

HCR

1

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred: January 16, 1995

FURTHER REFERRALS:

Date of Committee Action: 1/31/95

The FINANCE Committee considered:

HCR 1

HOUSE CONCURRENT RESOLUTION NO. 1

LONG RANGE FINANCIAL PLANNING COMMISSION

Creating the Long Range Financial Planning Commission.

recommends it be replaced with the following committee substitute CS HCR 1 (Fin) the same title a new title

additional referral to _____ Committee

attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____

APPROVES PREVIOUS: (Dept/Date) _____

fiscal note(s) LAA

fiscal note(s) _____

zero fiscal note(s) _____

zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Richard J. Daley</i>	X			
<i>Mark R. ...</i>	X			
<i>Terry ...</i>			✓	
<i>Sean A. ...</i>	X			
<i>Vic ...</i>	X			
<i>Ben ...</i>			X	
<i>Mike ...</i>	✓			
<i>Sam ...</i>	✓			
<i>Pete ...</i>	✓			

CHAIR'S SIGNATURE *Mark ...* *Richard J. Daley*

FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

NO. _____
BILL VERSION: CSHCR1 (FIN)
PUBLISH DATE: _____

Revision Date: _____
Title: Creating the Long Range Financial
Planning Commission.
Sponsor: Representative Phillips
Requestor: House Finance Committee

Department Affected: Legislative Affairs Agency
BRU: Council & Subcommittees
Component: Council & Subcommittees

COMPONENT SERIAL NO:

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	0.0	0	0	0	0	0
TRAVEL	27.8	0	0	0	0	0
CONTRACTUAL	23.5	0	0	0	0	0
SUPPLIES		0	0	0	0	0
EQUIPMENT	0.0	0	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	51.3	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	51.3	0	0	0	0	0
FEDERAL FUNDS						
OTHER FUND SOURCE						
TOTAL	51.3	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 impact: _____

ANALYSIS: (Attach a separate page if necessary)

It is anticipated that the Long Range Financial Planning Commission will begin work March 15, 1995. FY95 Commission travel costs for the public and legislative members will be absorbed within existing legislative operating and session budgets. Travel costs for Executive Branch members will be absorbed within their Department budgets. FY 95 Contractor costs will be absorbed within the legislative operating budget.

Prepared By: Karla Schofield, Deputy Director *Karla Schofield* Phone: 465-3852
Division: Administrative Services Date: 1/31/95

Approved By: Pamela A. Vami, Executive Director *Pamela Vami*
Agency: Legislative Affairs Agency Date: 1/31/95

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

Travel

Travel costs for Executive Branch members will be absorbed within their Department budgets.

Estimated travel for Public Members

For purposes of estimating travel costs, 3 members are assumed to be from Anchorage, 3 from Fairbanks, and 3 from Southeast.

8 Hearings, one in each of the following communities - Anchorage, Fairbanks, Juneau, Bethel, Nome, Wasilla, Kenai, Ketchikan.

6 additional Hearings will be held by teleconference. The cost of teleconference meetings will be absorbed within the Legislative Affairs Agency budget.

FY95 Travel Costs	27.8
FY96 Travel Costs	27.8

Contractual

	FY95	FY96
Prof. Svcs. Contract	15.0	15.0
Phones	2.0	2.0
Postage	1.5	1.5
Advertising	5.0	5.0
	<u>23.5</u>	<u>23.5</u>

Supplies, printing, equipment and office space will be provided within existing budgets.

0.0

Municipal Involvement in Statewide Fiscal Planning

The municipalities of the Alaska Municipal League urge the administration and legislature to involve local governments in statewide fiscal planning. Municipalities are political subdivisions of the state and input at the local level is critical to a comprehensive long-range fiscal plan for the state.

Why Involve Municipalities?

The Alaska constitution creates the state and its municipalities as a team that meets the needs of Alaskans. There is no difference between the state and municipalities when considering tax impact or service impact. It makes no practical difference to a taxpayer whether he or she pays tax to a city or the state, nor whether a service is provided by the state or a city. It is merely a question of efficiency and governance philosophy.

Municipalities are critical partners with the state in all economic development. Municipalities have the power under the Alaska Constitution to effectively regulate economic development activities to limit or encourage specific development.

What is the Process?

Involvement of the municipalities has several advantages:

- ♦ cost efficiencies - municipalities can provide local leadership, community organization, professional fiscal and planning services from municipal employees, facilities, technical services, and publicity.
- ♦ real buy-in to the plan - more cooperation will be achieved in establishing and implementing a long-range fiscal plan when there are more people involved in the process.

What is Involved in Establishing a Plan?

1. Determine what services are needed now and in the future and who can best provide them.

A necessary step in streamlining state government is determining what services should be provided by the state and which should be provided by another means.

The 1992 Governmental Roles Task Force Report, which was a joint effort of the Legislature, Office of Management and Budget, and the Alaska Municipal League, is an example of a cooperative effort between state and local government to lay out a reasonable beginning to answer this question. The proposed Alaska Municipal Basic Services Program provides a vehicle to implement a new partnership between the state and its municipalities in the streamlining of state government.

Municipalities can also add strength to the decision process concerning what services or entitlement programs need to be modified or transitioned away.

2. Determine what resources can be generated now and in the future, including increasing Alaska's economic base.

Municipalities are critical in this equation. It is counter-productive if the state level of Alaska government has a good long-range fiscal plan and municipalities have wild swings in taxation, fail to provide necessary basic services, or do not support reasonable economic development initiatives.

Recommendations:

1. Establish a statewide fiscal planning process in partnership with municipalities. Municipalities can be given the responsibility for framing the process to generate representative community participation.
2. Create a state/local group similar to the 1992 Governmental Roles Task Force to continue the creation of policy options concerning services and revenues to be considered in the fiscal planning process.
3. Create an administration policy team that will work in partnership with local elected and appointed officials in each community to implement the public planning process.
4. Develop a draft statewide fiscal plan with community or regional and state economic development and policy components.

Overview

Alaska Municipal League 1995 Administrative and Legislative Platform

Municipal Stabilization/ Long-Range Planning and Development Package

Municipal Stabilization Plan

Alaska Municipal Basic Services Program and Restoration
of FY 94 Funding for Municipal Aid

Senior Citizens/Disabled Veterans Property Tax Exemption -
Allow Municipalities to Make it a Local Option

Adequate Funding for School Bond Debt Reimbursement,
Construction, Operation, and Maintenance

Long-Range Planning and Development

Municipal Involvement in Statewide Long-Range Fiscal Planning

Municipal Involvement in Statewide Transportation
Long-Range Planning

Municipal Involvement in Development and Management
of Alaska's Natural Resources



ALASKA STATE CHAMBER OF COMMERCE

Resolution 95-1

Fiscal Planning

WHEREAS, the Alaska State Chamber of Commerce rates sound fiscal management for the State of Alaska as its number one priority; and

WHEREAS, the Alaska State Chamber of Commerce believes uncertainty in the state budget process and state spending has created instability in the business and investment community; and

WHEREAS, the Alaska State Chamber of Commerce believes that less taxation is encouragement for investment and business development; and

WHEREAS, the Alaska State Chamber of Commerce believes additional taxation is not the solution to surviving our budget deficit situation;

THEREFORE BE IT RESOLVED that the Alaska State Chamber of Commerce asks the Alaska State Legislature and Administration to diligently work together so that state expenditures be reduced by five percent (5%) annually, until a sustainable level is reached; and

BE IT FURTHER RESOLVED that the Alaska State Chamber of Commerce recommends innovative solutions be implemented in order to solve the state budgetary problems, including such solutions as developing a long-range financial plan and forward funding for the state's budget.

ADOPTED

December 9, 1994

BY Pamela Neal
Pamela Neal
President

BY Paul Richards
Paul Richards
Chair, Board of Directors

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TESTIMONY ON HCR 1

Creating the Long Range Financial Planning Commission

Thank you for the opportunity to provide testimony on HCR 1, regarding the creation of a Long Range Financial Planning Commission.

My name is Pamela Neal, President of the Alaska State Chamber of Commerce. The State Chamber serves nearly seven hundred member businesses statewide who provide jobs to over 80,000 employees. In addition, we represent the interests of the local Chambers of Commerce throughout Alaska on business and economic issues coming before the State Legislature.

The issue being addressed today is of great importance to the Alaska State Chamber of Commerce. The very purpose for which our organization exists, as presented in our Mission Statement, is "to create a climate conducive to a strong private sector economy by providing statewide leadership on issue affecting the economy...". Our number one priority for the 1995 Legislative Session, as established in ASCC Resolution 95-1, is fiscal planning, which we hope will identify and employ innovative solutions to the state's budgetary problems.

We are encouraged by and applaud the fact that both the House and Senate Majorities are thinking along the same line as the state's business community and will be addressing this matter with legislation such as HCR 1.

We support HCR 1, but upon reviewing the proposed legislation, we have some suggestions to offer the committee today:

1. Membership

The resolution calls for 13 members, six public (which can include legislators) and seven people from the executive and legislative branches who have technical expertise. It is our thought that more public members, legislators, and high-level executive branch officials be on the commission and that the technical experts (i.e. Legislative Finance, Legislative Audit, Department of Administration's Finance Division, etc.) serve in a support capacity.

2. Commission's Responsibilities

Task number six (6), as described in the resolution, says the commission shall "review state programs, especially formula driven programs, and recommend reductions in state expenditures to reach a sustainable level". We believe it is important that this review also include an evaluation of all the services the state is currently providing to identify those which are a traditional responsibility of a state to its citizens (such as protecting its citizens and communities from crime, providing a basic education, and providing safe transportation links). The result of such a process will also be identification of services that are *not* a

traditional-responsibility of a state, and which therefore could be eliminated or restructured (such as if people want this non-traditional service, they pay for it; if unwilling to pay for it, it goes away). It should not be assumed that what the state is currently providing is what it should continue to provide.

Coupled with identifying the services the state should be providing is the need to ensure that those services are being provided efficiently and effectively. The commission's responsibilities should be expanded to include examination of how performance measures can fit into the overall Financial Plan. Such measures shift the focus from how much funding a program receives, to the program's results. Performance measures will be important in providing information to Alaskans about how well state services are being provided. When Alaskans are assured that the state is funding only traditional government services, and that these services are being provided efficiently and effectively, only then should the state look at other fiscal tools, such as increased taxation.

Again, we thank you for allowing us to present our ideas to you today. If there is anything we can do to assist you in this effort, we will be happy to do so.

CS FOR HOUSE CONCURRENT RESOLUTION NO. 1()
IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES Phillips, B.Davis, Green

A RESOLUTION

1 **Creating the Long Range Financial Planning Commission.**

2 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

3 **WHEREAS** state spending has exceeded recurring revenue to the state; and

4 **WHEREAS** the state must eliminate the fiscal gap; and

5 **WHEREAS** the state is currently forced to deal with an unpredictable and declining
6 revenue stream; and

7 **WHEREAS** the state must find a means of stabilizing revenue and expenditures at a
8 sustainable level; and

9 **WHEREAS** the state's system of budgeting and spending must be analyzed and
10 reevaluated by the legislature; and

11 **WHEREAS** the citizens of the state should have an opportunity to consider these
12 topics, offer comments, and participate in developing a long-range financial plan for the state;
13 and

14 **WHEREAS** it would be beneficial to the state and its citizens to implement a long-
15 range financial plan;

16 **BE IT RESOLVED** that the Alaska State Legislature establishes the Long Range

1 Financial Planning Commission in order to develop and recommend to the governor and the
2 legislature a long-range financial plan for the state that includes specific actions needed within
3 the first three and five years to implement the plan; and be it

4 **FURTHER RESOLVED** that the commission shall consist of six members of the
5 public, which may include legislators, with three each appointed by the Speaker of the House
6 of Representatives and the President of the Senate, and seven members who are high-level
7 technical experts from the legislative and executive branches, jointly appointed by the Speaker
8 of the House and the President of the Senate, with one each from the Department of Revenue,
9 the Permanent Fund Corporation, the office of management and budget in the Office of the
10 Governor, the division of finance in the Department of Administration, the Department of
11 Natural Resources, the legislative finance division, and the legislative audit division; and be
12 it

13 **FURTHER RESOLVED** that the commission shall select a chair and vice-chair from
14 among the members of the commission, shall meet as frequently as the commission determines
15 necessary to perform its work, may meet during the interim, and may meet and vote by
16 teleconference; and be it

17 **FURTHER RESOLVED** that the members of the commission shall serve without
18 compensation but are entitled to travel expenses and per diem as authorized under
19 AS 39.20.180 for boards and commissions; and be it

20 **FURTHER RESOLVED** that the commission may hire staff to carry out its duties;
21 and be it

22 **FURTHER RESOLVED** that the commission shall

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

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

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

29 (4) if new taxes are recommended, investigate specific tax structures, review
30 the consequences of the structures, and prepare draft legislation to implement the

1 recommendations;

2 (5) disseminate information and solicit public input through hearings and other
3 means from the various regions of the state in the development and review of the proposed
4 financial plan;

5 (6) review state programs, especially formula driven programs, and recommend
6 reductions in state expenditures to reach a sustainable level;

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

9 (8) investigate implementing forward funding of the budget; and

10 (9) submit a written report containing the commission's recommended 10-year
11 financial plan to the legislature by February 15, 1996; and be it

12 **FURTHER RESOLVED** that the commission is authorized to begin work immediately
13 upon the appointment of its full membership and is terminated upon the convening of the First
14 Regular Session of the Twentieth Alaska State Legislature.



Anchorage - Star of the North
Chamber of Commerce

Anchorage Chamber of Commerce
State Fiscal Plan
Resolution #94/95-6

WHEREAS the state budget for a number of years has been out of balance by \$200 million to \$600 million a year, and the gap between revenues and expenditures has been made up by drawing against cash reserves accumulated in prior years and against non-recurring receipts such as tax and royalty settlements;

WHEREAS the gap between state spending and unrestricted state revenues, of which over 80% are from North Slope oil production that is in decline, is likely to widen in coming years unless a long-term fiscal plan is adopted and followed by the State of Alaska;

WHEREAS Alaska is like a canoeist paddling down the Niagara River and coming to the Niagara Falls - either the canoeist can portage to the bottom of the Falls (which, for the State, means having and following a plan to bring the budget into balance with long-range sustainable revenues) or the canoeist can go over the Falls at great risk of death or grievous injury (which, for the State means spending on an ad hoc basis without a plan until the cash reserves and other one-time-only receipts are all spent, and then facing the economic consequences all at once);

NOW, THEREFORE BE IT RESOLVED by the Board of Directors of the Anchorage Chamber of Commerce that:

1. It is imperative and absolutely essential for Alaska's long-term fiscal and economic well-being that the state adopt and implement as quickly as practicable a fiscal plan to bring spending into balance with sustainable revenues.

2. In developing a state fiscal plan, the highest priority must be given equally to the twin goals of reducing state spending and stimulating economic development to increase sustainable state revenues.

3. The Legislature and Administration should strive to foster a better business development climate, maintain a stable tax base, investigate business incentives and assure stability in the state's regulatory function.

4. The Legislature and Administration must define and develop additional revenue sources that capitalize on the things Alaska does best—oil

Page 2 Anchorage Chamber Resolution #94/95-6

exploration, fisheries, timber, tourism, air cargo, mining, transshipment, education, inter alia.

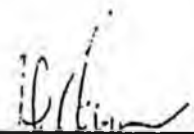
5. Only to the extent that spending cuts and new economic development fail to solve the fiscal gap fully should the State consider revenue-raising measures or use Permanent Fund income.

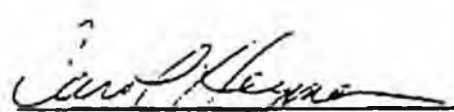
6. Inasmuch as a number of fiscal plans have been proposed but none of them has yet been adopted and implemented, the state must begin immediately a major effort to educate the public through a major all out media campaign about the fiscal gap and the options available to solve that gap, in order to achieve the widespread understanding and consensus needed for any plan to be adopted and carried out. |

7. Further the Chamber believes such a plan will have the best chance of working if it is put to the vote of the people no later than the 1996 general election. All efforts to develop a plan and educate the public must be planned and scheduled to meet that ultimate deadline.

8. Governor Knowles with the Legislature should take the initiative in starting the process of educating the public and developing a consensus plan; the Chamber calls an all state and local officials to support the Governor's process without political partisanship; and the Chamber calls on its members and on all Alaskans to be involved personally in understanding the nature of the state fiscal gap and the implications of the various options for solving it, and in working to develop a broadly supported consensus plan. This may involve some compromise of local or regional interests for the greater statewide good, but we recall the words of Benjamin Franklin at the signing of the Declaration of Independence: "We must all hang together, or assuredly we shall all hang separately." So it is with the state budget - we must all work together to our collective benefit, or assuredly we shall all suffer separately when the ship of state goes over the Falls.

Approved December 16, 1994


John Ayers 1994-95 Chairman


Carol Heyman President



Anchorage Star of the North
Chamber of Commerce

**A PROPOSED PROCESS
FOR ALASKA TO ADOPT
A POLITICALLY FEASIBLE PLAN
TO BALANCE THE STATE BUDGET
ON A SUSTAINABLE BASIS
RECOMMENDED BY THE ANCHORAGE CHAMBER OF COMMERCE**

Approved January 6, 1995

ISSUE

Alaska's present level of spending is seriously out of balance, a condition that promises to worsen year by year as oil and gas production — which still accounts for \$5 out of every \$6 available for the State to spend — declines. Various organizations have examined the budget crisis, and all have concluded that any long-term solution will require some combination of spending cuts, new revenues (i.e., new or increased taxes), resource development, and redeployment of at least some of the earnings of the Permanent Fund.

Despite widespread political recognition that something has to be done to get state spending into line with sustainable state revenues, this looming crisis has been handled so far — not by adopting and following a plan for transition to a balanced state budget — but by spending cash reserves that were built up in the past.

What Alaska desperately needs is a plan for transition — one that the public understands and which a majority agrees with, and one that elected officials will feel politically "covered" in following.

This paper discusses how such a plan could be developed within the framework of the State's political institutions, how it would be ratified or approved, and how it would work in practice. The actual content of the plan is not a subject for this paper, but is something to be worked out in the course of the process of developing and adopting the plan.

DESIRED OUTCOME OF THE PROCESS

The objective is for the State to develop, adopt and implement a spending plan for FY1997 - FY2002 that moves to a balanced budget with a minimum of economic disruption during its implementation. At the same time, the plan must satisfy a "reality check" for FY2007 to ensure that getting through the next five years is not at the cost of creating an insoluble problem for the five years after that.

Because a constitutionally mandated spending plan is a remote possibility in terms of political feasibility, one must develop and adopt a spending plan in the context of a process designed to provide the maximum amount of political "cover" for those carrying it out, in addition to being "the right thing to do." Without such "cover," any non-mandatory plan is unlikely to be implemented before the big budget crunch comes.

OUTLINE OF THE PROCESS TO ADOPT A STATE SPENDING PLAN

In designing a process for getting a state spending plan adopted, the key focus must be in providing political "cover" for elected officials both in the course of

developing the particular spending plan, and in the course of implementing it. To ensure there is as much "cover" as possible, the following steps should be taken:

1. *As much as possible, keep the state-budget issue politically non-partisan.*

Any spending plan that is not mandatory under the constitution will be guaranteed to fail if it is adopted on a partisan basis. Whichever party loses in the adoption fight will use it as a campaign issue to try to win power in the next election, and this in turn will deter the winning side from taking any politically difficult actions to implement their plan.

2. *By the end of March 1995, have the Legislature and the Governor start a process that may include legislation as well as the appointment of a "representative commission" of knowledgeable Alaskan leaders to develop a state spending plan through FY2002 (with a look ahead to FY2007), and to present the plan to the Legislature and the Governor by the beginning of the 1996 Legislative Session.*

It is not possible to develop a plan with the necessary statewide public input for the 1995 Legislative Session to act on it. So there is no need to rush the panel to finish their work before the 1996 Session.

3. *Draw the membership of the "representative commission" from all parts of the state, in rough proportion to population.*

Views from all parts of the state must be represented, or else those who feel excluded may well become a source of dissent in the future that makes it politically risky to implement the plan. But one also does not want a commission that is so overloaded with minority viewpoints that it has difficulty reaching consensus similar to that of the public overall.

4. *Require the "representative commission" to hold public hearings around the state, and give them an adequate budget to do so. The panel should coordinate with existing local organizations to have the greatest local participation.*

Again, this is to get as much input into the process as possible, so there will be as much buy-in into the results later.

5. *Make the members of the commission do the actual work, instead of giving them staff to do it.*

If the panel members don't have to do the work, most of them probably won't do it. Instead, it will end up being done by their staff, or it won't get done at all. Letting staff do the work defeats the purpose of having leaders from around the state on the panel. The panelists are there because of their individual stature (i.e., ability to influence opinion in their area) and ability, and because they collectively will bring perspectives to bear on the issue that any set of staffers wouldn't be able to match.

6. *The panel's plan must consist of a set of specific budgetary proposals, such as cutting state spending by X% by FY 2002, or re-imposing the personal income tax, or using Permanent Fund income. However, the plan must be presented so as to be contingent upon a favorable vote of the people for it, to be held in the 1996 General Election.*

The importance of having a plebiscite to ratify the panel's plan is of utmost importance in providing the necessary political "cover" to get politicians to support this process, to support whatever plan the panel comes up with, and to actually implement the plan. In terms of their buy-in into the process, they can commit to it without laying themselves open for criticism that the use of a "blue ribbon" panel is elitist. They can respond to such criticism by saying the panel won't be making any final decisions, the voters will.

The special vote is also essential for getting the Governor and key legislative leaders at the beginning of the 1996 Session to publicly commit to pass legislation presenting the panel's plan to the electorate in the 1996 election for ratification. Any potential criticism of a legislator for supporting any element in that plan can be rebutted by saying that he/she does not necessarily support that proposal, but does support letting the voters vote on it.

And, of course, if the voters do ratify the plan in 1996, then legislators can point to that vote to justify their own actions to implement that plan. In response to criticism they might receive for implementing any particular portion of the plan, the legislators can say they are carrying out the will of the people.

There are many details that could be added to embellish the basic idea, including the one in the preceding footnote about enacting implementing legislation that is contingent on the outcome of the vote on the plan in 1996. However, those are details that can be added in the course of carrying out the process itself. For now, the important things are to adopt the basic idea and get all Alaskans to understand and commit themselves to it.

To minimize criticism for implementing the plan, certain implementing legislation could be passed in 1996 with effective dates contingent on a favorable outcome in the election. Such legislation could include measures for more taxes, for redeploying Permanent Fund Income, and even for the Governor to submit budgets within pre-set targets to cut spending. Enacting such legislation with contingent effective dates could almost completely insulate legislators and the Governor from criticism for enacting those measures. Before the plebiscite, they can say they supported the legislation in order to let the people vote on the spending plan. And after the election, if the plan is approved, the legislation would automatically go into effect, leaving nothing that any of them would have to do that could draw criticism.

LEGISLATIVE REFERENCE LIBRARY

**LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA**

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Mail Stop 3101*

*130 Seward Street, Suite 400
Juneau, Alaska 99801-2105*

Copies of minutes listed below were originally included in this file. The minutes are available on the legislative computer database. In order to save space copies of minutes have not been left in the files.

Mary Pagenkopf

House Finance Committee
January 26, 1995
9:00 a.m.

FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

NO. _____
BILL VERSION: HCR 1
PUBLISH DATE: _____

Revision Date: _____
Title: Creating the Long Range Financial
Planning Commission.
Sponsor: Representative Phillips
Requestor: House Finance Committee

Department Affected: Legislative Affairs Agency
BRU: Council & Subcommittees
Component: Council & Subcommittees

COMPONENT SERIAL NO:

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	118.0	59.0	0	0	0	0
TRAVEL	16.0	8.0	0	0	0	0
CONTRACTUAL	10.0	5.0	0	0	0	0
SUPPLIES		0.0	0	0	0	0
EQUIPMENT	6.0	0.0	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	150.0	72.0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	150.0	72.0	0	0	0	0
FEDERAL FUNDS						
OTHER FUND SOURCE						
TOTAL	150.0	72.0	0	0	0	0

POSITIONS:

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

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary)

It is anticipated that the Long Range Fiscal Planning Commission will begin work immediately. FY 95 staff costs and public member travel costs will be absorbed within existing legislative operating and session budgets. Travel costs for technical experts will be absorbed within their respective Department budgets.

Prepared By: Karla Schofield, Deputy Director *Karla Schofield* Phone: 465-3852
Division: Administrative Services / Date: 1/24/95

Approved By: Pamela A. Vami, Executive Director *Pamela A. Vami*
Agency: Legislative Affairs Agency Date: 1/24/95

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

Personal Services (Salary & Benefits)

Full Time Range 21A	70.0	
Full Time Range 15A	48.0	
	118.0	118.0

Travel

3 Hearings and 1 Commission Meeting

Travel costs for high level technical experts from the Legislative and Executive Branches will be absorbed within their respective Department budgets.

Travel for Public Members

For purposes of estimating travel costs, 2 members are assumed to be from Anchorage, 2 from Fairbanks, and 2 from Southeast.

Meeting

Anchorage	Travel	2 trips x 2 Southeast members x 444	1.8	
		2 trips x 2 Fairbanks members x 250	1.0	
	Expenses	4 members x 211 x 4 days	3.4	
	Staff	Travel & Expenses	1.8	
Fairbanks	Travel	1 trip x 2 Anc members x 250	0.5	
		1 trip x 2 Southeast members x 566	1.2	
	Expenses	4 members x 165 x 2 days	1.3	
	Staff	Travel & Expenses	0.9	
Juneau	Travel	1 trip x 2 Anc members x 444	0.9	
		1 trip x 2 Fairbanks members x 566	1.2	
	Expenses	4 members x 166 x 2 days	1.3	
	Staff	Travel & Expenses	0.7	
			16.0	16.0

Contractual

Phones	3.0	
Postage	3.0	
Advertising	4.0	
	10.0	10.0

Supplies, printing, and office space will be provided within existing budgets. 0.0

Equipment

Computer & Printer	6.0	6.0
--------------------	-----	-----

150.0

FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

NO. _____
BILL VERSION: SCR 3
PUBLISH DATE: _____

Revision Date: _____
Title: Creating the Long Range Financial
Planning Commission.
Sponsor: Senator Pearce
Requestor: Senator Pearce

Department Affected: Legislative Affairs Agency
BRU: Council & Subcommittees
Component: Council & Subcommittees

COMPONENT SERIAL NO:

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	0.0	0.0	0	0	0	0
TRAVEL	57.0	28.0	0	0	0	0
CONTRACTUAL	12.0	6.0	0	0	0	0
SUPPLIES		0.0	0	0	0	0
EQUIPMENT	6.0	0.0	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	75.0	34.0	0	0	0	0

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

REVENUE FUND SOURCE	0	0	0	0	0	0
----------------------------	----------	----------	----------	----------	----------	----------

FUNDING: (Thousands of Dollars)

GENERAL FUND	75.0	34.0	0	0	0	0
FEDERAL FUNDS						
OTHER FUND SOURCE						
TOTAL	75.0	34.0	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 impact: _____

ANALYSIS: (Attach a separate page if necessary)

It is anticipated that the Long Range Fiscal Planning Commission will begin work immediately. Staff costs and FY95 public member travel costs will be absorbed within existing legislative operating and session budgets. Travel costs for technical experts will be absorbed within their respective Department budgets.

Prepared By: Karla Schofield, Deputy Director *Karla Schofield* Phone: 465-3852
Division: Administrative Services Date: 1/25/95

Approved By: Pamela A. Varni, Executive Director *Pamela A. Varni*
Agency: Legislative Affairs Agency Date: 1/25/95

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

Continuation of SCR 3 Fiscal Note Page 2 of 2

Travel

Travel costs for high level technical experts from the Legislative and Executive Branches will be absorbed within their respective Department budgets.

Estimated travel for Public Members

For purposes of estimating travel costs, 2 members are assumed to be from Anchorage, 2 from Fairbanks, and 2 from Southeast.

10 Hearings, one in each of the following communities - Anchorage, Fairbanks, Juneau, Bethel, Nome, Barrow, Wasilla, Kenai, Ketchikan, Sitka.

1 Commission Meeting

57.0

6 additional Hearings will be held by teleconference. The cost of teleconference meetings will be absorbed within the Legislative Affairs Agency budget.

Contractual

Phones	3.0
Postage	3.0
Advertising	6.0

12.0

12.0

Supplies, printing, and office space will be provided within existing budgets.

0.0

Equipment

Computer & Printer	6.0
--------------------	-----

6.0

75.0

FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

NO. _____
BILL VERSION: SCR 3
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OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	0.0	0.0	0	0	0	0
TRAVEL	57.0	28.0	0	0	0	0
CONTRACTUAL	12.0	6.0	0	0	0	0
SUPPLIES		0.0	0	0	0	0
EQUIPMENT	6.0	0.0	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	75.0	34.0	0	0	0	0

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

REVENUE FUND SOURCE	0	0	0	0	0	0
---------------------	---	---	---	---	---	---

FUNDING: (Thousands of Dollars)

GENERAL FUND	75.0	34.0	0	0	0	0
FEDERAL FUNDS						
OTHER FUND SOURCE						
TOTAL	75.0	34.0	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 impact: _____

ANALYSIS: (Attach a separate page if necessary)

It is anticipated that the Long Range Fiscal Planning Commission will begin work immediately. Staff costs and FY95 public member travel costs will be absorbed within existing legislative operating and session budgets. Travel costs for technical experts will be absorbed within their respective Department budgets.

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Division: Administrative Services Date: 1/25/95

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Continuation of SCR 3 Fiscal Note Page 2 of 2

Travel

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10 Hearings, one in each of the following communities - Anchorage, Fairbanks, Juneau, Bethel, Nome, Barrow, Wasilla, Kenai, Ketchikan, Sitka.

1 Commission Meeting

57.0

6 additional Hearings will be held by teleconference. The cost of teleconference meetings will be absorbed within the Legislative Affairs Agency budget.

Contractual

Phones	3.0
Postage	3.0
Advertising	6.0

12.0

12.0

Supplies, printing, and office space will be provided within existing budgets.

0.0

Equipment

Computer & Printer	6.0
--------------------	-----

6.0

75.0

9-LS0021NG
Bannister
1/30/95

CS FOR HOUSE CONCURRENT RESOLUTION NO. 1()
IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES Phillips, B.Davis, Green

A RESOLUTION

1 **Creating the Long Range Financial Planning Commission.**

2 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

3 **WHEREAS** state spending has exceeded recurring revenue to the state; and

4 **WHEREAS** the state must eliminate the fiscal gap; and

5 **WHEREAS** the state is currently forced to deal with an unpredictable and declining
6 revenue stream; and

7 **WHEREAS** the state must find a means of stabilizing revenue and expenditures at a
8 sustainable level; and

9 **WHEREAS** the state's system of budgeting and spending must be analyzed and
10 reevaluated by the legislature; and

11 **WHEREAS** the citizens of the state should have an opportunity to consider these
12 topics, offer comments, and participate in developing a long-range financial plan for the state;
13 and

14 **WHEREAS** it would be beneficial to the state and its citizens to implement a long-
15 range financial plan to promote economic stability by diversifying the state's economy and
16 lessening dependence on oil revenue;

1 **BE IT RESOLVED** that the Alaska State Legislature establishes the Long Range
2 Financial Planning Commission in order to develop and recommend to the governor and the
3 legislature a long-range financial plan for the state; and be it

4 **FURTHER RESOLVED** that the commission shall consist of the following voting
5 members:

6 (1) nine members of the public, not to include members of the legislative,
7 executive, or judicial branches, appointed by a committee composed of the Speaker of the
8 House of Representatives, the President of the Senate, and the Governor;

9 (2) two members of the House of Representatives appointed by the Speaker
10 of the House;

11 (3) two members of the Senate appointed by the President of the Senate; and

12 (4) two members of the executive branch appointed by the Governor; and be

13 it

14 **FURTHER RESOLVED** that the commission shall select a chair and vice-chair from
15 among the public members of the commission, shall meet as frequently as the commission
16 determines necessary to perform its work, may meet during the interim, and may meet and
17 vote by teleconference; and be it

18 **FURTHER RESOLVED** that the members of the commission shall serve without
19 compensation but are entitled to travel expenses and per diem as authorized under
20 AS 39.20.180 for boards and commissions; and be it

21 **FURTHER RESOLVED** that the commission may hire staff to carry out its duties;
22 and be it

23 **FURTHER RESOLVED** that the commission shall

24 (1) review and evaluate state fiscal policy and strategy recommendations and
25 assumptions from reports and publications from similar efforts in the past made by the
26 executive branch, the legislative branch, the University of Alaska, nonprofit organizations, and
27 private individuals and organizations;

28 (2) identify all current state income sources and evaluate assets, including
29 recurring revenue, reserves, physical resources, and investments;

30 (3) identify and prioritize systemic changes to stabilize the state's revenue

1 stream;

2 (4) identify and prioritize major reductions in state expenditures, to include
3 formula and nonformula programs, and to include proposed consolidation, transfer, or
4 elimination of governmental services or programs;

5 (5) evaluate forward funding of the budget;

6 (6) identify and prioritize new sources of revenue;

7 (7) project a sustainable long-range financial plan for the next three years, five
8 years, and 10 years, based on a stable revenue stream;

9 (8) evaluate constitutional, statutory, and regulatory language relating to the
10 budget process and recommend changes;

11 (9) consider the division of responsibility for providing services between the
12 state and local governments and evaluate the effect of the long-range financial plan on local
13 governments;

14 (10) submit a preliminary report to the Governor and the Legislature by
15 July 15, 1995;

16 (11) disseminate information and solicit public comment;

17 (12) submit a final report to the Governor and the Legislature by October 1,
18 1995, recommending a long-range financial plan for the state, including specific actions and
19 legislation needed to implement and monitor the plan; and be it

20 **FURTHER RESOLVED** that the commission is authorized to begin work immediately
21 upon the appointment of its full membership or March 15, 1995, whichever date is earlier, and
22 is terminated upon the convening of the Second Regular Session of the Nineteenth Alaska
23 State Legislature.

9-LS0021NF ✓

Bannister

1/28/95

CS FOR HOUSE CONCURRENT RESOLUTION NO. 1()

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES Phillips, B.Davis, Green

A RESOLUTION

1 Creating the Long Range Financial Planning Commission.

2 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 WHEREAS state spending has exceeded recurring revenue to the state; and

4 WHEREAS the state must eliminate the fiscal gap; and

5 WHEREAS the state is currently forced to deal with an unpredictable and declining
6 revenue stream; and

7 WHEREAS the state must find a means of stabilizing revenue and expenditures at a
8 sustainable level; and

9 WHEREAS the state's system of budgeting and spending must be analyzed and
10 reevaluated by the legislature; and

11 WHEREAS the citizens of the state should have an opportunity to consider these
12 topics, offer comments, and participate in developing a long-range financial plan for the state;
13 and

14 WHEREAS it would be beneficial to the state and its citizens to implement a long-
15 range financial plan;

16 BE IT RESOLVED that the Alaska State Legislature establishes the Long Range

1 Financial Planning Commission in order to develop and recommend to the governor and the
2 legislature a long-range financial plan for the state that includes specific actions needed within
3 the first three and five years to implement the plan; and be it

4 **FURTHER RESOLVED** that the commission shall consist of six members of the
5 public, which may include legislators, with three each appointed by the Speaker of the House
6 of Representatives and the President of the Senate, and seven members who are high-level
7 technical experts from the legislative and executive branches, jointly appointed by the Speaker
8 of the House and the President of the Senate, with one each from the Department of Revenue,
9 the Permanent Fund Corporation, the office of management and budget in the Office of the
10 Governor, the division of finance in the Department of Administration, the Department of
11 Natural Resources, the legislative finance division, and the legislative audit division; and be
12 it

13 **FURTHER RESOLVED** that the commission shall select a chair and vice-chair from
14 among the members of the commission, shall meet as frequently as the commission determines
15 necessary to perform its work, may meet during the interim, and may meet and vote by
16 teleconference; and be it

17 **FURTHER RESOLVED** that the members of the commission shall serve without
18 compensation but are entitled to travel expenses and per diem as authorized under
19 AS 39.20.180 for boards and commissions; and be it

20 **FURTHER RESOLVED** that the commission may hire staff to carry out its duties;
21 and be it

22 **FURTHER RESOLVED** that the commission shall

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

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

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

29 (4) if new taxes are recommended, investigate specific tax structures, review
30 the consequences of the structures, and prepare draft legislation to implement the

1 recommendations;

2 (5) disseminate information and solicit public input through hearings and other
3 means from the various regions of the state in the development and review of the proposed
4 financial plan;

5 (6) review state programs, especially formula driven programs, and recommend
6 reductions in state expenditures to reach a sustainable level;

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

9 (8) investigate implementing forward funding of the budget; and

10 (9) submit a written report containing the commission's recommended 10-year
11 financial plan to the legislature by February 15, 1996; and be it

12 **FURTHER RESOLVED** that the commission is authorized to begin work immediately
13 upon the appointment of its full membership and is terminated upon the convening of the First
14 Regular Session of the Twentieth Alaska State Legislature.

HOUSE CONCURRENT RESOLUTION NO. 1
IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - FIRST SESSION

BY REPRESENTATIVES PHILLIPS, B.Davis

Introduced: 1/16/95

Referred: Finance

A RESOLUTION

1 Creating the Long Range Financial Planning Commission.

2 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 WHEREAS state spending has exceeded recurring revenue to the state; and

4 WHEREAS the state must eliminate the fiscal gap; and

5 WHEREAS the state is currently forced to deal with an unpredictable and declining
6 revenue stream; and

Pannell - 7

7 WHEREAS the state must find a means of stabilizing revenue ^{and expenditure at a} a sustainable level, ^(and reducing expenditure to)
8 [in order to remove doubt and uncertainty regarding expenditures; and ^{which is impending economic growth.}] REMING

9 WHEREAS [income, expenditures, budget reductions, the future of the permanent fund,
10 land status, economic development, taxes, transition funds, loan programs, welfare programs,
11 housing programs, other state services, and similar items ^{the state symptom of budgeting: spending} are issues that must be analyzed and
12 reevaluated by the legislature; and

13 WHEREAS the citizens of the state should have an opportunity to consider these
14 topics [and] offer comment ^{and participate in [DRAFTING] IN} on a long-range financial plan for the state; and

15 WHEREAS it would be beneficial to the state and its citizens to ^{DEVELOPING} (establish) a long-range ^{implement}
16 plan, ^{stabilizes} that [organizes] the state's approach to handling its finances; ^{FINANCIAL FISCAL FINANCIAL}

17 BE IT RESOLVED that the Alaska State Legislature establishes the Long Range

Reduced

- 1 Financial Planning Commission in order to develop and recommend to the legislature a
2 10-year financial plan for the state that includes ^{mechanisms for implementing the plan} (goals) to be met by the end of the first three
3 and five years of the plan; and be it ^{to achieve those goals}

4 **FURTHER RESOLVED** that the commission shall consist of six members of the
5 public, which may include legislators, with three each appointed by the Speaker of the House
6 of Representatives and the President of the Senate, and seven members who are high-level
7 technical experts from the legislative and executive branches, jointly appointed by the Speaker
8 of the House and the President of the Senate, with one each from the Department of Revenue,
9 the Permanent Fund Corporation, the office of management and budget in the Office of the
10 Governor, the division of finance in the Department of Administration, the Department of
11 Natural Resources, the legislative finance division, and the legislative audit division; and be
12 it

13 **FURTHER RESOLVED** that the commission shall select a chair and vice-chair from
14 among the members of the commission, shall meet as frequently as the commission determines
15 necessary to perform its work, may meet during the interim, and may meet and vote by
16 teleconference; and be it

17 **FURTHER RESOLVED** that the members of the commission shall serve without
18 compensation but are entitled to travel expenses and per diem as authorized under
19 AS 39.20.180 for boards and commissions; and be it

20 **FURTHER RESOLVED** that the commission may hire staff to carry out its duties;
21 and be it

22 **FURTHER RESOLVED** that the commission shall

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

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

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

29 (4) if new taxes are recommended, investigate specific tax structures, review
30 the consequences of the structures, and prepare draft legislation to implement the
31 recommendations;

32 (5) disseminate information and solicit public input through hearings and other

1 means from the various regions of the state in the development and review of the proposed
2 financial plan;

3 (6) review state programs, especially formula driven programs, and recommend
4 reductions in state expenditures to reach a sustainable level;

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

7 (8) investigate implementing forward funding of the budget; and

8 (9) submit a written report containing the commission's recommended 10-year
9 financial plan to the legislature by February 15, 1996; and be it

10 **FURTHER RESOLVED** that the commission is authorized to begin work immediately
11 upon the appointment of its full membership and is terminated upon the convening of the First
12 Regular Session of the Twentieth Alaska State Legislature.

Pg 1 Unit 17
Pg 2 Unit 1

BE IT Resolved that
the Alaska State Legislature
establishes the Long Range
Financial Planning Commission
in order to develop and recommend
to the Governor and Legislature
a long-range financial plan
for the state that includes
specific actions needed ~~to~~
~~achieved~~ within the first three
and five years to implement
the plan;

Task Force on Governmental Roles

Final Report

by

Brad Pierce, Task Force Staff

July 10, 1992

This document was produced jointly by the Governor's Office of Management and Budget and the Alaska Municipal League.



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Task Force Members

Chair

Scott Burgess, Executive Director
Alaska Municipal League (AML)

Legislative Members

Senator Arliss Sturgulewski
Senator Steve Frank
Representative Ivan Ivan
Representative Ron Larson

Executive Branch Members

Shelby Stastny, Director, Governor's Office of Management and Budget (OMB)
Edgar Blatchford, Commissioner, Department of Community and Regional Affairs
(DCRA)

Municipal Members

Jerome Selby, Mayor, Kodiak Island Borough
Kevin Ritchie, City Manager, City and Borough of Juneau
Caleb Pungowiyi, City Manager, City of Kotzebue
Mark Begich, Assembly Member, Municipality of Anchorage
Lamar Cotten, Former Municipal Manager, Aleutians East Borough

Public Members

Lee Sharp, Palmer
Leo Rasmussen, Nome

Unincorporated Community Representative

Roseanne Timber, Alaska Federation of Natives

Staff assistance was provided by Sandra Wicks, Deputy Director, and Michael Cushing, Research Analyst IV, Division of Municipal and Regional Assistance, DCRA, and Chrystal Smith, Director of Member Services, AML.

I. EXECUTIVE SUMMARY

Principles Identified by the Task Force:

- The level of government that mandates a program or public service to be provided has the responsibility to fund it.
- The state has a responsibility to assist local governments in complying with federal mandates.
- The state also has a responsibility to act together with, or as an advocate for, local governments in blocking or modifying federal mandates that place unreasonable burdens on the state and its localities.
- In reducing the state operating budget, budget cuts that transfer costly basic service responsibilities to local governments should undergo a critical review.
- Wherever possible, state restrictions on local governments should be relaxed to provide maximum local choice.
- State policymakers should recognize that policies relating to public employees at the state level are not necessarily appropriate for public employees at the municipal level.
- Poverty-related services should be financed at the highest level of government possible because the poor are least able to pay for such services and the level of government with the broadest revenue base is in the best position to act as provider.
- General public health care is also most appropriately financed at the highest level of government possible where overall issues of availability, access and cost containment can best be addressed.
- The costs of environmental remediation are best funded at the highest level of government possible due to their potential magnitude and the possibility of externalities, i.e., more than one jurisdiction may be affected.

- The state is obligated to provide for basic health, education and public protection services for all citizens.
- All citizens should bear a fair portion of the cost for basic health, education and public protection services.
- There is a minimum level of basic public services that should be provided by the state—either delivered directly or funded with state revenues.
- Public services offered by any municipality above and beyond the minimum level of basic services guaranteed by the state should primarily depend on what local residents are willing and able to pay for.
- For reasons of efficiency and accountability, delivery of most public services should be maintained at the local level unless there is an important reason to do otherwise, regardless of which level of government provides funding.
- The administrative and fiscal capacity of individual municipalities to provide particular public services must be taken into account when sorting out state-local responsibilities.
- The state should investigate alternative mechanisms for efficient basic service delivery in the unorganized borough(s).
- The state needs to develop a policy for determining the appropriate technology and scale of public works projects in smaller rural communities and a program to provide for long-term maintenance requirements.
- The state has an ongoing responsibility to encourage organization of boroughs in the unorganized areas of the state.
- Unification of borough and city administrations should be encouraged wherever possible to provide for more efficient and cost-effective service delivery.
- The state with its superior tax base and taxing powers has a responsibility to ensure that local governments have sufficient fiscal capacity to carry out their duties.

- Existing programs that provide aid to local governments should be examined to determine why they were created and whether those reasons are still valid.
- Formulas for distributing state aid should take into account each locality's population, wealth and local revenue generating efforts, while remaining flexible enough to allow for unique circumstances.
- The state should examine its tax and fee structure to determine whether additional taxes and fees should be required to fund state programs.
- The state should encourage localities (through technical assistance and removal of restraints) to tap new tax and fee sources and to diversify their revenue bases.
- State programs that provide payments to individuals, benefits to special classes of citizens or subsidies to specific industries or that intervene in private markets need to be reevaluated in light of a projected state revenue decline.
- A needs test should be applied to state programs that benefit special interest groups of citizens.

Task Force Recommendations on Specific Issues

Mandates

Policymakers should adopt a policy of deliberate restraint with respect to enacting mandates on local governments. The legislature should closely monitor Department of Community and Regional Affairs fiscal notes on legislation that affects municipalities and make a firm commitment to use the estimates in its deliberations.

Public Protection Services

Provision of local police, prosecution and jail services calls for a comprehensive solution. The state is not likely to be successful in mandating the level of public protection services that local governments must provide. An incentive approach, where the state provides funding based on the number of police or criminal caseload is likely to be a more effective means of getting municipalities to assume greater public protection responsibilities. The Department of Public Safety should adopt a much tougher policy line on municipalities

that refuse to pay for local police services or prosecute criminals. Title 29 should be changed to allow the assemblies of unified municipalities and home rule boroughs to establish service areas for police protection, notwithstanding charter restrictions. Contract jails are a state responsibility. A working group of state and local officials should be established to determine reasonable costs for contract jail facilities.

Transportation

State transportation policy must address both revenue and responsibility issues. Some form of shared fuel taxes would be the preferred funding alternative for local takeover of maintenance responsibilities on state roads. The working group process, advocated in the State Transportation Plan, offers a reasonable alternative for sorting through the myriad of localized issues on an individual road and maintenance district basis. Each municipality should enter into a contract with DOT/PF to ensure that state roads are brought up to standard before assuming maintenance responsibilities.

Senior Citizen / Disabled Veteran Property Tax Exemption

The Senior Citizen / Disabled Veteran Property Tax Exemption is a classic example of a seriously underfunded state mandate on municipalities that should either be changed into a direct state rebate program or made a local option.

Municipal Assistance and Revenue Sharing

The legislature should consider combining the Revenue Sharing and Municipal Assistance Programs into a single distribution formula that rewards municipalities for local revenue generation and compensates them for population increases.

State Tax Policies

The Task Force examined two statewide tax alternatives, a personal income tax and general sales tax, without making recommendations on either. It also studied the relative tax burden of households in Alaska compared to the national average. Members felt that the information collected was important enough to publish in the Final Report (see Section VI and Appendices 1 and 2) for review by future work groups and task forces involved in fiscal policy development or weighing various revenue alternatives.

II. INTRODUCTION

A. HCR 17

The Task Force on Governmental Roles was established by a concurrent resolution of the 1991 Legislature (the complete citation is SCS CS HCR 17) at the request of the Alaska Municipal League (AML) to sort out federal, state and local roles in providing public services. The Task Force was charged with making recommendations to the governor and legislature on:

- 1) the appropriate public services to be provided by each level of government,
- 2) the minimal level of services, and
- 3) the most efficient means of funding public services.

The Task Force was also charged with publishing, by June 30, 1992, a report containing recommendations "that ensure budget reductions are shared equitably between the state and municipal governments." At that time, the Task Force terminated.

The resolution specified that the Task Force be composed of four legislators, two executive branch policymakers, four municipal officials, two public members and one representative of the unorganized areas of the state. The Task Force was originally funded by the legislature for a year with a \$160,000 appropriation but Governor Hickel vetoed the fiscal note. The Governor's Office provided travel funds for the public members and the unincorporated community representative. Travel by legislators, agency representatives and municipal members was funded by their respective organizations. OMB and AML shared the cost of publishing the Final Report.

The impetus behind the formation of the Task Force is the specter of declining state petroleum revenues in the 1990s. About 85 percent of Alaska's state revenues come from petroleum production. Oil revenues fueled massive public spending on infrastructure and government operations during the past 15 years. Today state spending accounts for nearly one-third of all jobs in the economy and 30 percent of all personal income. Nearly half of local government jobs and 41 percent of local revenues come from state funded programs.

As state petroleum revenues have declined since the mid-1980s, problems in state-local service delivery responsibilities have emerged. It has become increasingly obvious to policymakers that the complicated web of overlapping state and local service responsibilities funded with oil revenues is not sustainable and begs for rationalization. Most knowledgeable observers of Alaska's fiscal situation believe that in the near future it will be necessary to devolve responsibility to municipal governments for many public services that are now either provided directly by the state or funded with state revenues. At the same time that the state and local governments must come to terms with lower oil revenues, the federal government is adding substantial public service costs through unfunded or partially funded mandates. The state and its municipalities need a cooperative approach to deal with the impacts of federal mandates.

The state has several task forces working concurrently on major issues such as education funding, health care and sanitation needs. An Efficiency Review Task Force has spent the past year examining the operations of the various state departments and will issue a report outlining ways that the state can save money. The Governor also intends to appoint an organizational review team in the near future charged with streamlining the structure of state government and another task force to examine alternative means of generating state revenues. Thus the proceedings of this Task Force can be viewed as one small step in a much larger process of coming to terms with the state's fiscal situation while transforming intergovernmental relations to meet changing public service requirements for the 1990s and beyond.

B. Methodology

The Task Force met a total of eight times. The first priority was for staff to conduct a search of the national literature on intergovernmental relations. A statewide survey of municipal officials and community leaders was conducted to inventory how public services are presently delivered and funded. Respondents were also asked to identify specific issues of friction between local officials and the state and federal governments. A major data collection and comment effort centered around the AML Local Government Conference in Fairbanks in November 1991. Staff disseminated information on the activities of the Task Force and surveyed municipal leaders in attendance.

The Local Government Conference featured three hearings before a panel of Task Force members. Speakers testifying from national organizations included Don Borut, Executive Director of the National League of Cities (NLC), Bruce McDowell from the U.S.

Advisory Commission on Intergovernmental Relations (ACIR), and Scott Mackey of the National Conference of State Legislatures (NCSL). All made presentations on intergovernmental relations from a national perspective and discussed what other states are doing to cope with federal mandates and other intergovernmental responsibility issues. According to Mr. Borut, the Governmental Roles Task Force effort puts Alaska on the cutting edge of state-local relations reform.

Addressing the hearings from an Alaskan perspective was Superior Court Judge (retired) Thomas Stewart, who was Secretary to the Alaska Constitutional Convention at the time of statehood. Judge Stewart made one of the more provocative statements to the panel when he said that constitutional delegates clearly intended that the legislature form an unorganized borough(s), act as the assembly for unorganized areas, and levy local taxes to pay for services (e.g., education).¹

Representatives from the Departments of Education, Environmental Conservation, Health and Social Services, Transportation and Public Facilities and Public Safety presented case studies to the panel on existing state-local relationships in providing education, environmental, health, transportation and public protection services.

Following the AML Conference, the Task Force spent considerable time going through a list of existing categories of public services developed in the course of surveying local officials and discussing how they are presently delivered and funded as opposed to what members considered an ideal breakdown of responsibilities. Task Force members also discussed at length the state governments' constitutional responsibility for providing a minimal level of services to all citizens and each individual's obligation to pay for public services. These discussions were distilled down to a list of underlying principles to be applied in determining appropriate roles for each of the respective levels of government.

The Task Force then applied these principles to some specific issue areas, which are discussed in the recommendations section of this report. A number of intergovernmental issues were not addressed (e.g., education, health issues) either because of time and resource constraints placed on the Task Force by the Legislature and Governor or because some other deliberative body had already been specifically appointed to deal with the problem. The principles and issue areas discussed by the Task Force form the core of this report.

C. Appendices

During the course of Task Force proceedings, staff generated a good deal of written information for study by the members. Selected graphs, tables and written materials are presented in a series of Appendices to this report.

Appendix 1 contains an analysis of the state and local tax burden on households in Alaska compared to other states. Appendix 2 is a list of nontraditional programs that are either unique to Alaska or funded to an extraordinary degree with state general funds. Appendix 3 contains a description of the various classes of municipalities in the state, their powers and duties. Appendix 4 is a timeline depicting the history of local government organization. Appendix 5 is an assessment of the recent financial history of local governments statewide. Appendix 6 contains a copy of HCR 17, the enabling legislation establishing the Governmental Roles Task Force.

III. FINDINGS

Underlying Principles for Determining Appropriate Roles

Task Force members reached consensus on a list of clarifying principles to be applied when addressing specific public service responsibility issues. These principles are grouped into four major categories and presented in the bullet statements below along with a brief explanation of the reasoning Task Members used in identifying them.

A. State and Federal Mandates to Municipalities

A major source of intergovernmental friction in recent years has been unfunded or partially funded municipal mandates. Research has shown state mandates to local governments in Alaska to be less of a burden than in other states, partly due to the relative newness of the state-local system and also because requirements of municipalities in statute are most often stated as conditions of aid rather than mandates. From the answers to a survey of municipal officials conducted by Task Force staff, the major issues of conflict between the state and municipalities over public service responsibilities (e.g., areawide police or third class roads) appear to be matters of state policy or regulation rather than law.

Nevertheless, there is no doubt that the cost of complying with state and federal mandates is consuming an ever-increasing portion of municipal funds. These costs are sure to increase as state revenues decline in the future. Task Force members believe that state decisionmakers should adopt a policy of "deliberate restraint" in enacting mandates on local governments. Policymakers at both the federal and state levels should be guided by a simple principle:

•The level of government that mandates a program or public service to be provided has the responsibility to fund it.

Federal mandates for generally accepted goals such as clean air and water or handicapped access for persons with disabilities are meant to apply universally to all citizens. Because of the enormous diversity in the economic development of communities within the state and the disparity in their population, tax bases and administrative sophistication, the Task Force believes that state government has dual obligations with respect to federal mandates on municipalities:

•The state has a responsibility to assist local governments in complying with federal mandates.

•The state also has a responsibility to act together with, or as an advocate for, local governments in blocking or modifying federal mandates that place unreasonable burdens on the state and its localities.

State assistance may take the form of funding, administration or technical assistance as appropriate. Alaska's current efforts to gain general wetlands permitting authority is a good example of constructive state intervention between the federal government and municipalities.

State and local governments nationwide have become painfully familiar with "fend for yourself federalism," in which cooperation is defined as the Congress passing laws and states and municipalities implementing and paying for them. The Task Force position is that as state petroleum revenues decline, state government in Alaska cannot afford to emulate the fiscal irresponsibility of the federal government by simply passing off public service responsibilities to the local level. The Task Force proposes that the administration and legislature consult regularly with municipal officials in their fiscal planning. Specifically:

•In reducing the state operating budget, budget cuts that transfer costly basic service responsibilities to local governments should undergo a critical review.

In its deliberations, the Task Force realized that state lawmakers and municipal officials represent the same constituencies. State and local governments are locked together in a system that requires them to interact constantly. In Alaska, municipalities are agents of the "owner state." Municipalities are not just another special interest group since they do not seek personal gain, but rather the funding of public services.

Whether a service is provided by the state or a municipality, it must be funded from the available pool of public revenue resources. Most municipal officials would agree that as state revenues decline it will be necessary for local governments to become more self-reliant in providing for public services. Lawmakers can help by removing mandatory tax exemptions and other impediments to local revenue generation in state statutes:

•Wherever possible, state restrictions on local governments should be relaxed to provide maximum local choice.

The legislature can also refrain from imposing costs on municipalities via increases in public employee benefits. Local councils and assemblies need to be able to maintain control over their personnel costs, which comprise the major portion of local government expenditures.

•State policymakers should recognize that policies relating to public employees at the state level are not necessarily appropriate for public employees at the municipal level.

B. Federal/ State/Local Responsibilities in Service Delivery

In sorting out which level of government should be responsible for providing various public services, the Task Force attempted to separate funding questions from actual service delivery issues. This is because in many cases it is more efficient for a higher level of government to collect revenues and redistribute them to a lower level where the actual service is provided and resource allocation decisions are best made. The Task Force also attempted to focus on what the appropriate roles of the various levels of government should be in the future regardless of the current division of responsibilities, which is the result of a decade and a half of oil wealth.

Three general principles are recognized in the national literature on appropriate governmental roles:

•Poverty-related services should be financed at the highest level of government possible because the poor are least able to pay for such services and the level of government with the broadest revenue base is in the best position to act as provider.

•General public health care is also most appropriately financed at the highest level of government possible where overall issues of availability, access and cost containment can best be addressed.

•The costs of environmental remediation are best funded at the highest level of government possible due to their potential magnitude and the possibility of externalities, i.e., more than one jurisdiction may be affected.

The Task Force grappled with the issue of "What is the minimum level of public service

that is constitutionally guaranteed by the state?" This naturally led to a discussion of the individual citizen's responsibility to pay for services. While the members were unable to arrive at a precise definition of the minimum level of service or each individual's obligation to pay, there was general agreement on two fundamental principles:

- ***The state is obligated to provide for basic health, education and public protection services for all citizens.***
- ***All citizens should bear a fair portion of the cost for basic health, education and public protection services.***

The idea that citizens should only have as many local government services as they want permeates discussions of appropriate state-local roles. The Task Force recognized that there is a definite point in the spectrum of public service provision where the state's responsibility ends and local choice takes precedence. Three interrelated principles can be applied:

- ***There is a minimum level of basic public services that should be provided by the state -- either delivered directly or funded with state revenues.***
- ***Public services offered by any municipality above and beyond the minimum level of basic services guaranteed by the state should primarily depend on what local residents are willing and able to pay for.***
- ***For reasons of efficiency and accountability, delivery of most public services should be maintained at the local level unless there is an important reason to do otherwise, regardless of which level of government provides funding.***

Given the diversity of communities in the state, it is difficult to impose sweeping general principles without taking into account local conditions. The Task Force recognized that:

- ***The administrative and fiscal capacity of individual municipalities to provide particular public services must be taken into account when sorting out state-local responsibilities.***

Alaska is unique in that a majority (62 percent) of the state's geographical area containing 15 percent of the population remains outside of any areawide government jurisdiction; an

area known as the unorganized borough.² DCRA recognizes about 125 unincorporated settlements. Most are governed by traditional Native tribal councils, federally chartered Indian Reorganization Act (IRA) councils or non-Native community associations. Some have no discernable government. A Native sovereignty movement is developing in much of rural Alaska as residents seek to exercise greater control over the rate of social change and acculturation in their communities.

The Task Force position is that existing classes of municipal governments are adequate to provide local governance and choice, while protecting citizens rights to due process. However, the Task Force recognized that issues of state vs. local responsibility in unorganized areas of the state are fundamentally different from those in organized areas and will require innovative solutions.

•The state should investigate alternative mechanisms for efficient basic service delivery in the unorganized borough.

Task Force members discussed at length the issue of how much the state is obligated to spend in small remote communities to provide basic infrastructure. There was agreement that state investments in water, sewer and other basic infrastructure projects should be subjected to some form of objective scrutiny. To the extent possible, public works projects in rural communities should be maintained locally.

•The state needs to develop a policy for determining the appropriate technology and scale of public works projects in smaller rural communities and a program to provide for long-term maintenance requirements.

State investments in rural communities should be protected by a comprehensive maintenance program. It is particularly important to train local residents to perform routine maintenance. Other innovative solutions might involve circuit rider-type technical assistance and a revolving loan fund to help pay for major maintenance expenses.

C. Organizational Issues

Key to any rationalization of state and local roles in providing public services is an efficient local delivery system. Compared to other states with their traditional scheme of counties and cities, development of local government institutions in Alaska after just 33

years of statehood is still in its infancy. Task Force members spent a good deal of time discussing the evolution of the local government organizational scheme envisioned in the state constitution. The tension between the constitutional intent that the state become completely organized into boroughs and the strongly held notion that citizens should only have as much local government as they desire was a dominant theme in Task Force deliberations.

There was general agreement that the state constitution provides for 1) maximum self-government with a minimum number of taxing units and 2) presumption of municipal power (i.e., municipalities may assume any powers not explicitly denied to them in state law) and that only limited classes of cities and boroughs (see Appendix 3) are recognized as local governments under state law.

Task Force members stopped short of endorsing mandatory borough formation legislation but agreed that continued formation of additional borough governments should be a primary state policy goal.

•The state has an ongoing role to encourage organization of boroughs in the unorganized areas of the state.

The Task Force recognized that there are large portions of the state that lack the regional resource base to support a borough government. However, there are also a number of areas that have the resource base but are not inclined to organize. Beginning with the establishment of Rural Education Attendance Areas (REAs), which removed a powerful incentive for borough formation in rural areas—local control of schools, the state has systematically reduced the attractiveness of areawide government to citizens of the unorganized borough. In fact, recent actions by the legislature to share National Forest receipts and Fisheries Business Tax receipts with communities in the unorganized borough have removed nearly all of the few remaining incentives to organize boroughs.

Experience has shown establishment of boroughs to be primarily a function of the economic self-interest of residents. While local control is an incentive, it is generally outweighed by residents' aversion to paying local taxes for services (e.g., education in Rural Education Attendance Areas) that are currently provided by the state at no cost. The Task Force position is that the inequity in tax burden between residents of municipalities and residents of the unorganized borough is better addressed via state fiscal policies (taxes, shared revenue programs, education foundation funding and municipal grants) than by imposing areawide government on people who do not want it.

Another main organizational thrust embodied in the state constitution is to develop a streamlined system of local government. There are four available means of unification. The first is conventional unification. Juneau, Sitka and Anchorage chose to unify and Fairbanks and Ketchikan have both considered and rejected this approach. The second is a merger in which one or more municipalities merge into an existing municipality with the latter becoming the surviving municipality. The third is consolidation, where one or more municipalities consolidate into a new unit of government with all of the former units disappearing. This is the method that was looked at by the City of Kodiak and Kodiak Island Borough and is currently being explored by the Ketchikan Gateway Borough and the City of Ketchikan. The fourth method involves cities within a borough dissolving under the procedures set out in Title 29 whereby the borough succeeds to the responsibilities of the dissolved cities. This is currently being examined by the Northwest Arctic Borough. The Task Force endorses all of these methods.

•Unification of borough and city administrations should be encouraged wherever possible to provide for more efficient and cost-effective service delivery.

D. State Revenues and Expenditures

Discussion of state-local responsibilities generally comes back to funding issues. When compared to other states, Alaska provides an extraordinary amount of financial assistance to local governments, both in terms of direct funding and by delivering services that have traditionally been considered local responsibilities in other parts of the country. The Alaska constitution envisions a strong state role in the funding of local government services, which the Task Force generally endorses.

•The state with its superior tax base and taxing powers has a responsibility to ensure that local governments have sufficient fiscal capacity to carry out their duties.

The formulas employed by the major state aid programs to municipalities, unorganized communities and school districts (Municipal Assistance, Revenue Sharing and Educational Foundation Funding) are the products of hard-fought political compromises. State policymakers are naturally loathe to change these formulas or upset the political status quo because the result will be winners and losers among municipalities. Municipal officials are suspicious of changes to aid programs that do not contain some funding level guarantee, i.e., that can simply be underfunded by the legislature. However, fiscal reality

dictates that the state can only guarantee a minimal level of municipal funding. Looking into the future it would be prudent for state government to modify its formula and pass-through programs to provide incentives for communities to become more self-reliant.

•Existing programs that provide aid to local governments should be examined to determine why they were created and whether those reasons are still valid.

•Formulas for distributing state aid should take into account each locality's population, wealth and local revenue generating efforts, while remaining flexible enough to allow for unique circumstances.

Appendix 1 contains an analysis of Alaska's state and local tax burden compared to the national average. By any measure, citizens of all communities in the state enjoy a privileged tax position, since most households receive more in direct payments from the state (Permanent Fund dividends, Longevity Bonus payments, etc.) than they pay in state and local taxes. Additionally, residents receive nearly \$16,000 per household in state services plus whatever public services are provided at the local level. In the future, the state won't have the ability to be so generous and residents will inevitably have to tax themselves if they wish to have a level of service comparable to what they now receive essentially for free.

•The state should examine its tax and fee structure and determine whether additional taxes and fees should be required to fund state programs.

Task Force members endorse the "user pays" approach to excise taxes. As a first step, the state might look at increasing taxes that are shared with municipalities (i.e., Amusement and Gaming Tax, Aviation Fuel Tax, Electric and Telephone Cooperative Tax, Liquor License Tax and Fisheries Business Tax) up to at least national average rates. The Task Force endorses the increases in motor fuels tax and motor vehicle registration fees proposed in the State Transportation Plan. The proceeds from these increases should be used to fully fund the road maintenance portion of the state's Revenue Sharing program.

The Task Force recognizes that in order to provide stability through inevitable economic cycles, it is very important for local communities to diversify their revenue bases. Additionally, the Task Force recommends that locally imposed property tax caps be removed. Self-imposed tax limitations should be considered irrelevant by state policymakers when making decisions on aid to local governments.³

•The state should encourage municipalities (through technical assistance and removal of restraints) to tap new tax and fee sources and to diversify their revenue bases.

Alaska funds numerous programs that other states do not. Appendix 2 contains a list of nontraditional programs and the amount the state currently spends on each. Municipal officials on the Task Force question the wisdom of funding many of these nontraditional programs, particularly those that benefit individuals regardless of need, while cutting back on aid to local governments which provide more traditional services to the general public. They point out that state's generosity to special interest groups has the effect of indirectly raising local taxes. The Task Force position is that it is time to reorder the state's funding priorities toward traditional public service provision.

•State programs that provide payments to individuals, benefits to special classes of citizens or subsidies to specific industries or that intervene in private markets need to be reevaluated in light of a projected state revenue decline.

Currently, state programs to aid special classes of people have very loose or nonexistent eligibility criteria. The Task Force position is that eligibility requirements for these programs need to be tightened to increase their efficiency in reaching targeted individuals.

•A needs test should be applied to state programs that benefit special interest groups of citizens.

IV. RECOMMENDATIONS

Task Force Principles Applied to Specific Intergovernmental Issues

The primary job of the Task Force was to decide what is reasonable for one level of government to expect of another. The "what is reasonable test" must take into account the great diversity of municipalities in the state and the enormous disparity in their wealth. It is necessary to examine the situation that currently exists and decide what it should be, based on an understanding of traditional state-local roles and making allowances for the state's unique organizational features. The Task Force applied the principles cited previously to the following issue areas: mandates, police protection, local prosecution, jails, transportation, Senior Citizen/Disabled Veteran Property Tax Exemption, Revenue Sharing and Municipal Assistance. These issue areas were chosen because Task Force members felt them to be high priority concerns and that were not being studied by some other working group. Task Force members also studied two statewide tax alternatives, the personal income tax and general sales tax, which are discussed in this report without recommendations.

In many of the issue areas discussed below, the Hickel administration is either in the process of developing a policy position or legislation has been offered to address specific intergovernmental problems. In a few instances, articulation of Hickel administration policy has come about as a direct result of HCR 17 and subsequent Task Force activities. Each issue is described briefly and Task Force observations and recommendations are presented in boldface type at the end of each section.

A. Mandates

The U.S. Advisory Commission on Intergovernmental Relations (ACIR) defines mandates as "legal requirements, constitutional provisions, statutory provisions or administrative regulations that a local government undertake a specific activity or provide a service meeting minimum standards."⁴ Federal and state mandates constrain local decision making by requiring municipalities to substitute national or state priorities for local concerns. Mandates (federal or state) usually address a legitimate need or problem. However, unless accompanied by adequate funding they can be extremely burdensome for local governments. For example, the Municipality of Anchorage estimates that federal and state mandates cost the city \$13.2 million in FY 91.

The Alaska Municipal League recently examined 2,162 bills introduced during the past four years in the 16th and 17th Legislatures to see how many placed mandates on local governments. Of the 463 bills (non duplicated) introduced that affected municipalities in some way, 86 passed including 23 that placed mandates on municipalities. Of these, 11 were related to federal mandates.⁵ As in the rest of the country, mandates are of increasing concern to local officials in Alaska.

At the federal level, President Bush promised in his 1992 State of the Union address that he would not allow any additional federal mandates without funding while he remained in office. However, a recent compilation of pending legislation counted 121 bills in Congress that placed some form of mandate on state or local governments.⁶ Whether or not the President is able to keep his promise remains to be seen. In the meantime, the National Conference of State Legislatures and National League of Cities provide federal mandate watch services and a focal point for expressing states' and local governments' interests to the federal government.

While acknowledging the serious problem of federal mandates on local governments and establishing the principle that the state should intervene on their behalf whenever possible, the Task Force has chosen to focus primarily on state mandates over which the state has control. Experience has shown that it is only when federal mandates (e.g., wetlands permitting) become intolerable to a large segment of the population does the combined volume of state and local outrage cause a change in federal policy.

The main result of the recent national focus on the cost to municipalities of complying with state and federal mandates has been legislation placing limits on state mandating authority. Currently 28 states require fiscal notes on bills placing mandates on local governments and 14 have reimbursement requirements. Three states—Florida, New Hampshire and Louisiana have constitutional amendments requiring reimbursement for state mandates on localities.⁷ Various analyses of these measures have shown them to be more or less effective. In practice, reimbursement bills and fiscal notes have proven to be relatively easy to circumvent. The Alaska Legislature passed a version of municipal fiscal note legislation, SB 301, during the recently completed 1992 legislative session. Under the provisions of this bill, DCRA is charged with producing fiscal notes for legislation affecting municipalities.

TASK FORCE RECOMMENDATION

Since the state and local governments are necessarily partners in providing public services, it follows that the state has an obligation to take into account any financial impact that new laws may have on municipalities. The Task Force recommends that the legislature closely monitor fiscal notes produced by the Department of Community and Regional Affairs under the provisions of (SB 301) to ensure that staff produce credible estimates. Further, the legislature should make a firm commitment to use the estimates in its deliberations.

In recognition of the fact that in the future it will be necessary for local governments to take on additional funding responsibilities for services that are now either provided directly or funded by the state, the Task Force stopped short of a blanket endorsement of reimbursement legislation. Instead the Task Force approved the philosophical principle cited previously that the level of government mandating a particular program or service has the responsibility to fund it.

B. Police, Prosecution and Jails

Provision of local police services, prosecution of misdemeanor crimes and maintaining local jails are all facets of basic public protection. Traditionally these functions have been viewed as community responsibilities—simply part of living in a civilized settled society. The Task Force recognizes that the state is obligated to provide a minimal level of public protection services to all citizens, but beyond that public protection is primarily a local responsibility. The state makes allowances for communities that do not have the resources to provide local public safety services. The Village Public Safety Officer (VPSO) program was specifically designed for this purpose. The state provides prosecution and legal defense services and maintains jails or provides for custody of prisoners charged under state laws.

Conflicts between the state and local governments have occurred when the Departments of Public Safety or Law have determined that communities are capable of supporting public protection with local resources and the state has sought to pass on those costs to the local governments. There is no requirement in state law that municipalities have ordinances to provide public protection services in place when they incorporate, nor that they continue such services. Several communities in Alaska have refused to accept public protection responsibilities because of budget cutbacks or the lack of political will to vote for local taxes. In a few instances, municipalities are looking for ways to pass

responsibility for public protection services back to the state instead of providing inadequate service and leaving the local government open to lawsuits and other liabilities.

State law does not presently address these issues. There is no set criteria that says a community of a certain size or wealth should provide a given array of services. Alaska law endorses the home rule doctrine, which says that residents should be able to choose the powers and duties of their municipal government. However, this does not mean that residents of a community are free to do so at the expense of others. Even though residents of the state pay little or nothing in state taxes, everyone bears an opportunity cost when the state pays for or provides a service that is more properly a local responsibility.

Ultimately the state cannot legislate individual responsibility to pay for government services if voters refuse to tax themselves for something as basic as public protection.

1. Police

At present there is no requirement in state law that communities of a certain class or size provide areawide local police service. Residents of the Hillside service area of Anchorage and the City of Wasilla have repeatedly declined to pay for local police services, leaving protection to the state troopers at the expense of the state. The City and Borough of Juneau does not provide areawide police service, but unlike the Municipality of Anchorage, its municipal charter does not require voter approval to extend police protection to new service areas. (Such an extension is, in fact likely to occur within the next few years). In 1991 the Fairbanks city council considered dropping its local police service due to budget constraints.

The administration of Governor Hickel proposed legislation (HB 350) in the 17th Legislature that would require home rule or general law cities, or a unified municipalities of 2,000 population or greater to provide areawide police protection. It would not apply to a city within a borough that provides areawide police service. Thus the cities in the North Slope Borough would not have to provide their own police service.

The Task Force has recognized that municipalities have a responsibility for the provision of police services. However, the state has no rational standard against which to measure the adequacy of local police service. Local police are responsible for enforcing both local ordinances and state laws within their jurisdiction. The state troopers' role is to provide a basic level of public protection in unorganized

areas of the state, patrol most state roads, enforce state laws, provide backup to local police on major crimes and provide training for local police and crime lab support. Village Public Safety Officers (VPSOs) are an extension of the state troopers in small rural communities without the tax base to support local police.

2. Prosecution

Recently, the Fairbanks City Council voted to repeal the city's criminal code, thereby increasing the state Department of Law misdemeanor case load in Fairbanks by about 40%. There is no requirement in state law that municipalities provide for local prosecution of misdemeanors. If the Fairbanks police department were to fill its vacant positions (currently 1/3 of authorized positions are vacant) and be at full strength to arrest violators, the staff of the Department of Law (DOL) would be severely overloaded with complaints and would have to forego prosecution of whole classes of misdemeanors. Anchorage has threatened to repeal its criminal code as well if the state closes the Anchorage Pretrial Facility due to budget reductions. Many other municipalities either have no local criminal code or routinely charge offenders under state law to avoid prosecution costs.

The Hickel administration proposed legislation (HB 551) in the 17th Legislature that would have required home rule or general law cities and unified municipalities of over 10,000 population to provide areawide prosecution services, including incarceration and related offender transportation costs for certain classes of crimes. Municipalities that did not provide these services would have their Municipal Assistance withheld in an amount that the DOL determined the state had to pay to provide local prosecution services. Applicable offenses included:

- Title 4 "alcoholic beverages" (includes misdemeanor crimes prohibiting minors from consuming alcohol, serving intoxicated persons, and selling liquor without a license).
- Title 11 "criminal law" (prohibits assaults, disorderly conduct, harassment, theft, property damage, criminal trespass, gambling, prostitution, weapons offenses and many other criminal offenses).
- AS 14.13.010 and .020 "compulsory school attendance" (truancy).

- Title 28 "motor vehicle" (prohibits drunk driving, reckless driving, driving without a license and driving with a suspended license, among other licensing and driving violations).

These violations are generally considered traditional local concerns. Nearly every other title in the state statutes contains misdemeanor offenses that are more properly state concerns or that local prosecutors may not have the staffing to handle. For example, Title 15 regulates elections and Title 16 (and regulations in 5 AAC) govern fish and game offenses. Other titles that relate to broader state interests include: Title 17 "food and drugs," Title 18 "health and safety," Title 23 "labor and workers' compensation," Title 42 "public utilities and carriers," Title 45 "trade and commerce" and Title 46 "environmental conservation."

Cities located within boroughs that provide borough wide prosecution services would have been exempted under the terms of the bill.

The Task Force position on this issue is that local governments should be responsible for prosecuting local ordinance violations and certain classes of misdemeanors and the state should be responsible for prosecuting felonies and other violations of state law.

3. Jails

Title 33 requires that correctional facilities be maintained for persons charged with crimes under state laws, but there is no legal requirement for communities to maintain jails. Under current state law (AS 33.30.071-.081), the Department of Public Safety (DPS) may enter into agreements with a public or private agency to provide suitable confinement facilities if state facilities are unavailable. The state presently finances 18 contract jails to hold pretrial detainees and short-term prisoners charged under state law in rural areas that are remote from state correctional facilities. The DPS also has 78 temporary holding cell agreements with communities where the state hires a guard on an hourly basis and pays for prisoners' food. The rationale behind these programs is that it is less expensive and more efficient to pay local governments to hold prisoners than for the state to provide jails or transportation to and from state facilities.

Disputes have arisen between the department and municipalities over the amount that the state should pay for use of these facilities and related costs for insurance.

medical treatment and prisoner transportation. The department believes it is currently paying for costs which are not directly related to operating and maintaining jails. An October 1991 Office of Management and Budget audit confirmed that the contract jail program lacks accountability.⁸ In recent years, Kodiak, Cordova, Dillingham, Unalaska and Kotzebue have threatened to close their facilities if they did not receive more funding. Finally, there are varying opinions about how much the state should pay for providing local incarceration ranging from Sitka, which provides 18 percent local funding of its contract jail, to Kodiak, which believes it should receive a 10 percent administrative fee for having a contract jail.

Legislation proposed by the Hickel administration during the 17th Legislature, (SB 221) would have required all boroughs with no state pretrial facilities and cities with populations of more than 1,000 that are located 50 miles or more from a state pretrial facility to provide for the care and custody of prisoners charged under state law. The bill would have applied to home rule and general law municipalities. Under provisions of the bill, the Commissioner of Public Safety would have been authorized to reimburse the contracting municipality for reasonable costs, but there would have been no guarantee of funding for such reimbursement. Municipal officials fear that this approach could potentially result in another unfunded or underfunded mandate on municipalities.

The basic Task Force position on this issue is that contract jails are a state responsibility.

TASK FORCE RECOMMENDATIONS

Because they are all aspects of basic public protection, a comprehensive solution is required for the challenges of providing police, prosecution and jail services. The Task Force position is that the initiatives embodied in HB 350 (mandating areawide police), HB 551 (local prosecution) and SB 221 (custody and care of prisoners) appear piecemeal and aimed at specific problems in the Hillside, Wasilla, Fairbanks and communities with contract jails. The population thresholds in these bills do not relate to any recognized model of what services various classes and sizes of municipalities are capable of providing. These measures failed to pass during the 17th Legislature because of municipal opposition and any future legislation mandating the level of public protection services that municipalities must provide is very likely to suffer a similar fate.

An ultimate state policy goal should be to maintain local choice without imposing unnecessary costs on the state. To this end the Task Force advocates that the administration adopt a much tougher policy line with municipalities that refuse to pay for basic public protection services. For example, the Department of Public Safety could guarantee a minimum level of trooper response, similar to that in unincorporated areas, but require a contractual arrangement with local authorities covering complete costs for state troopers to provide any higher level of response to a particular service area.

To encourage and facilitate the implementation of police protection and to generate economies of scale, the Task Force advocates a change in Title 29 to permit the assemblies of unified municipalities and home rule boroughs to establish service areas for police protection, notwithstanding charter provisions that place restrictions on the service area formation process. Authority to form service areas for police protection should also be given to general law boroughs. This would resolve the Hillside problem and prevent similar situations in other municipalities.

The state must prosecute offenses charged under state laws. The Task Force position is that areawide police and prosecution services should apply to all classes of municipalities to encourage unified delivery. If the City and Borough of Juneau with a population of 28,965 provides prosecution services, then why not Kenai Peninsula Borough (40,802), Kodiak Island Borough (15,535), or Matanuska-Susitna Borough (41,797)? Withholding Municipal Assistance, with the Department of Law determining how much it costs to prosecute certain classes of misdemeanor offenses, is a dubious idea at best and seems like a prescription for endless legal disputes.

In place of punitive legislation, the Task Force endorses an approach that would provide incentives to provide local police and prosecution services. One solution would be to make (or, actually, to reimpose) public protection as a funding category within the Revenue Sharing program and to provide funding based on the number of police officers employed, criminal caseload or other criteria. Once a municipality accepted funding from the state for police or prosecution services, that service would become a continuing local responsibility. Municipal representatives on the Task Force, however, have concerns about the state's ongoing commitment to funding such services. They point to the funding history of the Revenue Sharing program, which the legislature has chronically underfunded and would like some guaranteed level of state aid if municipalities assume additional service responsibilities.

To address the question of the costs of contract jails, the Task Force recommends that the administration convene a working group of local officials and staff from the Departments of Public Safety and Corrections.

C. State Transportation Funding Policy: Airports, Harbors and Roads

There is broad agreement between state and municipal officials that it is time to plan for the future maintenance needs of the state's transportation infrastructure. There is also general agreement that the confused tangle of state and local responsibilities for maintaining the transportation system needs to be overhauled. In particular, the division of responsibility for maintaining roads between the state and municipalities is ad hoc and ripe for reexamination to see if more equitable and efficient solutions can be found.

Alaska is the only state without a dedicated transportation fund to provide a stable source of funding for construction, maintenance and operation of public transportation facilities. The Department of Transportation and Public Facilities has recently released an Alaska State Transportation Policy Plan, which proposes to establish a constitutionally dedicated fund. Within the fund, aviation fuel taxes and airport leases would support airports; marine fuel taxes and related user fees would support Alaska's harbors; and motor fuel taxes, license fees and vehicle registration fees would support highways. Two resolutions (HJR 19 and SJR 23) were introduced in the 17th Legislature proposing amendments to the state constitution to establish a dedicated fund.

The Task Force decided to use the State Transportation Plan as a starting place for considering appropriate responsibilities since it is already on the table for public consideration. The plan has both revenue and responsibility components, with the guiding principle being that to the extent possible, transportation services should be provided by the government closest to those citizens receiving the service, with funding following responsibility. On the revenue side, the main thrust is to raise the state tax on motor fuels by the following amounts:

Aviation Fuels

Jet Fuel	\$0.02/gallon
Gasoline	\$0.035/gallon

Marine Fuels

Gasoline and Diesel	\$0.02/gallon
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Highway (on road) Fuels

Gasoline and Diesel \$0.10/gallon

Note that the 1992 legislature failed to pass HJR 19 and SJR 23, which would have placed the proposed constitutional amendment for a dedicated transportation fund on the ballot during the next general election. This means that the earliest that such a provision could be enacted into law would be 1995. Separate legislation to increase fuel taxes by the amounts cited above did not pass either.

1. Airports

Under the proposal in the State Transportation Plan, an estimated \$13.7 million in FY 94 revenues from aviation fuels and other fees would go into an account dedicated for statewide maintenance and improvements to airports. The DO/DOT/PF would continue to manage the vast majority of Alaska's 309 smaller airports and two international airports in Anchorage and Fairbanks. The plan encourages municipalities to operate and maintain their own airports (as Kodiak, Ketchikan and Juneau do currently) by providing for sharing aviation fuel revenues based on the class of airport.

2. Harbors

The increase in marine fuel tax and other fees proposed in the plan is expected to generate about \$12.4 million (in FY 94 revenues) to be placed in an account earmarked for harbor replacements, expansions and renovations. According to the plan, maintenance and operation of most of the state's 140 harbors would be a local responsibility, with the department managing only a few facilities in smaller communities and isolated ports.

A 1991 Port and Harbor Task Force concluded that there is an immense backlog of rehabilitation work to be done. Currently revenues from the state tax on marine fuels do not cover the debt service on bonds issued for harbor improvements since statehood. However, because debt payments will decrease dramatically during the next few years, the Task Force concluded that the time is ripe to develop a new statewide port and harbor program. The Transportation Plan proposes that a priority-based system be established for port and harbor capital projects, to be funded as money becomes available. The system would be similar to the existing

system for school construction funding.

3. Highways

The Transportation Plan proposes to increase highway fuels taxes from the present \$0.08/gallon to the national average of \$0.18 per gallon. Highway fuel taxes and other fees are expected to generate about \$72.3 million in total (FY 94) revenues. Again, this revenue is to be deposited into a dedicated highways account. The highway component of the plan assumes that the state will transfer maintenance responsibility for about 1,800 road miles to local governments. The administration proposes that revenues be shared by fully funding the road maintenance component of the Revenue Sharing program at \$3,000 per centerline mile. (Note that the road maintenance category is currently prorated at about \$1,200 per mile.) Local governments now maintain about 4,000 road miles, and with the additional transfer explained above, the total amount of shared highway motor fuels revenues would be about \$17.4 million. The department would retain responsibility for about 3,800 road miles.

The department advocates that a working group of municipal and state officials be formed to develop an equitable plan to allocate responsibility, costs and revenues for all modes of the state transportation system. The working group would determine what revenue share each class of airport should receive, what harbor facilities and duties the state should retain and which roads should be turned over to municipal governments on an individual road and maintenance station basis.

TASK FORCE RECOMMENDATIONS

The Task Force stopped short of fully endorsing the State Transportation Plan, primarily because legislative members felt that dedicated funding impinges on the legislature's powers of appropriation. The Task Force recommends that a state-local transportation policy address both responsibility and funding questions. Task Force members are in general agreement with the airport and harbor portions but have concerns about road maintenance issues.

The basic Task Force position on roads is that maintenance and snow removal on 3rd class and lower roads, as well as ice roads, is a local responsibility. Road construction is a shared federal-state-local responsibility. The working group process of determining responsibility for roads on a maintenance district basis seems to offer the only reasonable

alternative for sorting through the myriad of localized problems and responsibility issues. Municipal members of the Task Force favor some type of phased-in approach for local governments to assume road maintenance responsibility within their jurisdictions as money is made available to bring roads up to standard.

Municipal members would also like some guarantee that the road maintenance category of the Revenue Sharing program would be fully funded with fuel tax revenues. Barring this, a more acceptable alternative would be to establish a shared taxes program for the motor fuels tax that would distribute some portion of the revenues on a per mile of maintained road basis. This would provide a guaranteed level of funding that would not be subject to proration by the legislature. The language contained in the proposed constitutional amendment establishing a dedicated transportation fund would accommodate either alternative, stating that appropriations from the fund may be made to "state or local entities related to the mode for which revenues were collected."

The Task Force position is that each municipality should enter into a contractual arrangement with DOT/PF to ensure that state roads are brought up to standard (i.e., deferred maintenance problems are addressed) before being transferred to local control. Also, by contract, shared responsibility could be arranged and, if funding were not forthcoming, the municipality could turn responsibility for particular roads back to the state.

D. Senior Citizen/Disabled Veteran Property Tax Exemption

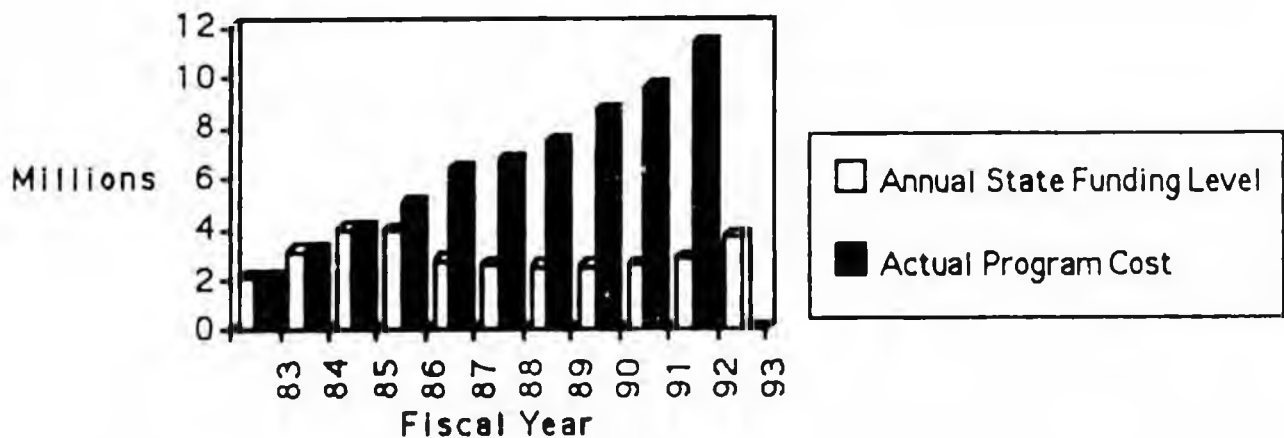
AS 29.45 exempts real property owned and occupied as a permanent home by a resident 65 years of age or over or by a disabled veteran from local property taxation. The exemption applies to the first \$150,000 of assessed valuation and to all senior citizens and disabled veterans regardless of income. Under the program, municipalities apply to the state for reimbursement of exempted tax revenues.

The senior tax exemption program was created in 1973 to encourage seniors to remain in their homes in Alaska—the theory being that the cost of property taxes could drive them out of their homes. The original law had an income eligibility limitation of \$10,000. An equivalent program for renters was created in 1976. Under the provisions of the program for renters, senior citizens and disabled veteran renters were to receive a rebate from the municipality in an amount equal to what their landlords (the property owners) were paying in property tax and passing on through rent. In 1985 the programs were extended to disabled veterans. In 1987, the income criterion was dropped and the exemption statute was changed to its present form.

As can be seen from the figure below, since 1985, state reimbursement has steadily fallen behind the amount of exempted tax revenues. In other words, the state is mandating the tax exemption but not fully compensating municipalities for it. In FY 92, state reimbursement was less than 23 percent of revenue lost to municipalities because of the mandatory tax exemption. The FY 93 Senior Citizen / Disabled Veteran Property Tax reimbursement appropriation of \$3.7 million is likely to amount to a similar fraction of foregone local revenues.

Figure 1

**Senior Citizen / Disabled Veteran Property Tax
Program History: FY 83 - FY 93**



At least 41 states offer some form of property tax relief to senior citizens or other special groups and Alaska is one of 23 states with a homestead type of exemption, (i.e., where an amount is subtracted from the assessed value and is granted prior to computing property tax liability).^{9,10} The senior tax exemption program has been debated at length. The main policy issues appear to be:

- Should an exemption from local taxation be mandated by the state or made a local option,
- Should the state provide rebates to individuals or reimbursement to local governments, and
- Should state funds for rebates or reimbursement be distributed on a needs basis?

The administration of Governor Steve Cowper introduced legislation to convert the program to a "needs based" approach. However, this legislation failed because it was strongly opposed by senior interest groups on the grounds that the information requirements of a needs-based program infringed on the privacy and pride of seniors, which is ironic because the program was originally needs based.

TASK FORCE RECOMMENDATIONS

In line with principles previously outlined, the Task Force concluded that the Senior Property Tax Exemption is a classic example of a seriously underfunded state mandate on local governments. The Task Force position is that this program should either be changed into a direct state rebate to seniors and disabled veterans or repealed and made a local option. The overriding policy goals should be to promote local choice and provide municipalities with increased capacity to generate local revenues.

E. Revenue Sharing and Municipal Assistance

These are the state's two major block grant type programs that provide assistance to local governments. Other shared revenue programs, such as educational funding, are either constitutionally mandated or tied to a specific tax source (i.e., Amusement and Gaming Tax, Aviation Fuel Tax, Electric and Telephone Cooperative Tax, Liquor License Tax and Fisheries Business Tax) and shared according to the geographic origin of revenues.¹¹ The Revenue Sharing and Municipal Assistance programs differ in their objectives and formulas for allocating funds. Revenue Sharing was designed to allocate funds in an equitable manner so that local services could be provided by municipalities despite inequalities in the distribution of taxable wealth in the state. Municipal Assistance was designed specifically as a property tax relief measure based on population.

Since implementation, these programs have generally been effective in their stated objectives. This is confirmed by the fact that since they were started: 1) there has been an expansion of local government services as indicated by the increase in municipal

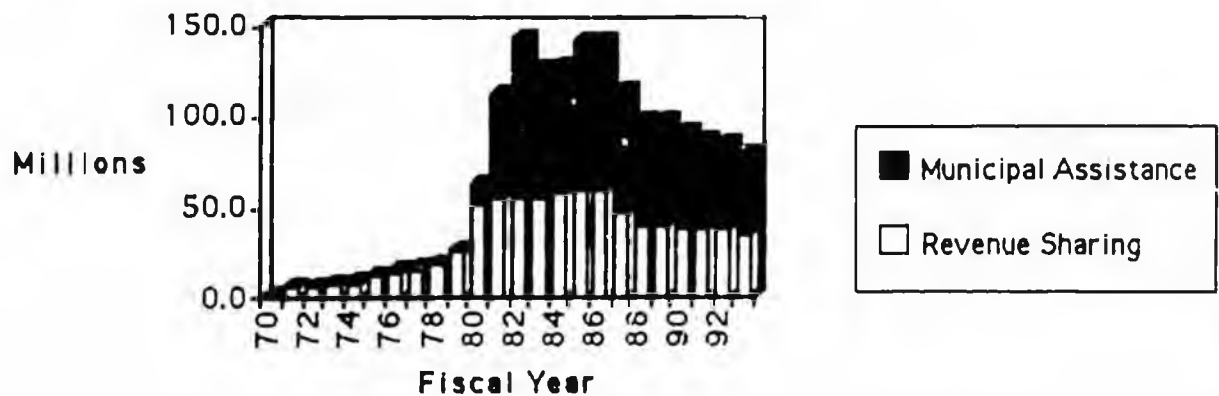
employment and borough service areas and 2) growth in municipal tax bases and increases in state aid generally resulted in a reduction of municipal property tax rates.¹² Development of the formulas for distributing revenue sharing and municipal assistance should be considered in the context of the politics of the late 1970s and early 1980s, when oil revenues were high and legislators came under intense pressure to bring money home to their districts in the form of capital projects and public services. At the time, communities in Alaska lagged far behind those in other states in the variety and quality of public services offered to residents (many communities still do). A rapidly expanding population placed extreme demands on local services, while infrastructure development generated increased entitlement levels (e.g., new roads and health facilities). There was also a national property tax revolt underway, typified by Proposition 13 in California, which influenced decisionmakers in Alaska to provide property tax relief.

Over the past decade there have been periodic discussions about combining the Revenue Sharing and Municipal Assistance programs. In 1984 a Governor's Task Force on State Shared Revenues was established "to assess the present and future distribution of state-shared revenues for local governments."¹³ However, to date these efforts have failed because any modification of the entitlement formulas will result in a redistribution of funds among municipalities, i.e., there will be winners and losers.

As can be seen from the figure below, Revenue Sharing and Municipal Assistance funding has declined by about 45 percent in nominal dollars since 1986 (54 percent in inflation adjusted terms) with no increases for population, inflation or new municipalities added to the program.

Figure 2

**Funding History of the Revenue Sharing and
Municipal Assistance Programs: FY 70 - FY 93**



1. Revenue Sharing

The Revenue Sharing program was established in 1969. Originally it was designed to accomplish the following:

- Help ease fiscal problems facing local governments,
- Stabilize or reduce local property tax rates,
- Encourage local governments to provide adequate levels of public services,
- Inject a measure of budget planning and stability into local governments, and
- Improve the allocation of state funds by sharing them with communities on the assumption that local governments are more in tune with the needs of the public and better able to provide public goods and services in accordance with voter preferences.

Under the original legislation, the legislature made annual appropriations to fund the program. Local governments applied for entitlements under each of five categories of municipalities: police, fire protection, air or water pollution, land use planning and road maintenance. Additional categorical programs (parks and recreation, sewer treatment facilities, ice roads, hospitals, health facilities and hospital construction) were added until there were 12 categories of aid in 1980. The Department of Community and Regional Affairs was responsible for administering the program and determined whether a municipality met the minimum standards to qualify under any of the service categories. About 75 percent of the aid was distributed on a per capita basis, while the remainder was based on other factors (e.g., miles of road maintained, hospital beds, etc.). There were numerous restrictions on the amount of the entitlement that could be spent outside of a particular service category or service area.

As the Revenue Sharing program grew, several problems emerged. Local tax effort was ignored in the allocation formula, which meant that it could not effectively contribute to proportionally lowered rates of local taxation. The formula also ignored the ability of a municipality to pay for public services. Neither the per capita cost of providing services nor the level of service provided, which vary considerably in different areas of the state and different communities, were taken into account in the formula. In addition, municipal services with a politically active constituency (e.g., police and fire protection) were able to obtain entitlement increases from the legislature. These increases came at the expense of other service categories, for instance planning and zoning, which did not have as much popular support. Municipal officials objected to the program being so categorical, with the state mandating the services local governments had to provide to receive state aid. Finally, the service category approach was criticized for having a bias towards the wealthy and more populous cities and boroughs, i.e., those that could afford to provide services received the most funding.

After considering several different plans for revising the Revenue Sharing program, the legislature and administration came up with the goal of replacing the categorical program with a single formula that would equalize the tax resources of municipalities. In other words, they wanted a formula that would benefit those local governments that help themselves by levying local taxes, while providing relatively less to those with low tax effort. For their part of the bargain, municipalities held out for a formula that guaranteed them at least as much state

funding as the old categorical approach. The hardest part of the political compromise was to determine exactly what kinds of locally generated revenue would be defined as local effort.

The formula that exists today has two components:

- The Tax Resources Equalization Account—allows a municipality's allocation to increase with population and/or local tax effort.
- The Miscellaneous Services Entitlement provides categorical funding for road maintenance, ice roads, hospital and health facilities and fire protection, as well as a \$25,000 minimum entitlement for all unincorporated communities of over 25 residents.

Over time, inflation eroded the purchasing power of categorical entitlements, particularly for road maintenance. During the past several years, small communities with very limited tax bases that only qualify for a minimum Revenue Sharing entitlement have also had difficulty maintaining even rudimentary local governments. In recognition of these facts, the 16th Legislature amended AS 29.60.110 by adding a provision specifying that if the total Revenue Sharing appropriation for a fiscal year exceeds \$41.472 million, the road maintenance entitlement increases from \$2,500 to \$3,000 per mile and the minimum entitlement for unincorporated and 2nd class cities increases from \$25,000 to \$40,000. As with every political compromise on shared revenue issues, municipal officials jealously guarded their share of the total Revenue Sharing appropriation and demanded that their entitlements not be reduced by any change to the existing formula. Thus the appropriation trigger mechanism was designed so that first class cities and general law boroughs would be held harmless from an increase in the minimum entitlement. The FY 93 Revenue Sharing appropriation is \$36.046 million.

2. Municipal Assistance

The Municipal Assistance program was established in 1979 to replace the Gross Business Receipts program, which shared 20 percent of Gross Business Tax (GBT) receipts collected within the jurisdiction of each municipality. The Municipal Assistance program uses the FY 78 GBT allocation by community as a base figure, with additional appropriations distributed on a per capita basis. When the program went into effect in FY 80, the authorizing statute used 10 percent of Corporate

Income Tax receipts as a guideline for what the appropriation level of the program should be. In 1981, the legislature repealed the separate accounting method of computing taxable income on oil companies in Alaska and replaced it with modified apportionment. This action significantly lowered corporate income tax revenues and consequently the amount available for distribution by the Municipal Assistance program.

In recognition of this situation, the legislature changed the Municipal Assistance statute to read: "The legislature may appropriate to the Municipal Assistance fund during each fiscal year an amount equal to or greater than 30 percent of the income tax revenue received by the state under AS 43.20.011(e) Corporate Income Tax." However, the old 1978 GBT base distribution figures are still retained in the formula. Municipalities that have been formed since that time have their base amount determined by matching them according to population with one of the original participating municipalities. The result is an arbitrary and confusing basis for distributing state aid. The FY 93 Municipal Assistance appropriation is \$42.9 million.

TASK FORCE RECOMMENDATIONS

The Task Force recommends that the state continue to maintain some form of block grant program to redistribute state-collected revenues from public resources back to municipalities. The Task Force further recommends that the legislature again consider combining the Revenue Sharing and Municipal Assistance programs, and that any combined formula maintain the Revenue Sharing program's feature of rewarding municipalities for local revenue generating effort and population increases.

A review of the program history of Revenue Sharing and Municipal Assistance reveals that changes to these programs could be used as leverage to reform state-local relations. Changes should include incentives to make municipalities more financially self-reliant. For example, a reasonable political solution to the public protection problem discussed previously might include adding categories for police and local prosecution to the Revenue Sharing program. This would allow the state to reward communities that are willing to provide local police and prosecution services. However, municipal Task Force members remain skeptical of the state's commitment to fully fund any new categories of aid, noting the funding history of these programs.

Another recommendation which would alleviate some objections of municipal officials is to distribute Revenue Sharing funds on a categorical basis but allow municipalities complete freedom in how they are spent, i.e., remove or reduce restrictions that require the funds to be spent for specific services or within the service areas that generated the entitlement. Political reality dictates that any effort to combine the programs and eliminate the archaic base calculations in the formulas will require that municipalities get at least as much aid as they currently receive. Changes might also be better accommodated by a phased-in approach. Given the tenuous financial position of many small rural communities, the Task Force recommends that the minimum Revenue Sharing entitlement be maintained in a combined formula and raised to \$40,000 to allow small communities to maintain at least rudimentary local governments.

F. Statewide Taxation Measures

The Task Force did not come up with firm recommendations for state and local taxation policies, although members did spend time discussing the differences among various forms of taxation. Members considered the information collected on personal income, sales taxes and Alaska's state-local tax burden compared to other states (see Appendix 1) to be important enough to be included in the final report. Future task forces and work groups appointed to provide fiscal policy guidance are likely to find this information useful.

Ultimately there is a finite number of possible public revenue sources and, ideally, the level of government that collects a particular revenue stream should be a matter of efficiency (as well as local choice). For several types of taxes (e.g., personal income or general sales tax), it is administratively efficient for the state to collect the revenues and redistribute them back to the local level, where resource allocation decisions among services can be best made.

Given the vast disparity in wealth among communities in Alaska, state government has a responsibility to distribute the burden of funding basic public services as equitably as possible among all citizens. State government can also provide leadership in diversifying local tax bases away from overreliance on the local property tax, which is perceived by voters to be unfair.

According to a 1989 national poll conducted by the Washington-based Advisory Council on Intergovernmental Relations, voters have consistently ranked the property tax as the

"worst tax," i.e., that which is the least fair. Categories of taxes are ranked below in order of voters' perception of their unfairness:

Property tax	32%
Federal Income Tax	27%
State Sales Tax	18%
State Income Tax	10%
Don't Know	13%

There is no such thing as a "perfect tax." Each taxing instrument has its own inherent virtues and defects and the more intensely a tax is used, the more apparent its flaws. Alaska will always have a unique state-local tax structure because a large share of revenues comes from the state's ownership of resources. For the foreseeable future petroleum royalties and severance tax revenues will comprise the major portion of the public revenue stream.

However, as petroleum revenues decline, Alaskans will be forced to tax themselves to maintain the level of public services they now enjoy. The state-local tax structure will inevitably begin to more closely resemble that of other states. One goal of state-local taxation policy should be to obtain a balance among property, income and consumption taxes and user fees for specific services. Experience among states has shown that a diversified revenue base creates a more favorable business climate, reduces taxpayer frustration and discontent and provides revenue stability throughout the economic cycle.

It is also important for voters to feel that the tax burden is shared equitably among all citizens. This is an important consideration in Alaska, where city and borough residents pay taxes for schools, while residents of rural Alaska generally do not. Another important objective is to link excise taxes for specific commodities to specific public services or projects according to the "user pays" idea.

1. Personal Income Tax

Among the various states, the personal income tax is employed second only to the general sales tax as a revenue source. In 1988, personal income taxes generated 30 percent of total state tax collections. The income tax is gaining in popularity because the 1986 Tax Reform Act made sales taxes nondeductible on federal tax returns but retained the deductibility of state income taxes.

The amount generated by a state income tax depends on the rate at which it is applied and the number of exemptions allowed. Until it was repealed in 1978, Alaska's personal income tax was based on the adjusted gross income (AGI) computed on each individual's federal income tax form. A person's AGI was taxed on a sliding scale ranging from 3 to 14.5 percent. At that time, local sales taxes, Longevity Bonus payments and halibut sales were the only state exemptions allowed. A 1986 Department of Revenue (DOR) study estimated that reimposition of the 1978 income tax would generate \$399 million (in FY 88).¹⁴

More recent income tax proposals offered by the administration of Governor Steve Cowper in 1987 (HB 154) and another sponsored by Representative Koponen (HB 525) during the 17th Legislature were largely based on the old state income tax rates. The Cowper legislation exempted the Longevity Bonus from gross income and allowed deductions for Permanent Fund dividends. The Koponen bill gave tax credits for motor vehicle registration fees, municipal sales, use and property taxes and a renters' property tax equivalent credit. Both of these measures were specifically aimed at capturing income from nonresidents, while assuring reasonably low rates for residents.

In December 1987, the DOR estimated that the Cowper income tax legislation would generate \$265 million in revenue. A more recent University of Alaska, Institute of Social and Economic Research (ISER) study estimated that a state income tax based on a rate structure similar to the Cowper proposal would generate \$210 million in revenues.¹⁵ The DOR was unable to develop a credible fiscal note for HB 525 because budget cuts during the past few years have severely diminished the research capabilities of the department.

Based on the range of estimates cited above, a conservative working figure for potential revenues from a statewide personal income tax would be about \$250 million. Depending upon how the tax rate is structured and exemptions, deductions and credits allowed, the personal income tax has three main advantages 1) it is the only major state tax that is definitely progressive, i.e., is applied according to ability to pay, 2) its revenue tends to rise faster than the growth of the economy and 3) it would capture a portion of the earnings of nonresidents who work in Alaska. The main disadvantages of the income tax are that its revenue stream is relatively volatile. Also it tends to be less popular among voters than the sales tax.¹⁶

2. Statewide Sales Tax

State sales tax provides nearly one third of general revenues raised by state governments. The median rate among the 45 states with sales taxes is 5 percent.¹⁷ According to the most recent DOR estimate available, a general 1 percent sales tax in Alaska would raise about \$49 million in revenues. Each additional percentage increase in the rate would generate something less than \$49 million due to the elasticity of demand caused by adding a tax onto the price of goods and services. For example, the ISER study cited above concluded that a 6 percent sales tax would generate \$216 million in revenues.

The major issues involved in imposing a sales tax are equity, ease of administration and the ability to capture revenues from nonresidents.¹⁸ A comprehensive sales tax is more regressive than an income tax because it applies equally to consumption by people at all income levels. Poor people spend a larger share of their income on purchases of goods and services than the wealthy and, therefore, pay a greater proportion of their income in tax. Sales taxes have traditionally been supported by the higher-income portion of the population when the alternative is increased income or property taxes. Compared to an income tax, a sales tax has the virtue of encouraging investment by taxing consumption rather than gross income.

To reduce the regressive nature of sales taxes, 28 states exempt food purchases (except restaurant meals and alcohol purchases); 43 states exempt prescription drugs; 32 states exempt at least some natural gas, heating fuel and/or electric utility payments; five states exempt clothing purchases; and four states allow sales taxes to be credited against state income taxes. Only three states have comprehensive sales taxes on all personal and professional services. One note of caution should be applied to sales tax exemptions—if the tax is applied too narrowly, the sales tax is relatively volatile, with revenues falling sharply in recessions.

The sales tax is not particularly costly or difficult for the state to administer, hence its popularity among states. Since it is collected from sellers at the retail level, there are fewer returns to deal with than in the case of an income tax. Many states with both state and local general sales taxes gain administrative efficiency by piggy-backing local tax collection onto the state tax system. The main advantages of a sales tax are that it can be designed so that revenue grows in proportion with the economy, it is relatively popular with voters (probably because it is paid in small

amounts), and it captures revenues from nonresidents. The main disadvantages are its regressivity and the fact that it is not deductible from federal income tax.

Task Force members brought up additional considerations. To be efficiently collected by the state, a sales tax would have to be uniform with respect to exemptions. This would eliminate the local option to apply the sales tax narrowly (e.g., only on fish sales, hotel/motel use, tobacco sales, etc.) or broadly. A statewide sales tax would infringe on municipalities' ability to express social policy with respect to taxation of food, residential rent, home heating oil, etc. Municipal officials might also be leery of piggybacking onto a state sales tax for fear that the state would gradually take over the entire sales tax and leave little or nothing for municipalities.

TASK FORCE RECOMMENDATIONS

There was a good deal of discussion among Task Force members about what they could individually recommend as a tax policy. Executive branch members did not want their personal recommendations to be taken as the official position of the Hickel administration. Likewise municipal members were reluctant to speak for other municipal officials. A majority of Task Force members who felt free to express a position recommended that the state adopt a personal income tax. There was some concern among Task Force members that the sales tax should remain the prerogative of local governments.

Task Force members discussed the benefits of imposing a state income tax, to be shared with municipal governments. The advantages of a state income tax include capturing a portion of income earned in Alaska by nonresidents, for instance fishermen and oil-field workers, and the fact that income taxes are deductible from federal taxes, while state sales taxes are not. In addition, residents of the unincorporated borough would have to contribute to the cost of state-provided services, for instance education, which would help reduce the urban-rural inequity in tax burden in the state.

Sharing income tax revenue with local governments would serve as an incentive for borough formation and incorporation of local governments. In addition, as discussed above, if the state is going to ask municipalities to assume greater public service responsibilities, it must ensure that they have the fiscal capacity to carry out their duties. An income tax appears to be the fairest way to do that.

V. APPENDICES

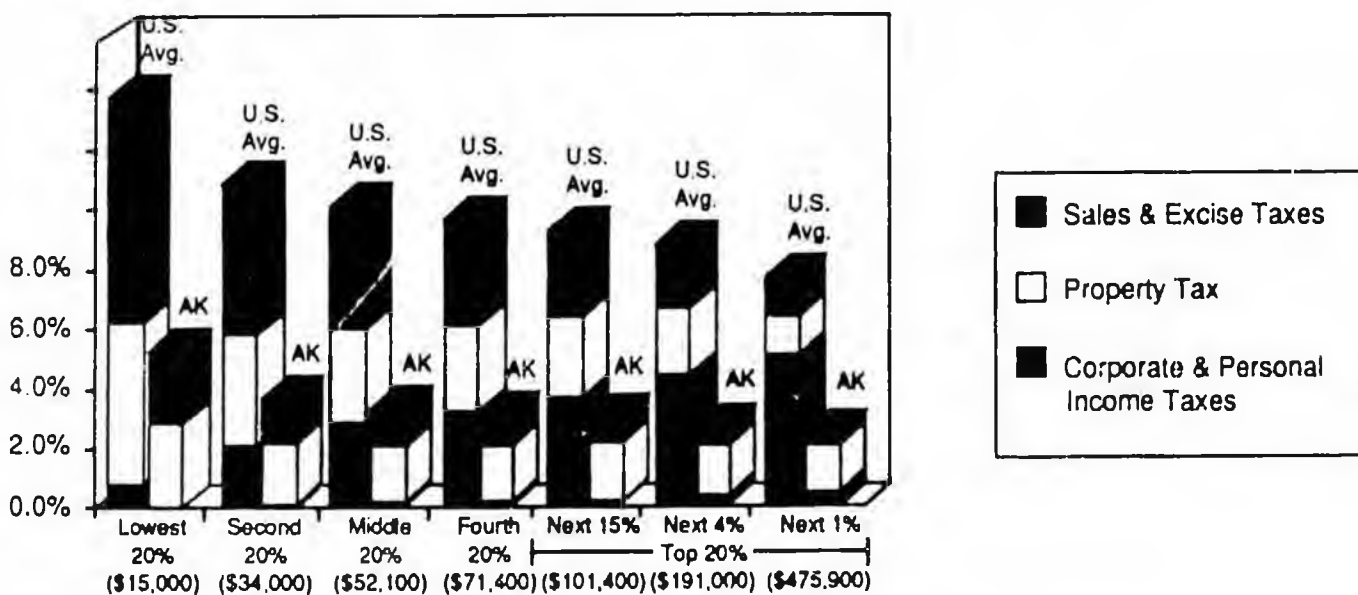
Appendix 1

State and Local Tax Structure in Alaska Compared to Other States

By any measure Alaskans enjoy an enviable tax situation. Alaska is one of five states without a statewide sales tax and one of eight with no personal income tax.¹⁹ Only Alaska and New Hampshire have neither. A recent study by the Citizens for Tax Justice comparing 1991 tax rates among states as shares of income for average families of four demonstrated that Alaska has by far the lowest state and local tax burden in the nation.²⁰ As a share of family income, Alaska's combined state and local effective tax rate ranges from 5.3 percent for the lowest fifth of earners to 2.3 percent for the top one percent of family incomes.²¹ Only Nevada taxes the very top earning families slightly lower at 1.7 percent. The graph below compares Alaska's state and local tax burden to the national average.

Figure 3

1991 State and Local Taxes: U.S. Average vs. Alaska as Shares of Income of Families of Four



When state payments to individuals and the value of services provided to citizens are taken into account, Alaska's unique tax situation is brought into startling focus. According to the University of Alaska Institute of Social and Economic Research, in 1989 the typical Alaskan household with an income of \$45,000 paid \$1,109 in state and local taxes while receiving \$2,525 in Permanent Fund Dividends and \$15,667 in state services.²² As the ISER report states: "...today Alaskans, regardless of income, pay little or nothing for state and local government—because there are no major state taxes and Permanent Fund dividends frequently exceed local taxes."

Thus while one may argue that the level of state and local spending is too high, it is undeniable that most citizens enjoy a free ride when it comes to paying for public services. In fact, the value of public services received by the average Alaska household from state government has risen by 60 percent (adjusted for inflation) since 1979, while the tax burden of the same average household has decreased by 40 percent.

Appendix 2

Non-traditional State Programs

The fabulous oil wealth of the past decade has allowed Alaska to fund numerous state programs that provide payments to individuals, benefits to special classes of citizens, aid to municipalities and subsidies to specific industries. The programs listed below are either not found in most other states or are not funded with state revenues to the extraordinary extent that they are in Alaska.

Figure 4

Special Programs: FY 93 Authorized Expenditures from the Alaska General Fund and Permanent Fund

(in millions)

• Permanent Fund Dividends	\$491.0*
• Longevity Bonus Program	64.8
• University of Alaska Outreach Colleges	18.9
• Pioneers' Homes	30.5
• Power Cost Equalization	18.0
• Fisheries Rehabilitation and Enhancement Division	10.8
• Permanent Fund Dividend Hold Harmless	18.5
• Permanent Fund Corporation	18.0
• Longevity Bonus Program Hold Harmless	2.2
• Student Loans	7.5
• Permanent Fund Dividend Program Administration	4.3
• Mt. Edgecumbe Boarding School	4.1
• Rural Alaska Television Network	1.2
• Subsistence Division	1.8
• Municipal Assistance	42.9
• Contract Jails	3.9
• Alaska Seafood Marketing Institute	5.5
• Division of Tourism	3.2
• Division of Investments	3.3
Program Totals	\$750.4

*Estimated by the Permanent Fund Corporation.

Appendix 3

Classes of Alaska Municipal Governments

Organized Boroughs and Unified Home Rule Municipalities

Unified Home Rule	3	Juneau, Sitka, Anchorage
Home Rule	4	Denali, Lake and Peninsula, North Slope, Northwest Arctic
First Class	0	
Second Class	7	Aleutians East, Bristol Bay, Fairbanks North Star, Kenai Peninsula, Ketchikan Gateway, Kodiak Island, Matanuska Susitna
Third Class	<u>1</u>	Haines
Total Boroughs	15	

Incorporated Cities

	Within Boroughs	Within the Unorganized Borough	*Total
Home Rule	07	05	12
First Class	08	14	22
Second Class	<u>31</u>	<u>85</u>	<u>11</u>
Total Cities	46	104	150

*Does not include Metlakatla, a city organized under federal law.

State Population: 550,043

State Land Area: 570,833 square miles

Source: *Alaska Municipal Officials Directory 1992.*

Legal Basis of Municipal Government

The Alaska Constitution establishes a policy of maximum self-government for citizens of the state. This policy has been implemented through the creation of city and borough governments to provide for essential public services. Alaska is unique among the fifty states in that most of its land mass has not been organized into political subdivisions equivalent to the county form of areawide government found in the majority of states. This area of the state is called the unorganized borough and includes vast areas of sparsely inhabited land.

Cities and boroughs are distinct legal entities (municipalities) incorporated under state law to perform both regulatory (police, zoning, animal control, etc.) and proprietary (water, sewer, airport, etc.) functions. There are three types of general law boroughs and two types of general law cities. Additionally, cities or boroughs may adopt charters providing for home rule. Most of the laws relating to the organization and operations of municipal government can be found in the State Municipal Code, Title 29, of the Alaska Statutes.

Municipal Governments in Alaska

Borough Powers and Duties: First and second class boroughs must perform three areawide powers: (1) education, (2) planning/platting/zoning, and (3) tax assessment and collection.

First class boroughs and second class boroughs are essentially identical, except that first class boroughs can acquire additional non-areawide powers by ordinance rather than referendum. Most additional areawide powers for first class boroughs require voter approval or transfer from cities. Boroughs may provide additional services on an areawide basis, a non-areawide basis (outside cities), and/or a service area basis. The governing structure of a borough consists of an assembly (a legislative body ranging in size from 5 to 16), a school board (which operates the school system), a planning commission, and a mayor. The single third class borough is not permitted by law to assume any other areawide or non-areawide powers, but it can create service areas.

General Law Cities

There are two types of general law cities provided for by the Alaska Constitution: first class and second class.

City Powers and Duties: General law cities can exercise whatever powers are not prohibited by state law (AS 29.35). These include general governmental powers (financial, administrative, and legal), powers to provide public facilities and services, and regulatory powers. While cities are allowed to provide a wide range of community services and facilities, in practice, population and fiscal constraints serve to limit the number of services provided by most cities.

A community must have a minimum population of 400 in order to incorporate as a first class city. The mayor of a first class city is elected by the voters and is not a member of the council. The mayor of a first class city may vote only in cases of a tie or to veto action of the council. If a first class city is located in the unorganized borough, it has the added responsibility of providing education and planning and zoning services for its residents.

Second class cities are the most common form of municipal government found in Alaska. At least 25 resident registered voters' signatures are required for communities to petition the State to incorporate as a second class city. Alaska statutes require second class cities to conduct regular city council meetings, codify city ordinances, and establish local election procedures. The mayor of a second class city is elected by and from the council and may vote on all matters. Second class cities may provide services and raise revenue through a sales or property tax. Second class cities may levy a property tax only if it is approved by the voters and at a level no higher than 5 mills, except that the limit does not apply to millage levied to pay off bonds. All other municipalities may levy a property tax of not more than 30 mills, except to pay off bonds.

Home Rule Municipalities

A home rule municipality is a city or borough which has adopted a home rule charter through an election. The adoption of such a charter gives that local government "all legislative powers not prohibited by law or charter" (Article X, Section 11 - Constitution of Alaska). The charter provides for the governing structure, functions and services, and restrictions on municipal powers in accordance with the conditions, needs, and desires of the community. AS 29.10.200 (Limitation of Home Rule Powers) defines provisions of the State Municipal Code that apply specifically to home rule municipalities.

Unified Municipalities

Unified home rule municipalities are established when an organized borough and all cities within the borough unite, following an election, to form a single unit of government with a home rule charter.

Cities Organized under Federal Law

Metlakatla is situated on the Annette Island Indian Reservation in Southeast Alaska and was organized by authority of federal statutes. The community has adopted a form of government similar in many respects to a municipality, but is recognized as a city under federal law only.

Source: *Alaska Municipal Officials Directory 1992.*

Appendix 4

Timeline of Local Government Organization in Alaska

Pre-Russian	Native villages governed by tribal councils with membership based on family status and age. Provision of public services not important.
1867	Sitka forms a provisional city government which later fails due to lack of support by the Russian American Company and military authorities.
1888	Congress enacts the Miners Law setting up a rudimentary territorial government that recognized miners' rights to organize and promulgate rules that do not conflict with U.S. law.
1912	Congress passes the Organic Act creating a territorial government with the authority to enact legislation pertaining to local governments. Under pressure from mining, timber and fishing interests who did not want to pay property taxes, Congress expressly prohibits creation of counties without congressional approval.
1917	Territorial legislature authorizes establishment of incorporated school districts with taxing powers for areas outside of cities.
1924	Territorial legislature provides for incorporation of independent school districts encompassing a city or cities and the surrounding contiguous area with the power to levy a property tax.
1935	Territorial legislature authorizes Public Utility Districts (PUDs) as autonomous units of local government. PUDs had a wide range of powers including garbage, parks, street maintenance, telephone, electrical and other services.
1941	Federal Bureau of Indian Affairs (BIA) begins organizing traditional village tribal councils under the Indian Reorganization Act, which formalizes the relationship between IRAs and the federal government.
1956	Alaska state constitution is ratified by voters. Article X lays out general guidelines for two levels of government—cities for communities large enough to have a need for their own civil government and boroughs for regions.
1957	Territorial legislature adopts Village Incorporation Act which permits villages to incorporate as fourth class cities. Powers include provision of water, electricity, sewers and fire protection; regulation of dogs, curfews and land use; and provision of public works. Police powers were added in 1959.
1959	Statehood. At this time there were 24 first class cities, 8 second class cities, 2 third class cities, 10 fourth class cities, 69 IRAs, 5 PUDs, 8 independent school districts, 1 incorporated school district and an unknown number of traditional Native councils. The Local Affairs Agency is established within the Governor's Office to assist municipalities to organize.
1963	Legislature passes the Mandatory Borough Act which forces Anchorage, Fairbanks, Mat-Su, Kenai, Ketchikan, Kodiak and Juneau to form boroughs.

Appendix 4 (continued)

Timeline of Local Government Organization in Alaska

- 1967 Alaska Village Electrical Cooperative (AVEC) is incorporated. As a condition for receiving Rural Electrification Administration (REA) loans, communities are required to incorporate.
- 1969 State Revenue Sharing program established to share oil revenues with municipalities.
- 1971 Congress passes the Alaska Native Claims Settlement Act (ANCSA), which transfers large amounts of land to Native communities and requires that they be incorporated to receive a full entitlement.
- 1972 The Local Affairs Agency is upgraded to cabinet status as the Department of Community and Regional Affairs (DCRA) responsible for advising, assisting and advocating on behalf of local governments. The legislature also revises the municipal code (Title 29) and reduces the number of classes of cities from four to two. North Slope Borough is formed to take advantage of Prudhoe Bay property tax base, the first voluntarily formed borough (with full powers) since the Mandatory Borough Act.
- 1975 As a result of a Supreme Court decision, the state dismantles the existing education system in unorganized areas and creates 21 Regional Education Attendance Areas (REAs) similar in function to city and borough districts except that they don't require a local funding contribution. This action eliminates one of the few main remaining incentives to form boroughs—local control of education.
- 1979 Municipal Assistance program established to provide property tax relief to local residents and further block grant type funding of local government operations. With Revenue Sharing and municipal assistance programs in place it becomes possible for villages with little tax base to support a basic local government.
- 1986 Northwest Arctic Borough incorporates around the Red Dog Mine as a revenue base (Cominco provides payments to the borough in lieu of taxes). Provides a regional accounting system for 14 communities, eliminating expensive overhead.
- 1987 Aleutians East Borough incorporates on a fish tax base. Borough uses its regional revenue generation capacity to bond for public works projects in communities within its boundaries.
- 1989 Lake and Peninsula Borough incorporates around a hotel bed tax base.
- 1990 Denali Borough incorporates around a hotel bed tax base.

Appendix 5

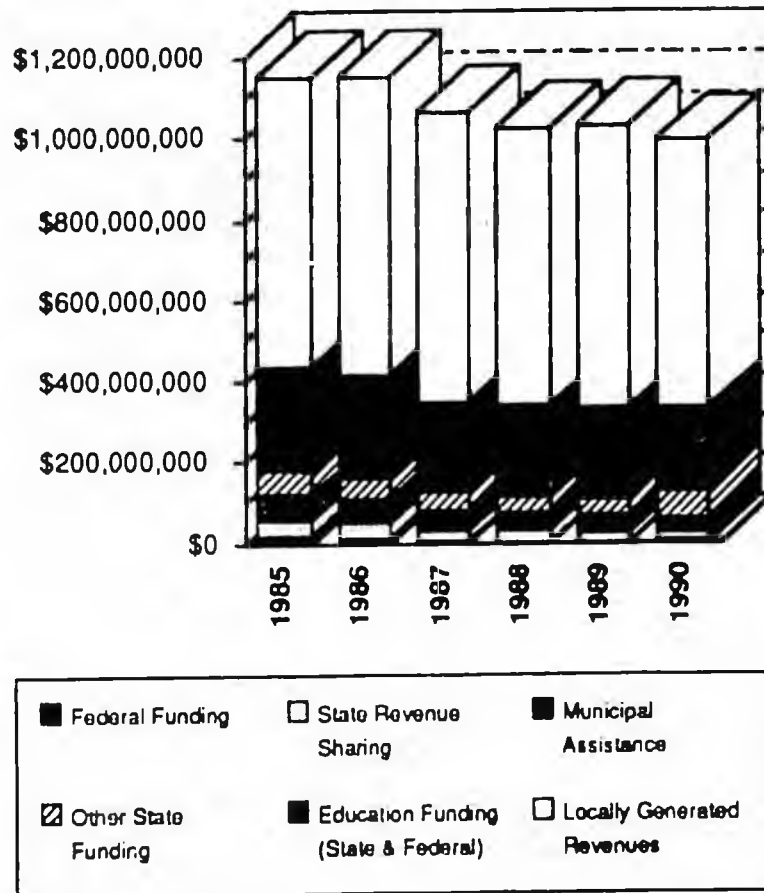
Local Government Finance Trends in Alaskan Cities, 1985 - 1990

A key consideration in the distribution of responsibility for service provision among the different levels of government is the relative financial condition of the respective levels of government. This appendix presents a brief overview of recent financial trends in Alaska's cities as a group (including all municipalities in Alaska other than boroughs).

The Alaska Department of Community and Regional Affairs maintains a data base of local government revenues and expenditures for all the cities in Alaska. The information in this data base is extracted from the certified financial statements which municipalities submit each year in conjunction with the State Revenue Sharing Program. Examining these data over a period of time provides a picture of the trends in local government revenues and expenditures. What are the levels and sources of local government revenues, and how have Alaskan cities been spending these revenues? The chart below shows the revenue side of the picture for the period from 1985 to 1990.

Figure 5

**Municipal Operating Revenues
1985 - 1990
Including inflation - in 1985 dollars**

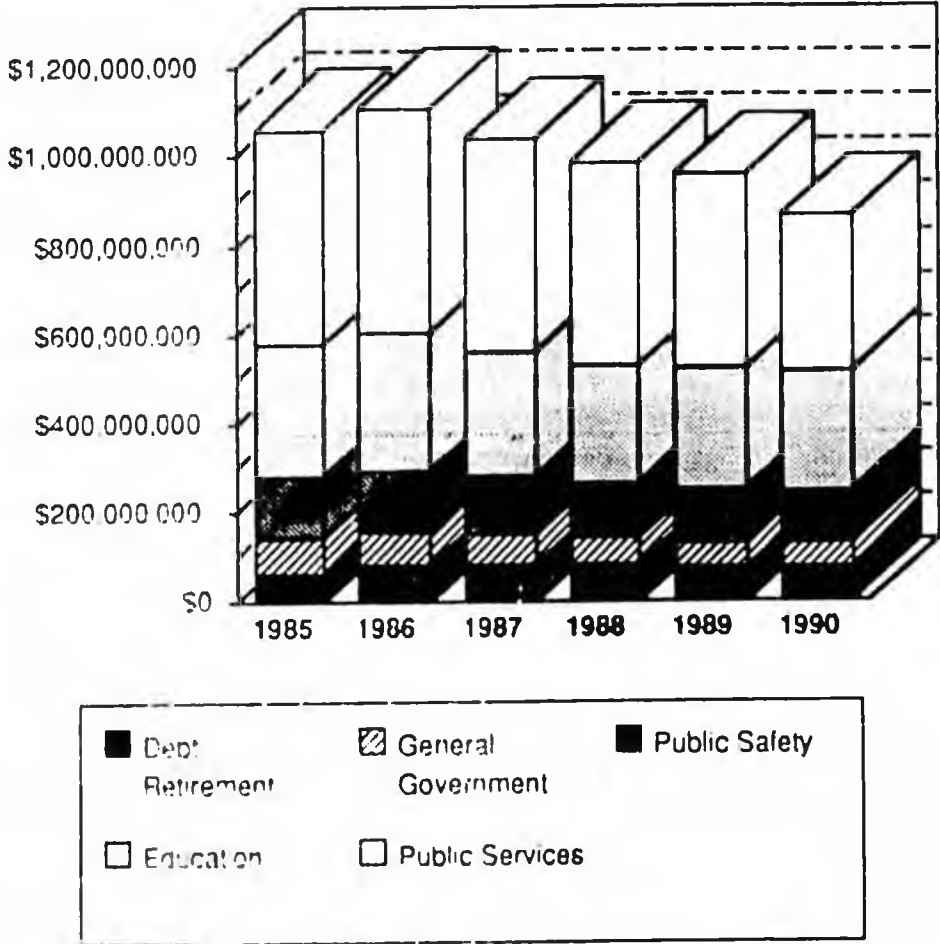


The revenue figures in this chart have been adjusted for inflation to reflect the actual purchasing power available to these local governments. Inflation was estimated to be about 18% over this six year period. Measured in actual dollars, the trend in total operating revenues for all municipalities was essentially flat. The flat trend in actual revenues represents the balancing of a significant decline in outside revenues sources and an increase in locally generated revenues. The decline of outside revenues resulted from the end of the federal revenue sharing program and dramatic cuts in the state's major local government assistance programs (State Revenue Sharing, cut 36%; and Municipal Assistance, cut 35%).

The chart below presents the expenditure side of local government during this same period. Over these six years, local governments as a group made cuts in almost every major budget category.

Figure 6

**Municipal Operating Expenditures
1985 - 1990
Including inflation - in 1985 dollars**



Appendix 6

Text of HCR 17

SENATE CONCURRENT RESOLUTION NO. 17 (CRA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

Offered: 5/15/91
Referred: Finance

Sponsor(s): HOUSE FINANCE COMMITTEE

A RESOLUTION

1 Establishing a Task Force on Governmental Roles.

2 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 WHEREAS both the federal and state governments have reduced assistance to municipalities and
4 shifted responsibilities to municipalities; and

5 WHEREAS state agency operating funds appropriated by the legislature have increased by 19
6 percent over the past five years; and

7 WHEREAS state funds appropriated by the legislature to municipalities have been reduced by
8 40 percent over the last five years; and

9 WHEREAS during the last five years the number of state employees has increased and the
10 number of municipal employees has decreased; and

11 WHEREAS an effort is needed to sort out responsibilities for providing governmental services
12 in the most efficient and effective manner; and

13 WHEREAS the idea of undertaking a review of the roles of federal, state, and municipal
14 government in providing services is not new, but a system for providing the review has not been
15 instituted; and

16 WHEREAS the legislature needs information on the relationship between the federal, state, and
17 municipal government to ensure that residents of the state have necessary services at reasonable costs:

1 BE IT RESOLVED by the Alaska State Legislature that the Task Force on Governmental Roles
2 is established with the following primary purposes:

3 (1) to define local, state, and federal governmental roles taking into account differences
4 between urban and rural areas and differences between organized boroughs, the unorganized borough,
5 and regional educational attendance areas;

6 (2) to examine the roles of the federal, state, and municipal governments in providing
7 services and to determine whether changes ought to be made in those roles and recommend legislation
8 needed to accomplish those changes;

9 (3) to consider methods of providing funding for governmental services, including the
10 existing revenue sharing program and municipal assistance program, and make recommendations for
11 improved funding mechanisms;

12 (4) to identify needed governmental services and consider methods to ensure those
13 services are efficiently provided;

14 (5) to compare the relationship between local, state, and federal governments in Alaska
15 with that in other states and make suggestions regarding implementation of successful models and
16 innovative ideas;

17 (6) to classify various public services by appropriate levels of government responsibility
18 and evaluate the classification for efficient service delivery, local control, constitutional responsibilities,
19 ability of government to pay for the services, and other pertinent criteria;

20 (7) to recommend corrections for existing inconsistencies, overlap, or duplication of
21 governmental functions, and establish a proposed time frame for implementing the corrections;

22 (8) to recommend alternatives for providing services and evaluate cost and funding
23 options.

24 (9) to recommend changes to local government structures and mandatory powers; and
25 be it

26 FURTHER RESOLVED that the task force shall consist of 13 members as follows:

27 (1) two members of the Senate appointed by the President of the Senate;

28 (2) two members of the House of Representatives appointed by the Speaker of the House;

29 (3) two persons representing the executive branch, appointed by the Governor;

30 (4) four persons representing different areas of the state and different municipalities,
31 appointed by the Alaska Municipal League;

32 (5) one person representing an unincorporated community in the unorganized borough,

1 appointed by the Alaska Federation of Natives;

2 (6) two public members appointed by the Governor; and be it

3 **FURTHER RESOLVED** that members of the task force shall elect from among themselves a
4 chair and a vice-chair and that, within funds made available for the purpose, the task force may hire staff
5 and, subject to approval by the Legislative Council, contract for services to perform its duties under the
6 procurement procedures adopted by the council; and be it

7 **FURTHER RESOLVED** that each member of the task force appointed by the Alaska Municipal
8 League should receive per diem and travel expenses from the municipality the member represents, except
9 that the task force may, in cases of necessity and within funds made available for the purpose, approve
10 the payment to a member of per diem and travel expenses authorized for boards and commissions under
11 AS 39.20.180; and be it

12 **FURTHER RESOLVED** that the task force shall report its findings and recommendations to
13 the Governor and the Legislature by June 30, 1992; and be it

14 **FURTHER RESOLVED** that the task force report include recommendations that ensure budget
15 reductions be shared equitably between the state and the municipal governments; and be it

16 **FURTHER RESOLVED** that the task force is terminated on June 30, 1992.

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Alaska State Legislature



Official Business

Speaker of the House of Representatives

State Capitol
Juneau, Alaska 99801-1182
(907) 465-3720

HCR 1

CREATING THE LONG-RANGE FINANCIAL PLANNING COMMISSION SPONSOR STATEMENT AS PRESENTED TO THE HOUSE FINANCE COMMITTEE - JANUARY 26, 1995

The concept of creating a special Long-Range Financial Planning Commission charged with proposing a plan to organize the state's finances was first proposed during the last legislative session. Recognizing that state spending has consistently exceeded recurring revenue to the state and that the state is faced with an unpredictable and declining revenue stream, several thoughtful plans for dealing with the state's budget crisis were proposed to the last legislature. Notable among these was the plan to change the process of managing the state's financial accounts developed by Roger Cremo.

The Cremo plan was presented to the last legislature (HJR 48) and received extensive consideration by the House Judiciary Committee. As a part of that consideration, House Judiciary Committee Chairman Brian Porter convened a subcommittee, which I chaired, to evaluate the underlying premises of the Cremo plan.

As we discussed the provisions of the CREMO plan, other plans and ideas were also debated. Central to all discussion was an expressed desire to examine the feasibility of forward funding the budget. With the advent of the oil tax litigation settlements, this could now be a possibility by the year 1997.

The subcommittee recommended to Chairman Porter that a Long-Range Financial Planning Commission be convened to review and identify anticipated state expenditures, recurring revenue and potential revenue sources, existing reserves, and to investigate implementing forward funding of the budget.

Long-range financial planning is essential if we are to attain some financial stability for Alaska's future. I believe that creating the Long-Range Financial Planning Commission is a crucial first step in that direction, and I ask for your support of HCR 1.



#4 passed
#7 passed
#8 passed
#9 passed

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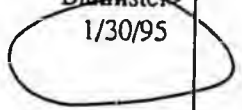
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1/30/95



CS FOR HOUSE CONCURRENT RESOLUTION NO. 1()

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES Phillips, B.Davis, Green

A RESOLUTION

1 Creating the Long Range Financial Planning Commission.

2 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 WHEREAS state spending has exceeded recurring revenue to the state; and

4 WHEREAS the state must eliminate the fiscal gap; and

5 WHEREAS the state is currently forced to deal with an unpredictable and declining
6 revenue stream; and

7 WHEREAS the state must find a means of stabilizing revenue and expenditures at a
8 sustainable level; and

9 WHEREAS the state's system of budgeting and spending must be analyzed and
10 reevaluated by the legislature; and

11 WHEREAS the citizens of the state should have an opportunity to consider these
12 topics, offer comments, and participate in developing a long-range financial plan for the state;
13 and

[14 WHEREAS it would be beneficial to the state and its citizens to implement a long-
15 range financial plan to promote economic stability by diversifying the state's economy and
16 lessening dependence on oil revenue;

1 BE IT RESOLVED that the Alaska State Legislature establishes the Long Range
2 Financial Planning Commission in order to develop and recommend to the governor and the
3 legislature a long-range financial plan for the state; and be it

4 FURTHER RESOLVED that the commission shall consist of the following voting
5 members:

6 (1) nine members of the public, not to include members of the legislative,
7 executive, or judicial branches, appointed by ^[consensus by unanimous agreement] committee composed of the Speaker of the
8 House of Representatives, the President of the Senate, and the Governor;

9 (2) two members of the House of Representatives appointed by the Speaker
10 of the House;

11 (3) two members of the Senate appointed by the President of the Senate; and

12 (4) two members of the executive branch appointed by the Governor; and be
13 it

14 FURTHER RESOLVED that the commission shall select a chair and vice-chair from
15 among the public members of the commission, shall meet as frequently as the commission
16 determines necessary to perform its work, may meet during the interim, and may meet and
17 vote by teleconference; and be it

18 FURTHER RESOLVED that the ^{public} members of the commission shall serve without
19 compensation but are entitled to travel expenses and per diem as authorized under
20 AS 39.20.180 for boards and commissions; and be it

21 FURTHER RESOLVED that the commission may hire staff to carry out its duties;
22 and be it

23 FURTHER RESOLVED that the commission shall

24 (1) review and evaluate state fiscal policy and strategy recommendations and
25 assumptions from reports and publications from similar efforts in the past made by the
26 executive branch, the legislative branch, the University of Alaska, nonprofit organizations, and
27 private individuals and organizations;

28 (2) identify all current state income sources and ^{and evaluate} [evaluate] assets, including
29 recurring revenue, reserves, physical resources, and investments;

30 (3) identify and prioritize systemic changes to stabilize the state's revenue

*
8
passed

6
passed

1 stream;

2 (4) identify and prioritize major reductions in state expenditures, to include
3 formula and nonformula programs, and to include proposed consolidation, transfer, or
4 elimination of governmental services or programs;

5 (5) evaluate forward funding of the budget;

6 (6) identify and prioritize new sources of revenue;

7 (7) project a sustainable long-range financial plan for the next three years, five
8 years, and 10 years, based on a stable revenue stream;

9 (8) evaluate constitutional, statutory, and regulatory language relating to the
10 budget process and recommend changes;

11 (9) consider the division of responsibility for providing services between the
12 state and local governments and evaluate the effect of the long-range financial plan on local
13 governments;

14 (10) submit a preliminary report to the Governor and the Legislature by
15 July 15, 1995;

16 (11) disseminate information and solicit public comment;

17 (12) submit a final report to the Governor and the Legislature by October 1,
18 1995, recommending a long-range financial plan for the state, including specific actions and
19 legislation needed to implement and monitor the plan; and be it

20 **FURTHER RESOLVED** that the commission is authorized to begin work immediately
21 upon the appointment of its full membership or March 15, 1995, whichever date is earlier, and
22 is terminated upon the convening of the Second Regular Session of the Nineteenth Alaska
23 State Legislature.

*RAISING REVENUES
#87
passed*

#4

Brown



CS HCR 1 ()

p. 2, line 18

after "the" insert

"public"