.82	363.07	15.10	1052.99
2008	126.70	24.70	38.00	398.00	10.66	0.00	0.00	598.06	373.96	13.95	985.97
2009	104.20	23.30	35.00	366.50	10.12	0.00	0.00	539.12	385.18	13.09	937.39
2010	89.20	21.80	31.00	338.20	9.62	0.00	0.00	489.82	396.74	12.49	899.04

(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
						CONSTITUTIONAL		
	TOTAL REVS				PERM	BUDGET	NET GEN FUND	
	W/PERM FND	PUB SCH	NPR-A	OTHER	FUND	RESERVE	UNRESTRD REVENUES	
FY	DEDICATION	FUND	FUND	FUNDS	DEDICATN	FUND	NOM $	REAL 1992$
1981	4110.80	7.50	0.00	74.30	385.10	0.00	3718.20	
1982	4516.90	8.00	0.00	0.00	400.50	0.00	4108.40	
1983	4061.40	9.40	0.00	0.00	421.00	0.00	3631.00	
1984	3765.30	9.00	0.00	0.00	366.20	0.00	3390.10	
1985	3640.50	7.10	5.40	0.00	368.00	0.00	3260.00	
1986	3446.40	6.50	41.00	0.00	323.40	0.00	3075.50	
1987	1983.20	3.30	9.90	0.00	170.60	0.00	1799.40	
1988	2747.10	6.60	1.00	15.80	417.90	0.00	2305.80	
1989	2419.70	4.30	0.80	0.00	228.40	0.00	2186.20	
1990	2780.06	5.13	0.60	0.00	267.10	0.00	2507.23	
1991	3721.96	8.83	0.37	0.00	435.00	291.20	2986.56	
1992	3148.64	15.04	0.13	0.00	337.80	333.07	2462.60	2462.60
1993	3471.02	6.80	0.19	0.00	315.30	67.13	3081.60	2991.84
1994	2197.24	4.02	0.40	0.00	209.02	0.00	1983.80	1886.40
1995	2040.53	4.03	0.30	7.00	209.20	0.00	1820.00	1695.05
1996	2040.91	4.12	0.10	7.00	213.60	0.00	1816.09	1654.19
1997	2085.08	4.26	0.00	7.00	221.02	0.00	1852.80	1650.56
1998	2118.10	4.44	0.00	10.00	230.16	0.00	1873.50	1632.34
1999	2000.12	4.27	0.00	10.00	221.69	0.00	1764.16	1503.31
2000	1834.01	3.93	0.00	10.00	203.85	0.00	1616.23	1347.00
2001	1694.25	3.64	0.00	10.00	188.68	0.00	1491.93	1215.50
2002	1574.07	3.41	0.00	10.00	176.94	0.00	1383.72	1102.04
2003	1467.03	3.19	0.00	0.00	165.31	0.00	1298.53	1010.98
2004	1360.60	2.95	0.00	0.00	153.12	0.00	1204.53	916.75
2005	1251.61	2.68	0.00	0.00	139.28	0.00	1109.65	825.58
2006	1141.54	2.43	0.00	0.00	125.97	0.00	1013.14	736.86
2007	1052.99	2.22	0.00	0.00	114.97	0.00	935.80	665.34
2008	985.97	2.04	0.00	0.00	106.01	0.00	877.92	610.18
2009	937.39	1.88	0.00	0.00	97.70	0.00	837.81	569.23
2010	899.04	1.74	0.00	0.00	90.22	0.00	807.08	536.05

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of December 31, 1993

	GROWTH OF FUND PRINCIPAL						USE OF FUND INCOME					
								Distributions			Reserves	
FY	FY Begin Balance	Appro-priations	Dedicated State Revenues*	Inflation-Proofing	FY End Balance	Inflation-Proofing Shortfall	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
78	0		54		54		2			1		
79	54		84		139		8			7		
80	139		344		483		32	12		12		
81	483	900	385		1,769		150	28		28	59	59
82	1,769	800	400		2,969		368	71		71	185	244
83	2,969	400	421	231	4,021		471	108	231	110	110	354
84	4,021	300	366	151	4,838		530	175	151		203	557
85	4,838	300	368	235	5,741		658	217	235		206	763
86	5741		323	216	6,281		1,021	303	216		501	1,264 **
87	6,281	1,264 **	170	148	7,864		1,069	391	148		529	529
88	7,864		418	303	8,585		789	424	303		62	591
89	8,585		228	360	9,173		868	460	360	4	44	635
90	9,173		267	454	9,894		916	487	454	4	(30)	605
91	9,894		435	559	10,888		1,030	489	559	4	(24)	581
92	10,888		338	477	11,703		1,036	488	477	5	64	645
93	11,703	5 ***	315	362	12,385		1,226	532	362	5	320	965
94	12,385	5	209	372	12,971		1,075	555	372	5	139	1,104
95	12,971	5	209	527	13,713		1,239	589	527		118	1,221
96	13,713	5	214	557	14,489		1,314	619	557		133	1,355
97	14,489	5	221	589	15,304		1,394	656	589		144	1,498
98	15,304	6	230	622	16,161		1,478	683	622		168	1,667
99	16,161	4	222	983	17,370		1,691	747	983		(44)	1,623
0	17,370	4	204	1,055	18,633		1,800	806	1,055		(65)	1,558
1	18,633	4	189	1,130	19,956		1,912	869	1,130		(91)	1,467
2	19,956	4	177	1,208	21,345		2,027	935	1,208		(121)	1,346
3	21,345	5	165	1,291	22,806		2,147	1,006	1,291		(155)	1,192
4	22,806	5	153	1,378	24,342		2,269	1,066	1,378		(180)	1,012
5	24,342	5	139	1,469	25,955		2,396	1,129	1,469		(207)	805
6	25,955	5	126	1,565	27,651		2,528	1,194	1,565		(236)	569
7	27,651	5	115	1,666	29,438		2,665	1,261	1,666		(267)	303
8	29,438	5	106	1,773	31,322		2,808	1,330	1,773		(300)	2
9	31,322	6	98	1,552	32,977	334	2,957	1,402	1,552		(2)	
10	32,977	6	90	1,629	34,702	355	3,112	1,477	1,629			
Cumulative Totals Projected For FY 1994 - 2010:			2,777	19,365		689	34,812	16,322	19,365	5		

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.81%	2.95%	4.86%
FY 95 - 98: ****	8.37%	4.00%	4.37%
FY 99 - 2010:	9.00%	6.00%	3.00%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast.
** Earnings reserve appropriated to Fund principal by the Legislature July 1, 198
*** Transferred to principal from earnings reserve account per AS 37.13.145(d).
**** Based on capital market assumptions adopted by the Trustees in April 1993.

STATUS QUO

Fiscal Analysis: SJR No. 38

Proposing amendments to the Constitution of the State of Alaska relating to revenues from natural resources, the Alaska permanent fund, the appropriation limit and the budget reserve fund; and providing for an effective date for the amendments.

The Alaska Permanent Fund Corporation's operations are program-driven and program-financed. Operating cost levels are proportional to the actual and anticipated growth of the Fund and reflects the Corporation's ability to generate income. As funds under management increase, Fund custody and investment management fees increase; and the need for additional accounting and investment staff with associated support costs are also needed as portfolios grow.

Personal Services - Salary & Benefits for 4 new positions:

FY 96: Data Processing Analyst/Programmer $70.0
FY 97: Investment Officer $100.0; Accounting Clerk $38.0
FY 98: Portfolio Accountant $63.5

Travel - Transportation, Per Diem, Honorarium:

(a) 7th Trustee added to Board: Board meeting travel $16.9; asset allocation/investment management related travel $5.6
(b) Investment officer travel: Board meeting and investment management travel $8.0

Contractual Services:

(a) Equity management fees: This increment is due to increased funds under management.
(b) Custody fees: This increase is due to the increase in the amount of assets requiring safekeeping.
(c) Financial network fees: Cost for additional financial data, networks, and associated terminals for new Investment Officer.

	Equity Mgmt	Custody Mgmt	Financial Data
FY 96	1,423.4	182.1	0.0
FY 97	1,423.4	182.1	40.0
FY 98	2,491.0	318.6	40.0
FY 99	3,558.6	455.2	40.0
FY 00	4,626.2	591.7	40.0

Equipment - one-time associated costs of new positions: workstation furniture (desk, credenza, chair, telephone, file, computer)

(a) FY 96: Analyst Programmer $6.0
(b) FY 97: Investment Officer $6.0; Accounting Clerk $6.0
(c) FY 98: Portfolio Accountant $6.0

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. SJR 38

Revision Date:
Title: Amendment to the Constitution RE: Restructure the permanent fund
Sponsor: Senators Ellis & Little
Requestor:

Department Affected: Office of the Governor
BRU: Division of Elections
Component: General and Primary Elections

COMPONENT SERIAL NO. 22

EXPENDITURES/REVENUES:

OPERATING	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	2.2*	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND &	0	0	0	0	0	0
GRANTS,	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL	2.2*	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE						
FUNDING:						
1002 Federal	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	2.2*	0	0	0	0	0
1005 GF/Program	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	2.2*	0	0	0	0	0
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 (FY94) impact: 0

ANALYSIS: (Attach a separate page if necessary.)*This figure covers cost of inclusion of information about this issue in the Official Elections Pamphlet as required by AS 15.58, and programming for DataVote counting of votes cast on the measure. However, only 4 measures can be printed on a single ballot card. Should this measure require printing an additional ballot card, the fiscal impact would be 53.4.

Prepared by: Joseph D. Swanson, Director
Division: Division of Elections
Phone: 465-4611
Date: 2/3/94

Approved by Commissioner: Lt. Governor John B. Coghill
Agency: Office of the Lt. Governor
Date: 2/3/94

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Rev 12/93

FISCAL NOTE: DIV. OF ELECTIONS

From the office of Senator Ellis

The State's Revenues and the Economy

Premises

- a substantial part of the state's revenues will continue to be derived from natural resources [1]
- revenues from natural resources fluctuate [2]
- Alaska's economy will continue to be dependent on state spending

Existing system

- the state spends the natural resource revenues [3]

Problem caused by existing system

- when natural resource revenues are plentiful, state spending creates a great demand in the private sector for goods and services
- if the revenues then decrease substantially, spending is cut and the demand evaporates
- the consequences of economic busts are well-known

Theory

- for a stable economy, the state must spend at a sustainable level
- but it can't do that, because of the fluctuation of natural resource revenues
- therefore, the state should not spend the natural resource revenues
- it should try to convert them into revenues that don't fluctuate, so that it can spend at a sustainable level

Proposed system

- natural resource revenues are not appropriable and are deposited into the Alaska Permanent Fund
- the fund is invested, and income is reinvested
- a fixed percentage of the fund (at its average market value over a period) is withdrawn annually for appropriation[4]
- the withdrawal feature is designed to provide revenues that continually increase (and thus are not fluctuating)[5]

Advantage of Proposed System

- state spending no longer causes economic busts

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[1] In Alaska the chief source of wealth is natural resources. The state owns and can tax them or otherwise is entitled to the revenues from them.

[2] Because they are governed by discovery, production and world price.

[3] Except about 10% of them, which goes into the Alaska Permanent Fund.

[4] The fixed percentage is 6, which is the real annual rate of total return on investment if the nominal rate is 10% and the rate of inflation is 4%

[5] If the actual rate of return or the actual rate of inflation differs adversely from the assumed rate, the amount withdrawn can decrease, depending on the extent of the difference and the amount of natural resource revenues deposited.

Some other advantages of proposed system
- since state spending is not only brought to a sustainable level but to the maximum sustainable level, the economy is supported to the greatest extent possible
- periodic curtailment of desirable state programs, for lack of funding, is avoided
- budgeting becomes feasible, because income for the subject year is known
- the state's assets are further diversified
- public works projects are no longer crammed into periods of high revenues, with inadequate planning and incomplete accounting
- the state's credit is reestablished
- long-range planning becomes feasible

Conversion to proposed system
- requires (1) the transfer of reserves to the fund, (2) a higher but gradually reduced withdrawal percentage factor during a transitional period and (3) the same spending cuts and new revenues that the coming "fiscal gap" would require under the present system[6]

Obstacles to change
- the legislature's reluctance to allow the people to vote on a constitutional amendment that would revoke its authority to spend natural resource revenues
- the misconception that the proposed system eliminates "dividends"
- a fear that the fund will be depleted if there is less investment return or more inflation than anticipated or, during transition, there is a greater decrease in oil revenues than forecasted
- a fear that if great wealth results,
    - the bureaucracy will expand
    - the state will lose its incentive to develop natural resources
    - Alaskans will become dependent, disinterested in government, lethargic and immoral

Schedule
- spring, 1994 - legislature passes resolution proposing constitutional amendment
- fall, 1994 - people vote in favor of proposed constitutional amendment
- July 1,1995 - conversion to new system begins

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[6] Under the present system it is likely that the reductions in spending would be abrupt. Under the proposed system they would be gradual.

11/20/93

Cremo plan can save the dividend fund

A strange thing happened as was filling out my permanent fund dividend application. An old Rolling Stones tune came on the radio, the one that goes, "This could be the last time. This could be the last time. May be the last time, I don't know ... Oh, no ... OH NO!"

This eerie occurrence prompted a reflection on the future of the dividend. Will it soon be under attack? How long can it last?

In fact, it is under assault as you read these words. Gov. Hickel's suggestion, in his state of the budget speech, that dividends be capped is but the opening salvo in the siege. The future of PFDs is bleak, unless something is done -- quickly. More on that later.

There are a lot of powerful people who don't like the dividend program for a variety of reasons.

Calvinist conservatives think it's morally wrong for the government to distribute money to people who have done nothing to earn it. Better to spend the money on roads, bridges, dams, ports and airfields, in the hope of attracting private investment to projects that would not otherwise be feasible.

Some liberals object to the fact that it's not needs based. The needy get dividends, and that's OK. But well off Alaskans also get checks they could easily do without, and that's not fair.

The socialist left doesn't even want the poor to get a dividend. It's so often spent inappropriately. It would be far better for the government to keep the money, and distribute benefits instead of cash.

FRITZ PETTYJOHN

Over the past dozen years they've received $4.5 billion that would have otherwise been gone with the wind. They'll almost surely prevail again — this year. But soon — very soon — the pressure on the dividend will be overwhelming.

Our congressional delegation — Ted Stevens in particular — has complained that the dividend program makes it more difficult for them to obtain special goodies for Alaska. Sen. Stevens delights in bringing home not just slabs of bacon, but entire pork bellies — occasionally even the whole hog! He resents anything that interferes with his handiwork.

Certain state legislators, especially grizzled veterans who have brought home millions of dollars of pork over the years, have never liked the dividend program. They can't take personal credit for the dividends their constituents receive. And getting such credit is the only reason some of them are tolerated by their voters.

Other legislators know they're incapable of serious spending cuts. They also know they can't tax their way out of the mess they're in, and that tapping reserve accounts is only a stopgap. They need money, and they'll go after the dividend after a simple process of eliminating the alternatives.

The people have prevailed, and kept their dividend, despite all this opposition in the past. Over the past dozen years they've received $4.5 billion that would have otherwise been gone with the wind. They'll almost surely prevail again — this year. But soon — very soon — the pressure on the dividend will be overwhelming.

Under the current system, the legislature simply can't cut spending and raise taxes enough to cover the ever widening fiscal gap. PFDs will have to go.

Unless.

Unless the current system is changed. If the constitutional amendment devised by Anchorage attorney Roger Cremo is adopted, there's a chance the people can save their dividend.

The annual revenue stream created by this amendment (along with tax hikes or spending cuts totaling $60 per year, per capita) is enough to finance a stable operating budget, a small capital budget, and a dividend program at the current level.

Under this proposal there's no guarantee the legislature would fully fund dividends.

There's no such guarant[illegible] today. A future legislatu[illegible] could, just as the current leg[illegible] lature could, abolish PFDs a[illegible] increase state spending by $5[illegible] million.

But under the Cremo pla[illegible] they wouldn't be forced to do [illegible] They'd have a way to keep t[illegible] dividends, if they wanted to.

Voters could extract blo[illegible] oaths from legislative canc[illegible] dates not only to keep the pe[illegible] manent fund dividend progra[illegible] intact, but to take its financir[illegible] up as their first order of bu[illegible] ness.

Each session, early fundir[illegible] of PFDs — long before squa[illegible] bles over the relative size [illegible] operating and capital budget[illegible] and before fights over the m[illegible] of spending cuts and t[illegible] increases — would be the legi[illegible] lators' chance to honor the[illegible] commitment to the people.

Dividends can be saved, a[illegible] with them the permanent fu[illegible] itself. The proprietary intere[illegible] Alaskans have in the fund [illegible] fueled by dividends. Take the[illegible] away and the fund won't be f[illegible] behind.

❑ Fritz Pettyjohn is a lawyer fr[illegible] Anchorage who has served in b[illegible] houses of the Alaska Legislature.

FORUM

Alaska still has a shot at long-term prosperity

Of my years as governor, both my greatest regret and gratification relate to creation of the permanent fund.

Gratitude, that Alaskans elected to constitutionally mandate the fund. Regret, that we fell short of creating as large a fund as we should have.

Even my original "Alaska, Inc." proposal (which would have created a constitutionally mandated, dividend-dispersing fund into which would go 50 percent of all lease, bonus, royalty and severance tax dollars) would have failed to meet my often-stated objective of transforming oil wells into "money wells" pumping in perpetuity.

To fully meet that objective, we should have done precisely what Anchorage attorney Roger Cremo has been crusading for since 1970 when the state got its first oil bonanza of $900,000,000. At that time, Roger and some of then Gov. Miller's Cabinet urged the governor to put all that $900 million into an investment account. Recognizing the legislature would never forego the opportunity to spend much, if

JAY HAMMOND

not all, of that initial bonanza, Gov. Miller agreed to try to put half into such a fund. Regrettably, only a handful of us then in the legislature supported his efforts. Instead, the $900 million was quickly exhausted.

Belatedly recognizing the wisdom of putting all the oil money into a fund, most legislators swore that should we again receive a bonanza, we'd not use it for instant gratification. Yet when the oil pipeline gushed more billions into our laps, once more prudence was sluiced aside and I could find few who would even support the Alaska Inc. concept, though it was but half as restrictive (and prudent) as what had been proposed to Gov. Miller in 1970.

Instead of a constitutionally mandated, dividend-dispersing Alaska Inc.-type fund, the legislature chose to create a "semi-permanent" fund by simple statute. Into this fund was to go, not 50 percent of all lease, bonus, royalty and severance taxes, but only 25 percent. Severance taxes were excluded and no mention was made of a dividend.

Convinced a statutorily created fund would be invaded the first time the legislature wanted some money, I vetoed the measure and demanded the public be allowed to vote on whether the fund should be placed in our constitution.

Having worked, unsuccessfully, since the mid '60s (when I was manager of Bristol Bay Borough) to sell the Alaska Inc. concept, it was very painful to have to veto the first piece of legislation which even came close to that idea.

Later, after the public voted the fund into our constitution, I again proposed a dividend program. Legislative reluctance to even bring the dividend bill out of committee was finally overcome by assurances that should they fail to at least bring the bill up for a vote, they'd be called back into special session the day after adjournment and all who attempted to bury the bill in committee should expect to see their "goodies" excised from the budget.

When some offended legislators charged me with issuing unseemly threats which bordered on "blackmail," I happily acknowledged that was precisely what I was doing, though I preferred the term "graymail."

After all, I assured them, no one would be punished for voting against the dividend bill, only for failing to bring it to the floor for a vote. Apparently, suspicion that I'd not keep that promise persuaded them to not only disgorge the bill from committee, but pass it almost unanimously. Any resentment I might have had relating to their apparent lack of confidence in my integrity cooled in the breeze created by those subsequently rushing to come aboard as alleged "prime sponsors" of the dividend program.

But all that is history and what satisfaction as may be derived from creation of the permanent fund pales by contrast to what we could have had were we to have put all natural resource revenues into a fund from the beginning.

Only about 11 percent of our oil wealth (and none from fish, timber, or minerals) flows into our $12 billion permanent fund. Had we placed all of our resource wealth into such a fund since 1970, earned income on par with the existing permanent fund, retained fund earnings and withdrawn but 7 percent of the fund's value each year, that fund would now contain over $62 billion, according to Mr. Cremo's projections.

It would be pumping over $4 billion annually into state coffers . . . more than enough to fund current government state spending and pay a dividend. Most importantly, it would be producing a steadily increasing and reasonably predictable revenue stream, thereby avoiding anticipated, traumatic revenue shortfalls and increased taxes.

At the governor's recent economic summit, Mr. Cremo gave a most convincing account of how we could still do what we should have done years ago. At least he convinced me and many of the too few who got to hear him.

I urge the governor to diligently explore his proposal. If he is as persuaded as I that such a plan may be our best hope for the future economic health and stability of Alaska, I hope he will, in turn, persuade the legislature to at least bring it up for a vote . . . even if a little "graymail" is required to do so.

Should he succeed, I predict that some years hence, rather than being condemned for failure to set us on course, the governor may well be canonized.

[] Jay Hammond was governor of Alaska from 1974-1982.

FORUM / LETTERS

We can indeed stabilize Alaska economy, starting in '94

By ROGER CREMO

COMPASS

We Alaskans can count many blessings, but the most important one is that our state government's revenues are enormous. In the last dozen years they have amounted to more than $40 billion, plus billions in federal grants. They fund state services and public works, and they subsidize local government. They make an income tax unnecessary and provide us with half a billion dollars in cash every Christmas. Yet the situation is intolerable.

There is an economic problem that overshadows all else. The economy is unstable. It can thrive for several years, but inevitably it fails, with disastrous consequences. People leave in droves, thousands who remain are without jobs, property values plunge, and homes and businesses are lost to foreclosure and bankruptcy. Even the banks go broke.

The reason for this condition of boom or bust is that the state's revenues fluctuate. When they're high, as they were from 1980 to 1985, public spending creates a demand for goods and services that makes the economy expand. When the revenues decline, the state has to cut its spending, as it did in 1986 and probably will have to do again soon. Then the economy contracts.

The revenues fluctuate because they come mainly from the sale and taxation of natural resources. They rise and fall with production and world price.

We need sustained state spending. But the revenues are unpredictable, at least in the long term, so we don't even know what amount of spending is sustainable. If we are ever to achieve stability, however, we must determine that amount. And it has to be the highest amount that is sustainable, because the economy depends heavily on state spending. After all, wealth in Alaska is in the natural resources and the state owns them.

In order to determine how much of the natural resource revenues can safely be spent each year and to prevent the legislature from spending more than that, the state's financial system must be redesigned. But not by the legislature. Only the people have the power to change the system, and that's done by amendment to the constitution. If it were otherwise, the legislature could define its own authority.

A proposed new system attacks the problem by putting all natural resource revenues where they can't be appropriated — in the Alaska Permanent Fund. There they would be invested and the income reinvested.

But the legislature must have money for the operation of the state government and for purposes that it deems appropriate, such as aid to cities and "dividends." So money in some amount would have to be transferred from the permanent fund to the general fund. The amount, of course, should be the highest sustainable amount.

The unpredictability of natural resource revenues makes it impossible to determine a sustainable level of spending. The shift to investment securities makes it possible.

A couple of assumptions must be made. One has to do with the return on investment of the permanent fund, and the other, the rate of inflation. An average rate of total return of 10 percent a year, which is lower than the corporation has achieved thus far, should be attainable with good management. And an average inflation rate of 4 percent a year, which is higher than the historical average, can be used.

With the fund increasing 10 percent in value annually from investment and decreasing 4 percent from inflation, it follows that an amount equal to 6 percent of its value could be withdrawn from the fund every year. The only other factor affecting the size of the fund would be the deposit of natural resource revenues. Regardless of how much it varied from year to year, that deposit would cause the withdrawal amount to increase continually.

The proposed system does work. Had it been adopted in 1970, the year after the state leased the North Slope for $900 million in bonuses, state spending would have continued to rise when the oil price dropped to $10 a barrel in 1986. The support that state spending provides for the economy would have continued, averting the economic disaster we experienced. And today we would be enjoying substantial increases in state spending rather than the anticipated decline.

> *Had the proposed system been adopted in 1970, state spending would have continued to rise when the oil price dropped to $10 a barrel in 1986. The support that state spending provides for the economy would have continued, averting the economic disaster we experienced. And today we would be enjoying substantial increases in state spending rather than the anticipated decline.'*

Conversion to the new system requires that at the outset the permanent fund be built up by adding available reserves. Then, during a transitional period of 10 years, the withdrawal percentage factor must be higher than the permanent factor of 6 percent. For that reason substantial oil revenues are needed during the transitional period, but not more than what has been forecasted by the Department of Revenue. Although, ironically, we must rely on that forecast, natural resource revenues are somewhat predictable for the short term.

Since we have chosen not to have a constitutional convention for at least a decade, the only available method for restricting the authority of the legislature is to ask the legislature's permission. If granted (in the form of a resolution passed by a two-thirds majority of the house and the senate), the people would vote on the proposed constitutional amendment. All of that could happen in 1994.

☐ Roger Cremo is an Anchorage lawyer.

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1/2/94

Legislators have dim hope of overcoming Fiscalgap

FRITZ PETTYJOHN

Sometimes, before things can get any better, they first have to get a lot worse.

How poorly must Alaska's political system perform before fundamental change is possible? Very possibly, the answer to that question may come in the 1994 legislative session.

The problem facing state government is quite simple, really. This year, and in future years, there's a fiscal gap of about $1 billion. In other words, the state of Alaska is now spending about $1 billion more per year than it's taking in.

As they prepare to grapple with this dilemma, our solons operate under some severe handicaps. A partial list includes:

1. A governor who seems to believe all that's required is the power of positive thinking. According to Walter Hickel, Alaskans must, above all, "think rich." I am not making this up.

To those who don't share the governor's galactic vision, a big part of the answer to Fiscalgap is cutting spending. Meaningful cuts can't really be accomplished by the legislature alone, however. It's the nature of the beast. When the legislature is faced with an administration hostile to significant reductions in the cost of operating state government, it's virtually impossible for it to make the cuts.

Even if the governor did decide to exercise the leadership Alaska's constitution vests in him, he'd have a tough task. Neither a Republican nor a Democrat, Hickel has no built-in base of support in the legislature. In the past, he's pursued a curious policy of cultivating his enemies and taking his friends for granted. This record will work against him. And, with his re-election something of a long shot, he has some of the problems of a lame duck leader.

2. Fear and loathing between House and Senate. House Speaker Ramona Barnes and Senate President Rick Halford have trouble being in the same room together, much less communicating. Under normal circumstances this would be a problem. This year it could be a calamity. Faced with an indifferent and rudderless administration, close cooperation between House and Senate will be required. Good luck.

3. A Senate majority with problems. The J-cko problem. An 11-member organization — no votes to spare, every member with a veto. A united, bitter fractious minority. Senators who are mightily embarrassed by last year's spending spree, and determined to somehow rehabilitate their reputation as fiscal conservatives. Jockeying in preparation for the fight for leadership posts in the next organization.

4. A House majority with incipient problems. With two-thirds of them freshmen, last year's majority pretty much did what Speaker Barnes told them to do. As these new lawmakers look ahead to their first campaign for re-election, they'll be much less likely to march in lock step.

5. The sanctity of the permanent fund. It's extraordinarily difficult to imagine a way out of Fiscalgap that doesn't involve using the money in the permanent fund's earnings reserve account. In the past, this has been taboo — big time. By spending what the people perceive as permanent fund money, legislators will expose themselves to the wrath of the voters. This issue alone could cost them a whole lot of elections. And they know it.

6. A whole bunch of legislators promised the voters they'd never support new or higher taxes unless major reductions in the operating budget were made first. With such reductions highly unlikely, raising taxes to deal with the Fiscalgap will prove extremely difficult.

In light of all of the above, 1994 promises to be the session from hell. As it winds down, legislators will know their constituents will be saying of them, "What's wrong with those people?"

But because things will likely be so bad, there is a chance for change. The constitutional amendment proposed by Anchorage attorney Roger Cremo is by far the most comprehensive, practical and politically feasible way to handle Fiscalgap. Legislators may come to believe the voters will forgive them their sins if they pass it. It's the last best hope for the '94 session.

There is a fly in the ointment, however. If one legislator, or group of legislators, seeks to take personal credit for the Cremo amendment, the effort could be doomed by political jealousy. Here's hoping the legislators who believe in this solution are able to resist the temptation to use it for self-aggrandizement.

□ Fritz Pettyjohn, an Anchorage lawyer, served in both the state Senate and the state House of Representatives.

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Herewith a way to slay the fiscal dragon

11/21/93

According to UAA's Scott "Jeremiah" Goldsmith's letter to the editor, Roger Cremo is a charlatan — a Rumpelstiltskin claiming to weave gold from straw.

For years Professor Goldsmith has paced the halls of his ivory tower, wearing a hair shirt, forehead smeared with ash, direly warning all that judgment day was nigh, that Alaskans must renounce their "profligate ways. "Repent!" he's cried, "Or dread Fiscalgap will devour us all!"

Alas, few have paid heed to his prophecy, and the fearsome dragon does, in fact, now stalk the land.

While most politicians ignored the Professor of the Fevered Brow, Anchorage attorney Cremo committed a far more grievous sin. Working independently, far from the sacred halls of Academe, he's devised a way to slay beast Fiscalgap.

Here's how, in a nutshell. From now on, have *all* the state's resource revenues deposited into the permanent fund. Additionally, put all the money in all reserve accounts in the fund.

In year one of the plan, withdraw 20 percent of the fund. To this $2.8 billion add the $300 million from conventional state revenues, and the legislature has enough for running state government at current levels, a small capital budget, and dividends. Over 10

FRITZ PETTYJOHN

years, gradually reduce the annual withdrawal out of the permanent fund from 20 percent to 6 percent. At the same time, increase revenues from conventional sources by 12 percent a year ($36 million in year one).

Over the 10-year phase-in period, the funds available to the legislature decline from $3.1 billion to $2.9 billion. This assumes each year, for a decade, they cut state spending by $20 million, in nominal terms. At the same time, they'd have to eat the inflation factor, estimated at 4 percent a year. Any given legislature would always be free, of course, to cut spending more or less, increase revenues from conventional sources more or less, or some combination thereof. During the same 10-year period, the value of the permanent fund grows to $35 billion.

Aside from taming Fiscalgap, this plan has a number of attractive features. It captures all future windfalls, and thus dampens Alaska's tendency to boom-and-bust economic cycles. Long-term planning becomes feasible. Budgeting would be based on hard numbers, as opposed to the whimsical guess work of today. Massive, sudden cuts in government services are avoided.

Contrary to the howls of Goldsmith, this is not magic. It is a practical and realistic way to handle Fiscalgap, while also making the permanent fund truly permanent.

Goldsmith proposes, instead, that a succession of governors and legislatures voluntarily cooperate to gradually reduce spending and increase revenues. Based on past performance, this expectation is self-delusion.

Mr. Cremo has been trying to interest Alaska politicians in his constitutional amendment for a number of years, without much success. Next year may be different. Fiscalgap finally has them cornered.

In the past, when threatened by this dragon, our legislators have behaved like certain native peoples of remote New Guinea. Instead of an airplane, they erected a crude replica of an oil derrick. To the sound of sacred drums they ran round and round this totem, chanting "O-pec! O-pec!"

Remarkably, this tec nique has occasional proved effective, coincidi with spikes in world o prices. But while you ca run, you can't hide, fro Fiscalgap.

When the 18th Alask Legislature approaches a journment next May, th carnage may resemble th final scene of a Shakespea ean tragedy. Solons wi know the public's reactic to this spectacle of politic bloodletting, and will b looking for a way to mak amends. After all, most o them will be campaignin for re-election next summe

What better way to exp ate their offenses than b allowing the people to vot on a constitutional amenc ment that saves the perma nent fund and puts Alask on the road to fiscal probity It would be a bipartisan ac of statesmanship that occur no more than once in a ger eration. And it might get lot of them re-elected. Gov Hickel is reportedly oppose to this idea (it's not "think ing rich"), but governor have no formal role to play in the passage of constitu tional amendments.

You may say I'm a dream er. But I'm not the only one

☐ Fritz Pettyjohn, an Anchor age lawyer, served in both the state Senate and the state House of Representatives.

11/7/93 ADN
Roger Cremo

Change fund, slay 700-pound deficit gorilla

FRITZ PETTYJOHN

If the 1995 Alaska Legislature stops inflation-proofing the (permanent) fund and spends the money instead, it could continue the dividend program and also avoid big spending cuts.

For years the gorilla sat uietly in the corner, his big rown eyes calmly survey- ıg the frolic of Alaska poli- :cs raging on about him. He ıade no move. He knew his ay would come.

The few who've tried to all him into attention were erided as party poopers. We'll ignore him, and may- e he'll just go away!" the ipsy revelers assured one nother.

But he hasn't gone away. Munching ceaselessly on ba- ıanas (which in this conceit epresent the fall of oil pro- luction on the North Slope) ıe's gotten bigger and big- ger. Now, at 700 pounds, this ıuge, hairy beast can be gnored no more. Sadly, the arty's just about over.

Each pound of the great ape represents a million dol- lars of state spending in excess of revenue. The gov- ernor's preparing the next operating budget at the cur- rent level, or about $2.4 bil- lion. An additional $100 mil- lion is needed for a minimal capital budget and a supple- mental budget. State reve- nue is projected at around $1.8 billion. The difference, or deficit, of $700 million is the gorilla that before long will put an end to the festiv- ities.

Unless, of course, Dame Fortune intervenes. There could be a $700 million windfall in the form of tax and royalty settlements with the oil companies. Or civil war in Russia could push oil prices up to $25 a barrel. Such things have happened before, and could happen again. But we'd be fools to bet on it.

Don't count on big cuts in the operating budget, either. And don't expect an income tax. Both require 21 votes in the House and 11 in the Senate. The votes aren't there.

What we can expect is a huge draw on reserve accounts — including the permanent fund's reserves. There's enough in them to get through one more year — but only one — of spending as usual.

So it is that the governor, and legislature, elected a year from now will be faced with a fiscal dilemma of enormous proportions. The gorilla could be swollen to 900 pounds by then, given further declines in North Slope production.

With no reserves to fall back on, where will they come up with $900 million? A state income tax would only bring in $350 million or so. Where can they get the rest?

Answer: the permanent fund.

The fund earns close to a billion dollars a year. Under current law, about half those earnings are plowed back into the fund, as inflation-proofing. The other half goes out as dividends. If the 1995 Alaska Legislature stops inflation-proofing the fund and spends the money instead, it could continue the dividend program and also avoid big spending cuts.

The permanent fund would still continue to grow, in nominal terms. As long as oil is being produced, the constitutional amendment that created the fund will require mandatory contributions to it. But in real, inflation-adjusted dollars, the value of the fund will soon begin to fall. The North Slope bonanza that created the fund also caused huge state spending — spending that could eventually devour it.

A few years after 1995 the legislature will need even more permanent-fund money, so they'll put a cap on the amount of the dividend. And a few years after that they'll eliminate it.

This scenario could be avoided by adopting a version of a constitutional amendment devised by Anchorage attorney Roger Cremo. Under his plan, all resource revenues and reserve accounts are deposited into the permanent fund. Then, in the first year, a big chunk — as much as 20 percent — of the fund would be withdrawn and available for dividends and the state budget. Throughout the decade, and forevermore, all resource revenues would continue to be deposited into the permanent fund.

Busts, and booms, in state spending would be eliminated. Each legislature would know how much would be available to spend. And the permanent fund would be secure — and permanent.

There's only one way our legislature will allow the people to vote on such an amendment next year — as an act of atonement for their inability to come to terms with the financial realities facing the state of Alaska.

Don't hold your breath.

□ **Fritz Pettyjohn, an Anchorage lawyer, served in the state Senate and state House of Representatives.**

1 12, 1994

Peninsula Clarion Jan 12, '94

Time to give new budget plan a try

Alaskans who think talk of the state budget crisis is just another "wolf" cry may soon be in for a rude awakening.

Kenai Peninsula Borough Schools Superintendent Robert Holmes perfectly summarized the situation now facing not only the school district, but the borough and municipalities when he said: "We just flat out have fewer dollars to deal with."

What that means, on the borough level, is a hike in property taxes is possible. For peninsula schools, it likely means not filling some new teaching positions, as well as cutting funds for equipment, textbooks, library aides, food service and field trips. Soldotna is discussing a sales tax hike from 3 to 3.5 percent to make up a predicted budget shortfall.

For everyone, fewer state dollars means changes are inevitable.

The state's current budget situation points out how the sytem is flawed. How can you have a stable state economy when the price of oil, the primary factor in figuring the budget, fluctuates as much as it does? The answer is you can't.

A new way of figuring the budget, however, could eliminate the roller coaster budget rides the state now experiences. When there's lots of money around, the state tends to spend as much as is possible. When there's not, everyone scrambles to cut what can be cut and make ends meet. At best, it's not an efficient way to finance the state's business.

Under a plan getting lawmakers' attention all the state's resource revenues would go into the Permanent Fund and the Legislature would receive a set percentage of the fund's annual earnings to pay for the cost of operating government.

Proponents say the proposal — known as the "Cremo Plan," after the Anchorage attorney who devised it — would give legislators a more reliable and predictable amount of money to spend.

It's a sound idea; one that deserves more than discussion. The current system of financing state government isn't working, and the Legislature desperately needs to try something else.

Otherwise, Alaskans can expect more of the same: spend-spend-spend in the fat years and cut-cut-cut in the lean. And, if the experts' crystal ball is correct, there are a lot more lean years ahead as oil production declines.

If the Cremo Plan can stop the roller coaster budgets of the past and present, it's time to hop on for the ride.

App

Clintor

By TERENCE HUNT
AP White House Cor

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Resolution seeks change in state spending

by Hal Spence
Staff Writer

A proposal for an amendment to the Alaska Constitution that would completely overhaul the way the state spends money is gaining support among municipal governments on the Kenai Peninsula.

Its chief proponent, Anchorage attorney Roger Cremo, was in Homer on Monday to pitch the idea to the Homer City Council, which later voted to support a resolution asking the Alaska Legislature to put the amendment on the ballot. Last week, the Kenai Peninsula Borough and the city of Kenai each adopted similar resolutions.

The proposal is as simple as it is far-reaching, Cremo said. Based on the premise that the state's economy will continue to depend on revenue generated by the exploitation of natural resources and that that revenue stream tends to fluctuate, Cremo proposes to place all resource revenue into the Alaska Permanent Fund, rather than into the state's General Fund as is done currently.

A fixed percentage of the Permanent Fund would be withdrawn each year to cover state spending needs. Cremo said such a system would provide continually increasing revenue levels and an economy which would not fluctuate.

"The problem is our economy is utterly unstable and it always has been," Cremo said.

The existing state spending system, he said, leads to a boom and bust economy — a high demand for services when revenues are plentiful, followed by crunch-time when the money flow slows down. To achieve a stable economy, the state must find a way to spend at sustainable levels. That can be done, Cremo said, by not spending resource revenues directly, but rather by first converting them into revenues that don't fluctuate.

Putting all resource revenue into a giant Permanent Fund bank account which is then invested — as the Permanent Fund is now — would create a stable state spending source.

"Logically, the first thing to do is to take the money away from the Legislature" and "put them on an allowance," he said.

The amount Cremo proposes be withdrawn from the fund each year would be tied to the average rate of return on investments over the previous three years, adjusted for the current rate of inflation. He suggested that percentage could be around 6 percent per year after a 10-year transition period that would initially require a much higher withdrawal level, and a good measure of belt-tightening by the Legislature.

Assuming voters pass the amendment, the 1996 Legislature would need 20 percent of the Permanent Fund to pay for government services. That percentage would decrease each year until 2005 when it would bottom out at 6 percent.

During the transition, state spending would fall slowly from an initial high of around \$3.1 billion in 1996 to a low of \$1.9 billion in 2006. Thereafter, the actual dollar amount the 6 percent would represent would rise by about \$200 million per year as the Permanent Fund itself grew.

Cremo said meeting the 2005 deadline would require state lawmakers to cut state spending to meet the coming fiscal gap, something they face even under the present system.

There is likely to be a lot of resistance to such a radical change, Cremo said. For one thing, state lawmakers have been reluctant in the past to put amendments on the ballot. Another fear is that the new system would eliminate the popular annual dividends the Permanent Fund now provides Alaska residents.

Cremo said the new system would continue to set aside \$500 million a year for dividends, roughly what covered the dividend payments this year.

The proposed amendment to Article XV of the constitution would set aside revenues from the sale of natural resources and from taxes on resources produced or on reserve, on property used in exploration, production or transportation of resources, and on income from production or transportation of resources. These moneys would constitute the Alaska Permanent Fund and would be invested for long-term capital appreciation, he said.

The amendment also would require that the assets of the Budget Reserve Fund, itself created by a constitutional amendment in 1990, and the Permanent Fund Earnings Reserve Account be added to the Permanent Fund.

A public corporation would be created to manage the fund. It would be governed by a seven-member board of directors comprised of Alaska residents appointed by the governor with the consent of the Legislature. Four would serve for six years, three for four years.

Resolution gets council nod

Homer City Council members vote unanimously Monday night to ask the state Legislature to let voters decide the fate o the "Cremo Amendment," even thougl some said they're skeptical it would worl and others said they'd personally vot against it.

Roger Cremo, the Anchorage banking attorney who has written the amendment presented it to the council Monday night. I would place all revenue generated fron resource exploitation into the Permanen Fund, rather than into the state's Genera Fund, and use a percentage of the interes income to pay for state government. The idea is to create a stable source and rate of funding.

Councilman Mike McHone said he'd like to put the idea to the voters and ge people thinking about other creative solutions to the state's money dilemmas. "I like the sound of it. It's a good shaker-upper," he said.

Councilman Dennis Leach said while he hasn't decided whether or not he's personally for it, he thinks it would spell the end to the Permanent Fund dividend program. Cremo said it wouldn't affect the program.

Jack Cushing, another councilman predicted that the premise of touching the state's much-loved Permanent Fund would turn people against the Cremo amendment. He said the 90 percent of state natural resource revenues that aren't going into the present Permanent Fund now should go into a second "permanent fund" fo state operating costs.

Budget postponed

Anchorage Daily News
Letters to the Editor
July 29, 1993

Proposal may be a winner

In a recent Compass piece attorney Roger Cremo advanced an imaginative proposal to revamp Alaska's economic system. It is hoped his plan will be reprinted in other state newspapers and given publicity on local TV and radio talk shows as well. Perhaps the Daily News will consider reprinting the essay on the editorial page. Thorough statewide examination and discussion is needed before the legislature reconvenes. Mr. Cremo may have a winner!

— *Mary E. Schenker*

MORE LETTERS Readers write. **B-8**

ADN 12/18/93

Roger Cremo is the answer

It's a sad state of affairs when our legislature can't read the laws it writes and unconstitutionally spends $924 million. But it adds insult to injury for Sen. (Rick) Halford, et al. to spend additional money filing a frivolous lawsuit with no intent to stop the spending. Any first-year law student knows what an injunction is and how to use it. It would be very appropriate and perfectly within the jurisdiction of the court to issue an injunction ordering the state not to spend this money until the constitutional budget reserve was made whole. Yet no injunction was sought. Why?

Being of sinister mind, I believe there's a concerted effort afoot to spend all reserves so the governor can get his way and cap the dividend at $750 and then tax us on it.

The upcoming legislative session could prove to be the most devastating in our history if we let it. These same people are going back into seclusion in Juneau with a lame-duck attitude because of their $924 million faux pas last session, and we could see a repeat of this budget or worse, the price of oil notwithstanding.

It's time to impose fiscal responsibility upon government. Roger Cremo's Money Reservoir Plan takes the guesswork out of budgeting and stabilizes the entire process. We need a resolution passed to put this on the 1994 ballot.

Invest the time to call or write our legislators or spend time filling out another tax form every year. The choice is ours.

— Melvin L. Schaub
Sterling

Anchorage Daily News
Letters to the Editor
December 29, 1993

— John [illegible]

Cremo plan forces tax issue

Matthew Scully says that the revenue system Roger Cremo proposes is lacking something — that it doesn't give people an incentive to keep the bureaucrats from spending too much.

Although he deserves credit for being concerned about spending, Mr. Scully should learn more about the proposed system. Actually, it does what he wants it to do and more. It takes the existing reserves, and all of the oil revenues from now on, completely out of the control of the legislature. The money goes into the permanent fund. And the income that the fund generates from investments remains in the fund.

Of course, money has to be taken out of the fund each year to run the government, pay dividends, etc., but the amount is limited to a fixed percentage of the fund's value. And we — not the legislature — establish the percentage. About the only other money that the legislature could spend is what it can get by taxing us — exactly the problem that Mr. Scully wants the legislature to be faced with.

Since the 1970s the legislature has been spending at an unsustainable level. The new system will bring spending down to a sustainable level.

— *Leslie MacLellan*