

**LONG  
RANGE  
FINANC  
PLAN  
(10/95)**

**THE FOLLOWING PAGES  
WERE TREATED AS A UNIT  
IN THE ORIGINAL FILE**

LONG RANGE FINANCIAL PLAN  
(October 1995)

OVERVIEW

House/ Senate State Affairs Committee Mtg.  
February 8, 1996

LONG RANGE FINANCIAL PLANNING COMMISSION  
FINAL REPORT DATED OCTOBER, 1995

PRESENTATION TO THE JOINT HOUSE/SENATE STATE AFFAIRS  
COMMITTEE

THURSDAY, FEBRUARY 8, 1996

1. THE LONG RANGE FINANCIAL PLANNING COMMISSION  
REPORT DATED OCTOBER, 1995
2. Minority Report - Long Range Financial Planning Commission

**LEGISLATION: ( by request of the Long Range Financial Planning  
Commission)**

3. **SCR 23** - Relating to Long Range Financial Planning  
(Also see HCR 23)
4. **SJR 33** - Amendments to the Constitution relating to the  
Budget Reserve Fund (Also see HJR 56)
5. **SJR 34** - Amendment to the Constitution relating to the  
Permanent Fund (Also see HJR 55)
6. **SB 233** - Municipal Property Tax Exemption for Certain  
Residents (Also see HB 444)
7. **SB 234** - Increase Tobacco Taxes (Also see HB 442)
8. **SB 235** - Increase Alcohol Taxes (Also see HB 441)
9. **SB 236** - Increase Motor Fuel Taxes (Also see HB 443)
10. **SB 237** - Increase Motor Vehicle Registration Fees  
(Also see HB 445)
11. **SB 210** - Increase Tobacco Taxes (By Senator Ellis)
12. Correspondence received by the State Affairs Committee  
regarding the Long Range Financial Planning Commission Plan

# Alaska State Senate

SENATOR STEVE RIEGER  
District 1



Senate Finance Committee  
Chair, Senate Transportation Committee

Legislative Budget and Audit Committee  
Administrative Regulation Review Committee  
Legislative Council

*During Session:*  
State Capitol, Room 516  
Juneau, Alaska 99801  
(907) 465-3879

716 West 4th Avenue, Suite 530  
Anchorage, Alaska 99501  
(907) 258-8188

## MINORITY REPORT

The Long Range Financial Planning Commission has identified a series of measures which would balance revenues and expenditures over the next ten or more years. However, the final Commission Report goes beyond that task, and recommends additional taxes beyond those which are part of closing the fiscal gap, and which instead serve to place additional money into the corpus of the Permanent Fund. These additional measures are excessive.

The major reason for concern about the fiscal gap was the prospect that, if action was not taken, there would be a crisis reached which would trigger a sudden drop in state spending and threaten the economy and people's jobs, or a major (in the nine figures) new tax such as an income tax or a statewide sales tax, or both. These outcomes are avoided in the Minority Report's plan. However, a major new tax is included in the Commission report.

There are some similarities. The Minority Report agrees with a number of points in the Commission's recommendations. The most notable among them include the following:

1. A baseline forecast of revenues and expenditures shows an ever-widening divergence, or "fiscal gap." With no alteration of course all reserves would be depleted within a few years. Therefore some sort of action is clearly necessary.
2. Cutting spending is a necessary component of closing the fiscal gap.
3. A series of smaller revenue-raising measures, including excise taxes, fees to support specific programs, and motor fuel taxes contribute, in the aggregate, a significant amount toward closing the fiscal gap.
4. Inflation-proofing should become a top priority or even automatic for the Alaska Permanent Fund. In addition, a portion of the remaining earnings after inflation-proofing should be used for general fund purposes, even though it will have an effect on the size of the dividend.

The fiscal measures described above are surprisingly powerful in themselves. They can close the fiscal gap for a decade, and actually build up significant cash reserves at the same time. Under a "Composite Scenario" developed during the Commission's deliberations, (and using the Commission's assumptions), by the year 2010 these measures would result in a Permanent Fund balance of almost \$30 billion and additional cash reserves of over \$5 billion. In today's dollars these numbers would be over \$19 billion and \$3 billion respectively.

The Composite Scenario was put together largely out of the work of the Commission. There were a number of individual assumptions or points which differ from what the Minority Report would prefer to see. However, these were not sufficient in themselves to necessitate a dissenting Minority Report. The Composite Scenario represents a reasonable course for Alaska.

**Discussion of Differences.** Where the Commission Report and the Minority Report part company most dramatically is the extent to which they pursue the goal of making the Permanent Fund and "endowment" for future government spending. To pursue this thought, the Commission Report recommends diverting an additional \$250 million of today's royalties away from the general fund and into the Permanent Fund, thereby cutting the present state revenue stream by approximately \$250 million per year and actually *increasing* the fiscal gap; by dumping most present or forecast cash reserves into the Permanent Fund; reducing the dividend payout more than in the "Composite Scenario" referred to above; imposing an additional \$40 million to \$50 million per year in small taxes over those used in the Composite Scenario; and by imposing a major new personal income tax generating \$385 million per year by the year 2010. These measures, plus calling for smaller reserves of \$1.5 billion, compared to \$5 billion in the Composite Scenario, result in a Permanent Fund which is a little over \$40 billion in the year 2010, or the equivalent of \$26 billion in today's dollars.

In the Minority Report's view, these additional measures are not worth the sole accomplishment of a Permanent Fund which is 1/3 larger in size. They do not succeed in creating an endowment for state spending, and impose taxes when they are not needed. The Permanent Fund can be a very substantial source of stability and cash for the future. However, in neither the plan advanced by the Commission nor in the Composite Scenario does it come even close to being the sole source of funding for state government.

The fiscal gap can be closed satisfactorily for the next decade with a much more modest set of measures. These measures would be similar to those shown in the Composite Scenario referred to above. While they are actually sufficient to cover forecast cash needs through the year 2010 with room to spare, the Minority Report recommends that the fiscal outlook be revisited in approximately the year 2005, when the state begins to be faced

once again with drawing down cash reserves rather than building up cash reserves. At that time the state will probably have to choose between making further cuts in spending, or making a yet greater draw on after-inflation Permanent Fund Earnings (resulting in a reduced dividend payout), or imposing additional taxes. It is possible that at that time the state will be seeing new revenues under the existing fiscal structure, because of ANWR activity, gas line activity, or other new developments, but the Minority Report would not recommend relying on those developments at this time. They will be part of the information available at the revisit ten years from now.

An argument raised for the Endowment approach is an assertion that the Composite Scenario does not do enough beyond the year 2005, when the gap starts widening again. However, a close look at the Endowment Plan shows that the gap is not closed because of the larger Permanent Fund. Both plans show a deficit in the year 2010 absent additional measures. The spreadsheet for the Endowment Plan shows a deficit \$503 smaller than the Composite scenario; however, the Endowment Plan has \$371 million higher taxes than the Composite Plan in that year, and \$276 million lower transfers to the Permanent Fund Dividend program. In other words, higher taxes and lower dividends account for more than 100% of the net fiscal difference between the two plans, even in the year 2010. At the same time, much of the larger Permanent Fund earnings under the Endowment Plan by the year 2010 primarily serve to offset the higher royalty contribution rate to the fund.

**Summary.** The fiscal gap is a real problem which demands immediate action. However, the action required is quite manageable and--while it will be felt--it will not place dramatic strains on the Alaskan economy or individual Alaskans. In contrast, the action recommended in the Commission report attempts not only to close the fiscal gap but also attempts, unsuccessfully, to create an endowment for state government. In doing so the Commission Report recommends a more disruptive course than is necessary, with greater effects on the economy and on individuals, especially because of the personal income tax. The Minority Report recommends taking only those actions which are required to close the fiscal gap. While the details may be the subject of debate, the Composite Scenario shown in the attached spreadsheet is representative of the action needed.

## Appendix

The attached spreadsheet was presented to the Long Range Financial Planning Commission on September 29-30, when the Commission was developing its final recommendations. It uses assumptions which had been developed by the LRFPC at that time.

## RIEGER COMPOSITE SCENARIO PROJECTION — SEPTEMBER 30

PERMANENT FUND EARNINGS AT 7.94% (AVJ)

(Nominal Dollars)

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
<b>AVAILABLE REVENUES (\$ Millions):</b>															
Existing General Fund sources	1,952	1,919	1,997	2,038	2,062	2,083	2,059	2,058	2,052	2,030	1,985	1,936	1,950	1,910	1,870
Lit ANS Export Ban		20	20	20	20	20	20	20	20	20	20	20	20	20	20
New oil production										25	100	100	100	100	100
Permanent Fund Net Earnings	1,213	1,391	1,450	1,514	1,581	1,651	1,722	1,796	1,872	1,951	2,031	2,114	2,200	2,288	2,379
Permanent Fund Inflation-Proofing	-429	-494	-541	-566	-592	-619	-647	-676	-706	-737	-768	-800	-834	-868	-904
Transfer to Permanent Fund Earnings Reserve	-219	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Highway Motor Fuel Tax @ \$.219/gal., indexed		39	41	43	45	47	50	52	55	57	60	63	66	69	73
Marine Motor Fuel Tax (\$.08/gal., per HB 122, indexed)		5	5	5	6	6	6	7	7	7	8	8	8	9	9
Tobacco Tax (\$1/pkg cigs; 75%/chewing; +25¢ triennially)		43	44	44	56	57	58	71	72	73	87	88	102	104	106
Motor vehicle license fees (double)			29	29	30	30	31	31	32	32	33	33	34	35	35
User fee increases		3	6	9	12	15	15	15	15	15	15	15	15	15	15
Alcohol taxes (increase similar to HB 96)			20	21	21	21	22	22	22	23	23	23	24	24	24
<b>TOTAL REVENUES</b>	<b>2,517</b>	<b>2,926</b>	<b>3,072</b>	<b>3,159</b>	<b>3,241</b>	<b>3,312</b>	<b>3,336</b>	<b>3,396</b>	<b>3,441</b>	<b>3,505</b>	<b>3,594</b>	<b>3,600</b>	<b>3,686</b>	<b>3,706</b>	<b>3,728</b>
Note: PF earnings used for GF programs		350	394	469	509	617	647	683	713	740	766	792	728	756	785
Note: Cumulative Spending Cuts total		40	70	100											
<b>EXPENDITURES (\$ Millions):</b>															
Total GF spending on current programs	2,476	2,436	2,406	2,376	2,471	2,570	2,673	2,780	2,891	3,007	3,127	3,252	3,382	3,517	3,658
Permanent Fund Dividends	565	575	550	525	525	473	502	520	542	565	589	613	638	664	691
<b>TOTAL EXPENDITURES</b>	<b>3,041</b>	<b>3,011</b>	<b>2,956</b>	<b>2,901</b>	<b>2,998</b>	<b>3,043</b>	<b>3,174</b>	<b>3,300</b>	<b>3,433</b>	<b>3,572</b>	<b>3,716</b>	<b>3,865</b>	<b>4,020</b>	<b>4,181</b>	<b>4,348</b>
<b>PROJECTED ANNUAL FISCAL GAP</b>	<b>-524</b>	<b>-85</b>	<b>116</b>	<b>258</b>	<b>245</b>	<b>269</b>	<b>161</b>	<b>96</b>	<b>8</b>	<b>-67</b>	<b>-122</b>	<b>-265</b>	<b>-334</b>	<b>-475</b>	<b>-621</b>
DRAW FROM CBR	524	85	-116	-258	-245	-269	-161	-96	-8	67	122	265	334	475	621
<b>Constitutional Budget Reserve beginning balance</b>	<b>2,006</b>	<b>1,107</b>	<b>1,592</b>	<b>1,957</b>	<b>2,487</b>	<b>2,888</b>	<b>3,337</b>	<b>3,707</b>	<b>4,035</b>	<b>4,294</b>	<b>4,496</b>	<b>4,655</b>	<b>4,681</b>	<b>4,639</b>	<b>4,454</b>
Interest	125	89	89	122	155	180	209	232	252	288	281	291	283	290	279
Settlements	500	500	150	150											
Drawn for GF spending	524	85	-116	-258	-245	-269	-161	-96	-8	67	122	265	334	475	621
CBR transfer to Permanent Fund Principal	1000														
<b>Constitutional Budget Reserve ending balance</b>	<b>1,107</b>	<b>1,592</b>	<b>1,957</b>	<b>2,487</b>	<b>2,888</b>	<b>3,337</b>	<b>3,707</b>	<b>4,035</b>	<b>4,294</b>	<b>4,496</b>	<b>4,655</b>	<b>4,681</b>	<b>4,639</b>	<b>4,454</b>	<b>4,112</b>
<b>PF Earnings Reserve beginning balance</b>	<b>703</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>
Net from PF Earnings not used for GF	210	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PF Earnings reserve transfer to PF Principal	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>PF Earnings Reserve ending balance</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>904</b>
<b>Alaska Permanent Fund beginning balance</b>	<b>14,139</b>	<b>16,285</b>	<b>17,006</b>	<b>17,790</b>	<b>18,615</b>	<b>19,470</b>	<b>20,353</b>	<b>21,262</b>	<b>22,197</b>	<b>23,161</b>	<b>24,153</b>	<b>25,170</b>	<b>26,214</b>	<b>27,300</b>	<b>28,414</b>
Dedicated state revenues - DOR Spring mid-case	217	227	244	259	263	264	261	259	258	256	249	243	253	246	239
FY end principal balance before inflation-proofing & deposits	14,356	16,512	17,250	18,049	18,878	19,734	20,614	21,521	22,455	23,417	24,402	25,413	26,467	27,546	28,653
Deposits to Principal from CBR	1,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deposits to Principal PFER	500	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Inflation-Proofing	429	494	541	566	592	619	647	676	706	737	768	800	834	868	904
FY ending balance Inflation Proofed	16,285	17,006	17,790	18,615	19,470	20,353	21,262	22,197	23,161	24,153	25,170	26,214	27,300	28,414	29,557
Escrow Accounts and Settlements	142	153	165	178	192	208	224	242	261	282	305	329	355	384	414
Net Income (Calculated)	1,190	1,391	1,450	1,514	1,581	1,651	1,722	1,796	1,872	1,951	2,031	2,114	2,200	2,288	2,379
Real Return	761	897	909	949	990	1,032	1,075	1,120	1,166	1,214	1,263	1,314	1,366	1,420	1,476
Permanent Fund Dividends	582	575	550	525	525	473	502	520	542	565	589	613	638	664	691
Income transferred to (from) General Fund	-40	350	394	469	509	617	647	683	713	740	766	792	728	756	785
<b>Alaska Permanent Fund ending balance</b>	<b>16,285</b>	<b>17,006</b>	<b>17,790</b>	<b>18,615</b>	<b>19,470</b>	<b>20,353</b>	<b>21,262</b>	<b>22,197</b>	<b>23,161</b>	<b>24,153</b>	<b>25,170</b>	<b>26,214</b>	<b>27,300</b>	<b>28,414</b>	<b>29,557</b>

## RIEGER COMPOSITE SCENARIO PROJECTION — SEPTEMBER 30

PERMANENT FUND EARNINGS AT 4.79% (real)

(FY 96 Dollars)

	EY 96	EY 97	EY 98	EY 99	EY 00	EY 01	EY 02	EY 03	EY 04	EY 05	EY 06	EY 07	EY 08	EY 09	EY 10
<b>AVAILABLE REVENUES (\$ Millions):</b>															
Existing General Fund sources	1,952	1,863	1,880	1,859	1,822	1,784	1,709	1,656	1,600	1,540	1,454	1,374	1,342	1,274	1,209
LIIANS Export Ban		19	19	18	18	17	17	16	16	15	15	14	14	13	13
New oil production										19	73	71	69	67	65
Permanent Fund Net Earnings	1,213	1,351	1,365	1,381	1,398	1,414	1,430	1,445	1,460	1,474	1,488	1,501	1,514	1,526	1,538
Permanent Fund Inflation-Proofing	-429	-479	-509	-516	-523	-530	-537	-544	-550	-557	-563	-568	-574	-579	-584
Transfer to Permanent Fund Earnings Reserve	-214	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Highway Motor Fuel Tax @ \$.219/gal., Indexed)		38	39	39	40	41	41	42	43	43	44	45	45	46	47
Marine Motor Fuel Tax (\$.08/gal., per HB 122, Indexed)		5	5	5	5	5	5	5	5	6	6	6	6	6	6
Tobacco Tax (\$1/pkg cigs; 75%/chewing; +25% triennially)		42	41	42	51	51	50	59	58	57	66	65	73	72	70
Motor vehicle license fees (double)			28	28	27	27	26	26	26	25	25	25	24	24	23
User fee increases		3	6	8	11	13	12	12	12	11	11	11	10	10	10
Alcohol taxes (Increase similar to HB 96)			19	19	18	18	18	18	17	17	17	17	16	16	16
<b>TOTAL REVENUES</b>	<b>2,517</b>	<b>2,841</b>	<b>2,892</b>	<b>2,883</b>	<b>2,868</b>	<b>2,840</b>	<b>2,772</b>	<b>2,735</b>	<b>2,686</b>	<b>2,652</b>	<b>2,636</b>	<b>2,559</b>	<b>2,539</b>	<b>2,475</b>	<b>2,412</b>
Note: PF earnings used for GF programs	0	340	371	428	450	529	537	550	556	559	561	562	501	504	507
Note: Cumulative Spending Cuts total		39	66	91	0	0	0								
<b>EXPENDITURES (\$ Millions):</b>															
Total GF spending on current programs	2,476	2,365	2,264	2,167	2,184	2,202	2,219	2,237	2,255	2,273	2,291	2,309	2,327	2,346	2,364
Permanent Fund Dividends	565	558	518	479	464	405	416	419	423	427	431	435	439	443	446
<b>TOTAL EXPENDITURES</b>	<b>3,041</b>	<b>2,924</b>	<b>2,782</b>	<b>2,646</b>	<b>2,648</b>	<b>2,607</b>	<b>2,636</b>	<b>2,655</b>	<b>2,678</b>	<b>2,700</b>	<b>2,722</b>	<b>2,744</b>	<b>2,766</b>	<b>2,788</b>	<b>2,811</b>
<b>PROJECTED ANNUAL FISCAL GAP</b>	<b>-524</b>	<b>-82</b>	<b>110</b>	<b>237</b>	<b>219</b>	<b>233</b>	<b>136</b>	<b>80</b>	<b>8</b>	<b>-48</b>	<b>-86</b>	<b>-185</b>	<b>-227</b>	<b>-314</b>	<b>-398</b>
<b>DRAW FROM CBR</b>	<b>524</b>	<b>82</b>	<b>-109</b>	<b>-235</b>											
<b>Constitutional Budget Reserve beginning balance</b>	<b>2,006</b>	<b>1075</b>	<b>1498</b>	<b>1785</b>	<b>2199</b>	<b>2474</b>	<b>2771</b>	<b>2983</b>	<b>3147</b>	<b>3246</b>	<b>3293</b>	<b>3305</b>	<b>3221</b>	<b>3094</b>	<b>2879</b>
Interest	125	67	84	112	137	155	173	186	187	203	208	207	201	183	180
Settlements	500	485	141	137	0	0	0	0	0	0	0	0	0	0	0
Drawn for GF spending	524	82	-108	-235	-217	-230	-134	-77	-6	51	89	188	230	317	401
CBR Transfer to Permanent Fund Principal	1000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Constitutional Budget Reserve ending balance</b>	<b>1,107</b>	<b>1,545</b>	<b>1,842</b>	<b>2,269</b>	<b>2,553</b>	<b>2,859</b>	<b>3,078</b>	<b>3,247</b>	<b>3,349</b>	<b>3,398</b>	<b>3,410</b>	<b>3,323</b>	<b>3,192</b>	<b>2,971</b>	<b>2,658</b>
<b>PF Earnings Reserve beginning balance</b>	<b>703</b>	<b>878</b>	<b>851</b>	<b>824</b>	<b>799</b>	<b>774</b>	<b>751</b>	<b>727</b>	<b>705</b>	<b>683</b>	<b>662</b>	<b>642</b>	<b>622</b>	<b>603</b>	<b>584</b>
Net from PF Earnings not used for GF	210	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PF Earnings reserve transfer to PF Principal	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>PF Earnings Reserve ending balance</b>	<b>904</b>	<b>878</b>	<b>851</b>	<b>824</b>	<b>799</b>	<b>774</b>	<b>751</b>	<b>727</b>	<b>705</b>	<b>683</b>	<b>662</b>	<b>642</b>	<b>622</b>	<b>603</b>	<b>584</b>
<b>Alaska Permanent Fund beginning balance</b>	<b>14,139</b>	<b>15,812</b>	<b>16,003</b>	<b>16,226</b>	<b>16,455</b>	<b>16,680</b>	<b>16,899</b>	<b>17,109</b>	<b>17,311</b>	<b>17,506</b>	<b>17,694</b>	<b>17,870</b>	<b>18,038</b>	<b>18,208</b>	<b>18,365</b>
Dedicated state revenues - DOR Spring mid-case	217	220	230	236	232	226	217	208	201	193	182	173	174	164	154
FY end principal balance before inflation-proofing & deposits	14,356	16,033	16,233	16,462	16,687	16,906	17,116	17,318	17,512	17,700	17,876	18,043	18,212	18,370	18,520
Deposits to Principal from CBR	1,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deposits to Principal PFER	500	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Inflation-Proofing	429	479	509	516	523	530	537	544	550	557	563	568	574	579	584
FY ending balance Inflation Proofed	16,285	16,512	16,742	16,978	17,210	17,436	17,653	17,862	18,063	18,256	18,439	18,611	18,785	18,949	19,104
Escrow Accounts and Settlements	142	148	155	163	170	178	186	195	204	213	223	234	245	256	268
Net Income (Calculated)	1,190	1,351	1,365	1,381	1,398	1,414	1,430	1,445	1,460	1,474	1,488	1,501	1,514	1,526	1,538
Real Return	761	871	856	865	875	884	893	901	910	918	925	933	940	947	954
Permanent Fund Dividends	582	558	518	479	464	405	416	419	423	427	431	435	439	443	446
Income transferred to (from) General Fund	-40	340	371	428	450	529	537	550	556	559	561	562	501	504	507
<b>Alaska Permanent Fund ending balance</b>	<b>16,285</b>	<b>16,512</b>	<b>16,742</b>	<b>16,978</b>	<b>17,210</b>	<b>17,436</b>	<b>17,653</b>	<b>17,862</b>	<b>18,063</b>	<b>18,256</b>	<b>18,439</b>	<b>18,611</b>	<b>18,785</b>	<b>18,949</b>	<b>19,104</b>

**SENATE CONCURRENT RESOLUTION NO. 23**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**NINETEENTH LEGISLATURE - SECOND SESSION**

**BY THE SENATE RULES COMMITTEE BY REQUEST OF THE LONG RANGE FINANCIAL  
PLANNING COMMISSION**

**Introduced: 1/22/96**  
**Referred: STA, JUD, FIN**

**A RESOLUTION**

**1 Relating to long range financial planning.**

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

**3 WHEREAS the state has spent more than it has collected in revenue during six of the**  
**4 past nine fiscal years; and**

**5 WHEREAS the state's fiscal year 1996 fiscal gap between revenue and expenditures**  
**6 is estimated to be \$429,000,000; and**

**7 WHEREAS petroleum revenue currently accounts for about 80 percent of unrestricted**  
**8 general funds and Alaska's petroleum production is projected to decline by one-third during**  
**9 the next 10 years; and**

**10 WHEREAS the fiscal gap is projected to grow steadily to \$1,650,000,000 by fiscal**  
**11 year 2005 if the state does nothing in terms of reducing expenditures or raising revenue; and**

**12 WHEREAS, without changes in projected revenue and expenditures, current reserves**  
**13 in the constitutional budget reserve fund will be depleted by fiscal year 2000; and**

**14 WHEREAS, in fiscal policy forums held during the past five years, the identified**  
**15 fiscal tools needed to address the fiscal gap include spending reductions, use of liquid**  
**16 reserves, tax and fee increases, and use of permanent fund income; and**

**17 WHEREAS, in fiscal policy forums held to date, the conclusion has been that neither**

1 budget cuts alone nor any single fiscal tool is sufficient to address the fiscal gap, and that all  
2 tools must be used in combination to bring about state economic stability; and

3 **WHEREAS** the members of the Long Range Financial Planning Commission (LRFPC)  
4 were jointly appointed by the governor and legislature to build upon the work of previous  
5 fiscal policy studies and the findings of public forums, and were charged with developing 3-,  
6 5-, and 10-year financial plans for balancing revenue and expenditures; and

7 **WHEREAS** the financial plan developed by the LRFPC makes the permanent fund  
8 the cornerstone of the state's fiscal future through a constitutional amendment establishing the  
9 permanent fund as an endowment that will continue to grow with additional deposits and  
10 retained earnings as well as provide a reliable annual payout to the general fund in order to  
11 replace declining future oil revenue; and

12 **WHEREAS** the financial plan recommended by the LRFPC contains a combination  
13 of spending reductions including reductions in permanent fund dividends, use of permanent  
14 fund earnings, and revenue increases that will close the fiscal gap by fiscal year 2000 and  
15 balance revenue with expenditures through fiscal year 2005; and

16 **WHEREAS** the LRFPC's plan proposes a constitutional amendment that resolves  
17 problems with the existing constitutional budget reserve fund and maintains a \$1,500,000,000  
18 continuing balance to cushion oil price volatility; and

19 **WHEREAS** the combination of fiscal policies recommended by the LRFPC puts the  
20 state on firm fiscal ground and strikes a balance between current needs and providing a legacy  
21 of petroleum wealth to the next generation; and

22 **WHEREAS** the LRFPC recommended fiscal year 1997 actions to narrow the fiscal  
23 gap to \$387,000,000 that includes general fund spending reductions and increased taxes and  
24 user fees;

25 **BE IT RESOLVED** that the Nineteenth Alaska State Legislature intends to use the  
26 recommendations of the Long Range Financial Planning Commission as a starting point in  
27 developing the Legislature's fiscal year 1997 budget and long range financial plan; and be it

28 **FURTHER RESOLVED** that the Nineteenth Alaska State Legislature adopts the  
29 recommendation of the LRFPC to narrow the fiscal gap in fiscal year 1997 to \$387,000,000,  
30 except that the Legislature reserves the right to change the mix of spending reductions and  
31 revenue increases; and be it

1           **FURTHER RESOLVED** that the Nineteenth Alaska State Legislature adopts the  
2 recommendation of the LRFPC to close the fiscal gap by fiscal year 2000; and be it

3           **FURTHER RESOLVED** that the Nineteenth Alaska State Legislature adopts the  
4 recommendation of the LRFPC to annually balance state revenue with expenditures from fiscal  
5 year 2000 through fiscal year 2005, and urges subsequent Alaska State Legislatures to follow  
6 this recommendation; and be it

7           **FURTHER RESOLVED** that the Nineteenth Alaska State Legislature adopts the  
8 recommendation of the LRFPC that the Legislature and the Governor should report annually  
9 to the people of the state on actions taken to close the fiscal gap and the effects of those  
10 actions on the LRFPC's base case projections; and be it

11           **FURTHER RESOLVED** that the Nineteenth Alaska State Legislature urges all  
12 Alaskans to learn about Alaska's fiscal situation and to support the actions necessary to close  
13 the fiscal gap; and be it

14           **FURTHER RESOLVED** that the Twentieth Alaska State Legislature is urged to create  
15 and appoint a successor Long Range Financial Planning Commission in 1998 to assess  
16 progress in closing the fiscal gap and to recommend further actions to close the fiscal gap and  
17 maintain a balanced state budget.

18           **COPIES** of this resolution shall be sent to the Honorable Tony Knowles, Governor  
19 of Alaska; the Honorable Drue Pearce, President of the Senate; the Honorable Gail Phillips,  
20 Speaker of the House of Representatives; and to the members of the Long Range Financial  
21 Planning Commission.

## SENATE JOINT RESOLUTION NO. 33

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE LONG RANGE FINANCIAL  
PLANNING COMMISSION

Introduced: 1/22/96

Referred: STA, JUD, FIN

## A RESOLUTION

1 Proposing amendments to the Constitution of the State of Alaska relating to the  
2 budget reserve fund.

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

4 WHEREAS Article IX, sec. 17(a), Constitution of the State of Alaska, is amended to  
5 read:

6 (a) There is established as a separate fund in the State treasury the budget  
7 reserve fund. The purpose of the budget reserve fund is to help stabilize State  
8 spending from year to year. Except for money deposited into the permanent fund  
9 under Section 15 of this article, all money received by the State after July 1, 1990, as  
10 a result of the termination, through settlement or otherwise, of an administrative  
11 proceeding or of litigation in a State or federal court involving mineral lease bonuses,  
12 rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments or  
13 bonuses, or involving taxes imposed on mineral income, production, or property, shall  
14 be deposited in the budget reserve fund. Money in the budget reserve fund shall be  
15 invested so as to yield competitive market rates to the fund. Income of the fund shall  
16 be retained in the fund. Section 7 of this article does not apply to deposits made to

1 the fund under this subsection. Money may be appropriated from the fund only as  
2 authorized under (b) or (c) of this section.

3 \* Sec. 2. Article IX, sec. 17(b), Constitution of the State of Alaska, is amended to read:

4 (b) If the amount of unrestricted revenue available [FOR APPROPRIATION]  
5 for a fiscal year is less than the combined amount of unrestricted revenue and  
6 money from the budget reserve fund appropriated for the previous fiscal year, an  
7 appropriation may be made from the [BUDGET RESERVE] fund. However, the  
8 amount appropriated from the fund under this subsection may not exceed the amount  
9 necessary [, WHEN ADDED TO OTHER FUNDS AVAILABLE FOR  
10 APPROPRIATION,] to provide for total appropriations of unrestricted revenue and  
11 money from the fund equal to the amount of appropriations made from these sources  
12 [IN THE PREVIOUS CALENDAR YEAR] for the previous fiscal year. The  
13 legislature shall implement this subsection by law For purposes of this  
14 subsection, "unrestricted revenue" means all money received by the State during  
15 a fiscal year except money held in trust, received from the federal government for  
16 a particular purpose, or dedicated for a particular purpose as permitted by this  
17 constitution.

18 \* Sec. 3. Article IX, sec. 17(d), Constitution of the State of Alaska, is repealed.

19 \* Sec. 4. The amendments proposed by this resolution shall be placed before the voters of  
20 the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the  
21 State of Alaska, and the election laws of the state.

## SENATE JOINT RESOLUTION NO. 34

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE LONG RANGE FINANCIAL  
PLANNING COMMISSIONIntroduced: 1/22/96  
Referred: STA, JUD, FIN

## A RESOLUTION

1 Proposing an amendment to the Constitution of the State of Alaska relating to  
2 the permanent fund.

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

4 \* Section 1. Article IX, sec. 15, Constitution of the State of Alaska, is amended to read:

5 SECTION 15. ALASKA PERMANENT FUND. At least fifty percent  
6 [TWENTY-FIVE PER CENT] of all mineral lease rentals, royalties, royalty sale  
7 proceeds, federal mineral revenue sharing payments and bonuses received by the State  
8 shall be placed in a permanent fund, the principal of which shall be used only for  
9 those income-producing investments specifically designated by law as eligible for  
10 permanent fund investments. Income [ALL INCOME] from the permanent fund shall  
11 be retained in the permanent fund, except that appropriations may be made from  
12 the income to [DEPOSITED IN] the general fund. Annual appropriations from the  
13 permanent fund may not exceed four percent of the average market value of the  
14 permanent fund during the immediately preceding five years. The legislature  
15 shall implement this section [UNLESS OTHERWISE PROVIDED] by law.

16 \* Sec. 2. The amendment proposed by this resolution shall be placed before the voters of

- 1 the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the
- 2 State of Alaska, and the election laws of the state.

## SENATE BILL NO. 233

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE LONG RANGE FINANCIAL  
PLANNING COMMISSION

Introduced: 1/22/96

Referred: STA, JUD, FIN

## A BILL

## FOR AN ACT ENTITLED

1 "An Act relating to municipal property tax exemptions for certain residences and  
2 to property tax equivalency payments for certain residents; and providing for an  
3 effective date."

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

5 \* Section 1. AS 29.45.030(b) is amended to read:

6 (b) Nothing [EXCEPT AS PROVIDED IN (g) OF THIS SECTION,  
7 NOTHING] in (i) [(e) - (j)] of this section affects similar exemptions from property  
8 taxes granted by a municipality on September 10, 1972 [, OR PREVENTS A  
9 MUNICIPALITY FROM GRANTING SIMILAR EXEMPTIONS BY ORDINANCE  
10 AS PROVIDED IN AS 29.45.050].

11 \* Sec. 2. AS 29.45.030(k) is amended to read:

12 (k) The department shall adopt regulations to implement the provisions of [(g)  
13 AND] (j) of this section.

14 \* Sec. 3. AS 29.45.050(i) is amended to read:

1 (i) A municipality may by ordinance approved by the voters exempt from  
2 taxation all or part of the assessed value [THAT EXCEEDS \$150,000] of real  
3 property owned and occupied as a permanent place of abode by a resident who is

4 (1) 65 years of age or older;

5 (2) a disabled veteran, including a person who was disabled in the line  
6 of duty while serving in the Alaska Territorial Guard; or

7 (3) at least 60 years old and a widow or widower of a person who  
8 qualified for an exemption under (1) or (2) of this subsection.

9 \* Sec. 4. AS 29.45.030(a)(6), 29.45.030(c), 29.45.030(f), 29.45.030(g), 29.45.030(i), and  
10 29.45.040 are repealed.

11 \* Sec. 5. This Act takes effect January 1, 1997.

## SENATE BILL NO. 234

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE LONG RANGE FINANCIAL  
PLANNING COMMISSION

Introduced: 1/22/96

Referred: STA, JUD, FIN

## A BILL

## FOR AN ACT ENTITLED

1 "An Act relating to taxes on cigarettes and tobacco products; and providing for  
2 an effective date."

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

4 \* Section 1. AS 43.50.190(a) is amended to read:

5 (a) On [THERE IS LEVIED AN EXCISE TAX OF 12 MILLS ON] each  
6 cigarette imported or acquired in this state, there is levied an excise tax at the  
7 following rates:

8 (1) on and after the effective date of this Act and through June 30,  
9 1999 - 62 mills;

10 (2) after June 30, 1999, and through June 30, 2002 - 74 mills;

11 (3) after June 30, 2002, and through June 30, 2005 - 86 mills; and

12 (4) after June 30, 2005 - 86 mills plus an additional 12 mills during  
13 each succeeding three-year period, the increase to be effective on the first day of  
14 the succeeding three-year period.

1 \* Sec. 2. AS 43.50.190 is amended by adding a new subsection to read:

2 (c) At the time of a change in the amount of tax under (a) of this section, the  
3 department shall give public notice of the change. The department shall also provide  
4 notification of the change to all persons licensed under this chapter.

5 \* Sec. 3. AS 43.50.300 is amended to read:

6 Sec. 43.50.300. EXCISE TAX LEVIED. An excise tax is levied on tobacco  
7 products in the state at the rate of 100 [25] percent of the wholesale price of the  
8 tobacco products. The tax is levied when a person

9 (1) brings, or causes to be brought, a tobacco product into the state  
10 from outside the state for sale;

11 (2) makes, manufactures, or fabricates a tobacco product in the state  
12 for sale in the state; or

13 (3) ships or transports a tobacco product to a retailer in the state for  
14 sale by the retailer.

15 \* Sec. 4. This Act takes effect October 1, 1996.

SENATE BILL NO. 235

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE LONG RANGE FINANCIAL  
PLANNING COMMISSION

Introduced: 1/22/96

Referred: STA, JUD, FIN

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to excise taxes on alcoholic beverages; and providing for an  
2 effective date."

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

4 \* Section 1. AS 43.60.010(a) is amended to read:

5 (a) Every brewer, distiller, bottler, jobber, retailer, wholesaler, or manufacturer  
6 who sells alcoholic beverages in the state or who consigns shipments of alcoholic  
7 beverages into the state, whether or not the alcoholic beverages are brewed, distilled,  
8 bottled, or manufactured in the state, shall pay on all malt beverages (alcoholic content  
9 of one percent or more by volume), wines, and hard or distilled alcoholic beverages,  
10 the following taxes:

11 (1) malt beverages, per [AT THE RATE OF 35 CENTS A] gallon or  
12 fraction of a gallon, at the following rates:

13 (A) on and after the effective date of this Act and through  
14 June 30, 1999 - \$1.05;

1 (B) after June 30, 1999, and through June 30, 2002 - \$1.15;

2 (C) after June 30, 2002, and through June 30, 2005 - \$1.25;

3 and

4 (D) after June 30, 2005 - \$1.25 plus an additional 10 cents  
5 during each succeeding three-year period, the increase to be effective on  
6 the first day of the succeeding three-year period;

7 (2) wine or other beverages of 21 percent alcohol by volume or less,  
8 per [AT THE RATE OF 85 CENTS A] gallon or fraction of a gallon, at the following  
9 rates:

10 (A) on and after the effective date of this Act and through  
11 June 30, 1999 - \$2.50;

12 (B) after June 30, 1999, and through June 30, 2002 - \$3.15;

13 (C) after June 30, 2002, and through June 30, 2005 - \$3.80;

14 and

15 (D) after June 30, 2005 - \$3.80 plus an additional 65 cents  
16 during each succeeding three-year period, the increase to be effective on  
17 the first day of the succeeding three-year period; and

18 (3) other beverages having a content of more than 21 percent alcohol  
19 by volume, per [AT THE RATE OF \$5.60 A] gallon or fraction of a gallon, at the  
20 following rates

21 (A) on and after the effective date of this Act and through  
22 June 30, 1999 - \$8.50;

23 (B) after June 30, 1999, and through June 30, 2002 - \$10.60;

24 (C) after June 30, 2002, and through June 30, 2005 - \$12.70;

25 and

26 (D) after June 30, 2005 - \$12.70 plus an additional \$2.10  
27 during each succeeding three-year period, the increase to be effective on  
28 the first day of the succeeding three-year period.

29 \* Sec. 2. AS 43.60 is amended by adding a new section to read:

30 Sec. 43.60.035. NOTICE. At the time of a change in the amount of tax under  
31 AS 43.60.010(a), the department shall promptly give public notice of the change. The

1 department shall also provide notification of a change in the amount to each brewer,  
2 distiller, bottler, jobber, retailer, wholesaler, manufacturer, or other person liable for  
3 payment of the tax levied by AS 43.60.010.  
4 \* Sec. 3. This Act takes effect October 1, 1996.

## SENATE BILL NO. 236

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE LONG RANGE FINANCIAL  
PLANNING COMMISSION

Introduced: 1/22/96

Referred: STA, JUD, FIN

## A BILL

## FOR AN ACT ENTITLED

1 "An Act relating to the tax on transfers or consumption of motor fuel, and  
2 repealing the exemption from that tax for motor fuel which is at least 10 percent  
3 alcohol by volume; and providing for an effective date."

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

5 \* Section 1. AS 43.40.010(a) is amended to read:

6 (a) There is levied a tax of 22 [EIGHT] cents a gallon on all motor fuel sold  
7 or otherwise transferred within the state, except that

8 (1) the tax on aviation gasoline is four and seven-tenths cents a gallon;

9 (2) the tax on motor fuel used in and on watercraft of all descriptions  
10 is eight [FIVE] cents a gallon; and

11 (3) the tax on all aviation fuel other than gasoline is three and two-  
12 tenths cents a gallon.

13 \* Sec. 2. AS 43.40.010(b) is amended to read:

14 (b) There is levied a tax of 22 [EIGHT] cents a gallon on all motor fuel

1 consumed by a user, except that

2 (1) the tax on aviation gasoline consumed is four and seven-tenths cents  
3 a gallon;

4 (2) the tax on motor fuel used in and on watercraft of all descriptions  
5 is eight [FIVE] cents a gallon; and

6 (3) the tax on all aviation fuel other than gasoline is three and two-  
7 tenths cents a gallon.

8 \* Sec. 3. AS 43.40.015(d) is amended to read:

9 (d) A certificate of use is not required

10 (1) for fuel exempted under AS 43.40.100(2)(C) [, (F),] or (K); and

11 (2) for fuel exempted under AS 43.40.100(2)(J) other than fuel sold or  
12 transferred under this exemption to a person who is engaged in construction or mining  
13 activity.

14 \* Sec. 4. AS 43.40.030(a) is amended to read:

15 (a) Except as specified in AS 43.40.010(j), a person who uses motor fuel to  
16 operate an internal combustion engine is entitled to a refund of 16 [SIX] cents a gallon  
17 if

18 (1) the tax on the motor fuel has been paid;

19 (2) the motor fuel is not aviation fuel, or motor fuel used in or on  
20 watercraft; and

21 (3) the internal combustion engine is not used in or in conjunction with  
22 a motor vehicle licensed to be operated on public ways.

23 \* Sec. 5. AS 43.40 is amended by adding a new section to read:

24 Sec. 43.40.045. TAX AND REFUND ADJUSTMENT. (a) The amounts in  
25 AS 43.40.010(a) and (b) and 43.40.030(a) change, as provided in this section,  
26 according to and to the extent of changes in the Consumer Price Index for all urban  
27 consumers for the Anchorage Metropolitan Area compiled by the Bureau of Labor  
28 Statistics, United States Department of Labor. The index for January of 1997 is the  
29 reference base index.

30 (b) The amounts change on July 1 of each even-numbered year in an amount  
31 equal to the percentage of change, calculated to the nearest whole percentage point,

1 between the index for January of that year and the most recent index used to change  
2 the amounts in AS 43.40.010(a) and (b) and 43.40.030(a). However, the amounts do  
3 not change if the amounts required by this section are those currently in effect as a  
4 result of earlier application of this section.

5 (c) If the index is revised, the percentage of change is calculated on the basis  
6 of the revised index. If a revision of the index changes the reference base index, a  
7 revised reference base index is determined by multiplying the reference base index  
8 applicable by the rebasing factor furnished by the United States Bureau of Labor  
9 Statistics. If the index is superseded, the index referred to in this section is the one  
10 represented by the Bureau of Labor Statistics as reflecting most accurately changes in  
11 the purchasing power of the dollar for Alaskan consumers.

12 (d) At the time of a change in the amount of tax required by (b) of this  
13 section, the department shall promptly give public notice of the change. The  
14 department shall also provide notification of a change in amounts required under (b)  
15 of this section to all dealers that collect the tax levied by AS 43.40.010.

16 \* Sec. 6. AS 43.40.100(2)(F) is repealed.

17 \* Sec. 7. This Act takes effect October 1, 1996.

## SENATE BILL NO. 237

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE LONG RANGE FINANCIAL  
PLANNING COMMISSION

Introduced: 1/22/96

Referred: STA, JUD, FIN

## A BILL

## FOR AN ACT ENTITLED

1 "An Act relating to motor vehicle registration fees; and providing for an effective  
2 date."

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

4 \* Section 1. AS 28.10.108(c) is amended to read:

5 (c) A vehicle subject to registration [AND NOT DESCRIBED IN (b) OF THIS  
6 SECTION] shall have its initial registration, and may have its annual registration,  
7 renewed in the month of initial registration in the state, subject to the provisions of (f)  
8 of this section.

9 \* Sec. 2. AS 28.10.181(e) is amended to read:

10 (e) Vehicles owned by the state or a municipality [, MUNICIPALITIES,  
11 AND CHARITABLE ORGANIZATIONS OF THE STATE]. Every certificate of  
12 registration and registration plate issued to the state or [,] a municipality [, OR  
13 CHARITABLE ORGANIZATION OF THE STATE] is in effect until the vehicle for  
14 which the registration certificate and plate were issued is no longer owned and

1 operated by the state or [,] the municipality [, OR THE CHARITABLE  
2 ORGANIZATION OF THE STATE] or until the department, in its discretion, declares  
3 its expiration. The state or [,] municipality [, OR CHARITABLE ORGANIZATION  
4 OF THE STATE] shall maintain a current listing of all vehicles registered to it in the  
5 order of the registration number assigned to each vehicle, and shall provide a copy of  
6 the listing to the department upon request. The listing must include a description of  
7 each vehicle and other identifying information required by the department.  
8 Registration plates issued under this subsection must be of a distinctive design and  
9 numbering system. [FOR THE PURPOSES OF THIS SUBSECTION,  
10 "CHARITABLE ORGANIZATION" MEANS A NONPROFIT ASSOCIATION,  
11 CORPORATION, SOCIETY, OR OTHER ENTITY ORGANIZED,  
12 INCORPORATED, OR HEADQUARTERED IN THE STATE FOR EDUCATIONAL,  
13 CULTURAL, SCIENTIFIC, OR OTHER CHARITABLE PURPOSES,  
14 AS PRESCRIBED IN REGULATIONS OF THE DEPARTMENT.]

15 \* Sec. 3. AS 28.10.421(b) is amended to read:

16 (b) The annual registration fees under this subsection are imposed within the  
17 following classifications for:

18 (1) a vehicle that is not used or maintained for the transportation  
19 of persons or property for hire or for other commercial use and that is a  
20 passenger vehicle, [OR] motor home, pick-up truck not exceeding 6,000 pounds  
21 unladen weight, or van not exceeding 6,000 pounds unladen weight [NOT USED  
22 OR MAINTAINED FOR THE TRANSPORTATION OF PERSONS OR PROPERTY  
23 FOR HIRE OR FOR OTHER COMMERCIAL USE] . . . . . \$75 [\$35];

24 (2) [A PICK-UP TRUCK OR A VAN NOT EXCEEDING 6,000  
25 POUNDS UNLADEN WEIGHT AND NOT USED OR MAINTAINED FOR THE  
26 TRANSPORTATION OF PERSONS OR PROPERTY FOR HIRE OR FOR OTHER  
27 COMMERCIAL USE . . . . . \$40;

28 (3)] a taxicab . . . . . \$140 [\$70];

29 (3) [(4)] a motor bus with a seating capacity for 20 or more persons  
30 and used exclusively for commercial purposes in the transporting of visitors or tourists  
31 . . . . . \$170 [\$85];

- 1                    (4) [(5)] a motorcycle or a motor-driven cycle . . . . . \$40 [\$20];
- 2                    (5) [(6)] a trailer not used or maintained for the transportation of
- 3 persons or property for hire or for other commercial use, including, but not limited to,
- 4 a boat trailer, baggage trailer, box trailer, utility trailer, house trailer, travel trailer, or
- 5 a trailer rented or offered for rent . . . . . \$10 [\$5];
- 6                    (6) a vehicle owned by a rancher, farmer, or dairyman and
- 7 registered under AS 28.10.181 . . . . . \$70;
- 8                    (7) a snowmobile or off-highway vehicle . . . . . \$10;
- 9                    (8) dealer registration plates,
- 10                    (A) the initial set of plates . . . . . \$90;
- 11                    (B) each subsequent set of plates . . . . . \$50.

12 \* Sec. 4. AS 28.10.421(c) is amended to read:

13                    (c) The annual registration fees under this subsection are imposed and are

14 based upon the actual unladen weight as established by the manufacturer's advertised

15 weight or upon the actual weight which the owner shall furnish, subject to the approval

16 of the commissioner or the commissioner's representative, for a vehicle, including a

17 motor vehicle pulling a trailer or semi-trailer, that is registered in the name of a

18 company or business, or is used or maintained for the transportation of passengers for

19 hire, excepting taxicabs and buses under (b) of this section, or for the transportation

20 of property for hire or for other commercial purposes, including a trailer, semi-trailer,

21 truck, wrecker, tow car, hearse, ambulance, and tractor, as follows:

- 22                    (1) up to and including 5,000 pounds . . . . . \$102 [\$51];
- 23                    (2) more than 5,000 pounds to and including 12,000 pounds . . . . .
- 24                    . . . . . \$172 [\$86];
- 25                    (3) more than 12,000 pounds to and including 18,000 pounds . . . . .
- 26                    . . . . . \$312 [\$156];
- 27                    (4) more than 18,000 pounds . . . . . \$442 [\$221].

28 \* Sec. 5. AS 28.10.421(d) is amended to read:

29                    (d) The special registration fees under this subsection are imposed annually,

30 unless otherwise specified, for:

- 31                    (1) [AN HISTORIC VEHICLE (ONE TIME ONLY UPON INITIAL

- 1 REGISTRATION UNDER AS 28.10.181) ..... \$10;
- 2 (2)] special request plates for
- 3 (A) Alaska National Guard personnel ..... \$30;
- 4 (B) veterans or retired veterans ..... \$30;
- 5 (C) recipients of the Purple Heart ..... \$30;
- 6 (D) owners of custom collector or historic vehicles .....
- 7 ..... \$30 [\$50];
- 8 (E) amateur mobile radio station vehicles under
- 9 AS 28.10.181(i) ..... \$10;
- 10 (F) other special request plates ..... \$30;

11 plus the fee required for that vehicle under (b) of this section; the fee required by this  
 12 paragraph shall be collected only on the first issuance and on the replacement of  
 13 special request plates;

14 (2) [(3) A VEHICLE OWNED BY A DISABLED VETERAN OR  
 15 OTHER HANDICAPPED PERSON, AND REGISTERED UNDER AS 28.10.181 OR  
 16 A RESIDENT 65 YEARS OF AGE OR OLDER WHO FILES A WRITTEN  
 17 APPLICATION FOR AN EXEMPTION ON A FORM PRESCRIBED BY THE  
 18 DEPARTMENT ..... NONE;

19 (4)] a vehicle owned by the state ..... none;

20 (3) [(5)] a vehicle owned by an elected state official .....

21 ..... the fee required for that vehicle under (b) of this section;

22 (4) [(6) REPEALED

23 (7) A VEHICLE OWNED BY A RANCHER, FARMER, OR  
 24 DAIRYMAN AND REGISTERED UNDER AS 28.10.181 ..... \$35;

25 (8) A SNOWMOBILE OR OFF-HIGHWAY VEHICLE ..... \$5;

26 (9) AN AMATEUR MOBILE RADIO STATION VEHICLE,

27 (A) WITH A TRANSCEIVER CAPABLE OF LESS THAN 5-  
 28 BAND OPERATION ..... THE FEE REQUIRED  
 29 FOR THAT VEHICLE UNDER (b) OR (c) OF THIS SECTION;

30 (B) IN RECOGNITION OF SERVICE TO THE PUBLIC: A  
 31 MOBILE AMATEUR RADIO STATION OWNED BY AN AMATEUR WITH

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GENERAL CLASS OR HIGHER LICENSE, PROVIDED THE STATION MUST BE SATISFACTORILY PROVED CAPABLE OF OPERATING ON AT LEAST FIVE BANDS FROM 160 THROUGH 10 METERS, MUST HAVE AN ANTENNA, AND MUST HAVE A POWER SUPPLY AND WIRING AS A PERMANENT PART OF THE VEHICLE; THE TRANSMITTING UNIT MAY BE REMOVED FROM THE CAR FOR SERVICE OR DRY STORAGE . . . . . NONE FOR A MOBILE AMATEUR RADIO STATION VEHICLE INCLUDED IN (b)(1) OR (2) OF THIS SECTION;

(10) DEALER REGISTRATION PLATES,

(A) THE INITIAL SET OF PLATES . . . . . \$45;

(B) EACH SUBSEQUENT SET OF PLATES . . . . . \$25;

(11) a vehicle owned by a municipality [OR CHARITABLE ORGANIZATION MEETING THE REQUIREMENTS OF AS 28.10.181(c)] . . . .

. . . . . \$10 [\$5];

~~(12)~~ REPEALED

(13) A VEHICLE OWNED BY A PEARL HARBOR SURVIVOR OR A FORMER PRISONER OF WAR . . . . . NONE;

~~(14)~~ REPEALED

(15) special request university plates . . . . . \$50 plus the fee required for that vehicle under (b)(1) [OR (2)] of this section; the fee required by this paragraph shall be collected only on the first issuance and on the replacement of special request plates; the commissioner of administration shall separately account by university campus designation for the fees received under this paragraph that the department deposits in the general fund; the annual estimated balance in the accounts that is in excess of the cost of issuing special request university plates may be appropriated by the legislature for the support of programs at each campus.

\* Sec. 6. AS 28.10.421 is amended by adding a new subsection to read:

(h) The Department of Labor shall adjust the fees imposed under this section on July 1 of every even-numbered year to reflect changes in the transportation new vehicle segment of the Consumer Price Index for all urban consumers for all items

1 compiled by the Bureau of Labor Statistics, United States Department of Labor, for the  
2 second half of the preceding calendar year. The semiannual index for the second half  
3 of 1996 is the reference base index. The Department of Labor shall round each fee  
4 adjusted under this subsection to the nearest dollar. The Department of Labor shall  
5 provide a schedule of the adjusted fees to the Department of Public Safety, and shall  
6 make the schedule of the adjusted fees available to the public by November 1 of each  
7 year in which fees are revised. An adjusted fee imposed under this subsection takes  
8 effect on December 1 of the year in which the fee is adjusted.

9 \* Sec. 7. AS 28.10.431(b)(3) is amended to read:

10 (3) vehicles 66 55 44 33 22 17 11 8

11 specified in AS 28.10.421(b)(2)

12 [AS 28.10.421(b)(3)]

13 \* Sec. 8. AS 28.10.431(b)(5) is amended to read:

14 (5) vehicles 110 88 66 55 44 33 22 11

15 specified in AS 28.10.421(b)(3)

16 [AS 28.10.421(b)(4)]

17 \* Sec. 9. AS 28.10.431(b)(6) is amended to read:

18 (6) vehicles 9 8 7 6 4 3 2 2

19 specified in AS 28.10.421(b)(5)

20 [AS 28.10.421(b)(6)]

21 \* Sec. 10. AS 28.10.431(b)(9) is amended to read:

22 (9) vehicles eligible for 44

23 dealer plates under AS 28.10.421(b)(8)

24 [AS 28.10.421(d)(10)].

25 \* Sec. 11. AS 28.10.495(c) is amended to read:

26 (c) Proof of disablement or medical handicap, for the purpose of this section,  
27 consists of proof that the individual has a disability that limits or impairs the  
28 ability to walk as defined in 23 C.F.R. 1235.2 [SHALL BE THE SAME AS THAT  
29 REQUIRED FOR THE PURPOSES OF AS 28.10.181(d)].

30 \* Sec. 12. AS 29.45.030(j) is amended to read:

31 (j) One motor vehicle per household owned by a resident 65 years of age or

1           older on January 1 of the assessment year is exempt [EITHER] from taxation on its  
2           assessed value [OR FROM THE REGISTRATION TAX UNDER AS 28.10.431]. An  
3           exemption may be granted under this subsection only upon written application on a  
4           form prescribed by the Department of Public Safety.

5       \* Sec. 13. AS 28.10.108(b), 28.10.181(d), 28.10.181(l), 28.10.411(f), 28.10.431(b)(7),  
6       28.10.431(b)(8), 28.10.431(h); and AS 28.35.235(a)(2) are repealed.

7       \* Sec. 14. Section 6 of this Act takes effect January 1, 1998.

8       \* Sec. 15. Except as provided in sec. 14 of this Act, this Act takes effect January 1, 1997.

## SENATE BILL NO. 210

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY SENATOR ELLIS

Introduced: 1/10/96

Referred: STA, FIN

## A BILL

## FOR AN ACT ENTITLED

1 "An Act relating to taxes on cigarettes and tobacco products; and providing for  
2 an effective date."

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

4 \* Section 1. AS 43.50.190(a) is amended to read:

5 (a) On [THERE IS LEVIED AN EXCISE TAX OF 12 MILLS ON] each  
6 cigarette imported or acquired in this state, there is levied an excise tax at the  
7 following rates:

8 (1) on and after the effective date of this Act and through June 30,  
9 1999 - 62 mills;

10 (2) after June 30, 1999, and through June 30, 2002 - 74 mills;

11 (3) after June 30, 2002, and through June 30, 2005 - 86 mills; and

12 (4) after June 30, 2005 - 86 mills plus an additional 12 mills during  
13 each succeeding three-year period, the increase to be effective on the first day of  
14 the succeeding three-year period.

1 \* Sec. 2. AS 43.50.190 is amended by adding a new subsection to read:

2 (c) At the time of a change in the amount of tax under (a) of this section, the  
3 department shall give public notice of the change. The department shall also provide  
4 notification of the change to all persons licensed under this chapter.

5 \* Sec. 3. AS 43.50.300 is amended to read:

6 Sec. 43.50.300. EXCISE TAX LEVIED. An excise tax is levied on tobacco  
7 products in the state at the rate of 100 [25] percent of the wholesale price of the  
8 tobacco products. The tax is levied when a person

9 (1) brings, or causes to be brought, a tobacco product into the state  
10 from outside the state for sale;

11 (2) makes, manufactures, or fabricates a tobacco product in the state  
12 for sale in the state; or

13 (3) ships or transports a tobacco product to a retailer in the state for  
14 sale by the retailer.

15 \* Sec. 4. AS 43.50 is amended by adding a new section to article 4 to read:

16 Sec. 43.50.365. TAX ADJUSTMENT. (a) The amount in AS 43.50.300  
17 changes, as provided in this section, according to and to the extent of changes in the  
18 Consumer Price Index for all urban consumers for the Anchorage Metropolitan Area  
19 compiled by the Bureau of Labor Statistics, United States Department of Labor. The  
20 index for January of 1997 is the reference base index.

21 (b) The amounts change on July 1 of each even-numbered year in an amount  
22 equal to the percentage of change, calculated to the nearest whole percentage point,  
23 between the index for January of that year and the most recent index used to change  
24 the amount in AS 43.50.300. However, the amounts do not change if the amounts  
25 required by this section are those currently in effect as a result of earlier application  
26 of this section.

27 (c) If the index is revised, the percentage of change is calculated on the basis  
28 of the revised index. If a revision of the index changes the reference base index, a  
29 revised reference base index is determined by multiplying the reference base index  
30 applicable by the rebasing factor furnished by the United States Bureau of Labor  
31 Statistics. If the index is superseded, the index referred to in this section is the one

1 represented by the Bureau of Labor Statistics as reflecting most accurately changes in  
2 the purchasing power of the dollar for Alaskan consumers.

3 \* Sec. 5. AS 43.50 is amended by adding a new section to read:

4 Sec. 43.50.380. NOTICE. At the time of a change in the amount of the tax  
5 under AS 43.50.365, the department shall promptly give public notice of the change.  
6 The department shall also provide notification of a change to all persons licensed under  
7 this chapter.

8 \* Sec. 6. This Act takes effect October 1, 1996.

**Key Bank of Alaska**

A KeyCorp Bank

101 West Banson Boulevard  
Post Office Box 100420  
Anchorage, Alaska 99510-0420  
(907) 564-0250 or (907) 562-8100



Michael J. Burns  
President and  
Chief Executive Officer

January 26, 1996

VIA FACSIMILE

Honorable Drue Pearce  
President, Alaska State Senate  
State Capitol  
Juneau, Alaska 99801-1182

Madame President:

We are very pleased to see that SCR 23 has been introduced and that it may function as the starting point in developing both the FY97 budget and a comprehensive long range financial plan.

The introduction, particularly of this bill, and the hearings that have now been scheduled are consistent with the mission of *Alaskans For A Plan*, and our stated objectives for the 1996 legislative session.

If appropriate, our group would like to be involved in these, or other, hearings on both the FY97 budget and consideration of the resolution referred to above. We would be available for hearings either in Juneau or other locations throughout the state, should you so see fit.

Again, our thanks for the courtesy showed us during our recent Juneau visit, and thank you for bringing this topic forward for both a timely and comprehensive discussion.

On behalf of *Alaskans For A Plan*,

Michael J. Burns  
Chairman

cc: Senator Bert Sharp, Chair, State Affairs Committee  
Senator Robin Taylor, Chair, Judiciary Committee  
Senator Steve Frank, Co-chair, Finance Committee  
Senator Rick Halford, Co-chair, Finance Committee  
Governor Tony Knowles

### Mission

To balance the budget by Fiscal Year 2001 through both responsible cuts and revenue increases, and to ensure that the State of Alaska is on a sustainable, long term financial foundation.

### Goals

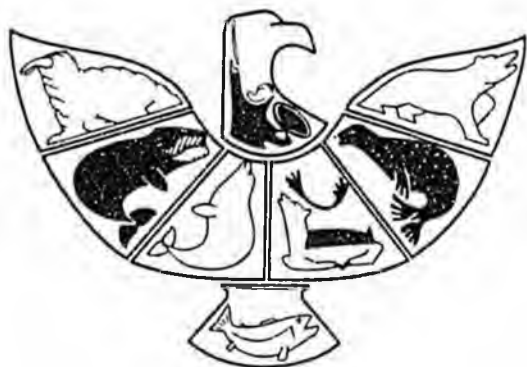
Convince the public of the serious financial challenge the State of Alaska confronts and the importance of decisive action, utilizing all of the fiscal tools necessary to put the State on a sound and sustainable long term foundation.

To get the Governor and the State Legislature to take the budgetary and fiscal action needed to achieve a balanced budget before the State's available savings are gone.

As a first step, the Legislature must implement revenue increases and spending cuts totaling \$200 million in FY97.

### 1996 Objectives

- (1) To get the State Legislature and Governor to devote two weeks of the session to reviewing the analysis and recommendations of the Long Range Financial Planning Commission and to enact a joint resolution committing itself to closing the State's fiscal gap by Fiscal Year 2001 and to achieving the \$200 million fiscal target recommended for 1997 through an appropriate mix of budget cuts, taxes, and increased savings.
- (2) To design and implement a public information plan which achieves our annual objectives and advances accomplishment of our long term goals.
- (3) To build a broad based, statewide coalition of business and civic leaders in support of our mission, goals, and objectives.
- (4) To raise the money and resources necessary to advance our mission and goals and achieve our annual objectives.



# Alaska Native Health Board

1345 Rudakof Circle, Suite 206  
Anchorage, Alaska 99508-6105

Phone: (907) 337-0028  
FAX: (907) 333-2001

January 24, 1996

The Honorable Bert Sharp  
The Alaska Senate  
Post Office Box V  
Juneau, Alaska 99811

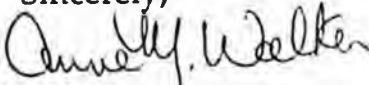
Dear Senator Sharp:

I am writing on behalf of the Alaska Native Health Board to urge you to support legislation to enact major increases in state tobacco tax rates. This goal is ANHB's number one state legislative priority for FY 1997.

Alaska Native people are hard hit by tobacco use. A recent DHSS bulletin reports that smoking kills one out of five Alaskans, and that Alaska Natives account for 23.2% of the smoking-related deaths, even though our people comprise only 16.5% of the state's population. Diseases caused by tobacco use result in tragedy for individuals and families and place a tremendous drain on health care resources.

Although some will argue that tobacco taxes are regressive, we believe that the potential benefit far outweighs the harm. Research has shown that a major tobacco tax increase is the single most effective way to reduce tobacco consumption, especially among kids. The National Cancer Institute has said that "increasing tobacco excise taxes must be considered an essential and primary component of any comprehensive tobacco control program."

We urge you not to let the tobacco tax question get mired in debate about how to deal with the fiscal gap. A major increase in tobacco taxes would be justified even if there was no fiscal gap. The Alaska Constitution states that "the legislature shall provide for the promotion and protection of public health." We hope you will take this commitment seriously and increase tobacco taxes as a way to reduce the leading cause of death in Alaska.

Sincerely,  


Anne M. Walker  
Executive Director

ALEUTIAN/PRIIBILOF ISLANDS ASSOCIATION  
BRISTOL BAY AREA HEALTH CORPORATION  
CHUGACHMIUT  
COPPER RIVER NATIVE ASSOCIATION

KODIAK AREA NATIVE ASSOCIATION  
MANILAQ ASSOCIATION  
METLAKATLA INDIAN COMMUNITY  
NORTH SLOPE BOROUGH  
NORTON SOUND HEALTH CORPORATION

SOUTHCENTRAL FOUNDATION  
SOUTHEAST ALASKA REGIONAL HEALTH CONSORTIUM  
TANANA CHIEFS CONFERENCE  
YUKON-KUSKOKWIM HEALTH CORPORATION

# Cash Barner • Architects

909 West 9th Avenue, Suite 500 Anchorage, Alaska 99501 907/258-7777 Fax 907/279-8195

January 24, 1996

The Honorable Bert Sharp  
Alaska State Senator  
State Capital Building  
Juneau, AK 99801

Dear Senator Sharp:

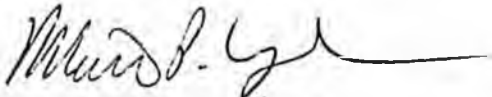
I am writing this letter as a 16 year citizen of Alaska and for the support of my family of 4 children with both spouses working full time. I request that you to adopt a long range fiscal plan for the State of Alaska. As a private citizen with a family in Alaska, I am concerned about the budget gap and request that you consider the recommendations of the Long Range Financial Planning Commission. It is clear to me that the legislature must act to reduce, and then close, the annual gap between income and State spending. I do not want to see out State's cash reserves reduced further to fill the budget gap.

Alaska has more opportunities than any other State and without serious leadership by our elected officials, many of these opportunities for private sector growth and confidence will be lost. The long term economic health of this State must be your first concern for the beginning of the 1996 session. In order to maintain broad industrial growth by private sector investments, the State's long term economics planning must be considered of utmost importance.

It is time for adoption of a sound long range plan in order for the State of Alaska to support healthy economic development for our future and the future of my children.

Sincerely,

CASH BARNER • ARCHITECTS, INC.  
*An Alaska Corporation*



Matthew P. Vogel, Architect  
Associate

An Alaska Corporation

Larry S. Cash, AIA NCARB  
Jerry G. Barner, AIA NCARB  
Internet cba@alaska.net

James E. Dougherty, AIA  
Rolland R. Reid II, AIA NCARB

Scott A. Bohne, AIA NCARB  
Aaron K. Joseph, NCARB

Matthew P. Vogel, Architect

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# Cash Barner • Architects

909 West 9th Avenue, Suite 500 Anchorage, Alaska 99501 907/258-7777 Fax 907/279-8195

January 24, 1996

The Honorable Bert Sharp  
Alaska State Senator  
State Capital Building  
Juneau, AK 99801

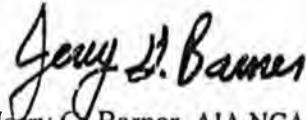
Dear Senator Sharp:

I am writing this letter to urge you to adopt a long range fiscal plan for the State of Alaska. Both as a business owner and a private citizen with a family in Alaska, I am concerned about the budget gap. It is clear to me that the legislature must act to reduce, and then close, the annual gap between income and State spending. I do not want to see out State's cash reserves reduced further to fill the budget gap.

Now is the time to act in a fiscally responsible manner to pave the way for a bright economic future for all Alaskans. Thank you for your consideration.

Sincerely,

CASH BARNER • ARCHITECTS, INC.  
*An Alaska Corporation*



Jerry G. Barner, AIA NCARB  
Principal/Owner

An Alaska Corporation

Larry S. Cash, AIA NCARB  
Jerry G. Barner, AIA NCARB  
Internet [cba@alaska.net](mailto:cba@alaska.net)

James E. Dougherty, AIA  
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Matthew P. Vogel, Architect

CompuServe 71553,1645

# Cash Barner • Architects

909 West 9th Avenue, Suite 500 Anchorage, Alaska 99501 907/258-7777 Fax 907/279-8195

January 24, 1996

The Honorable Bert Sharp  
Alaska State Senator  
State Capital Building  
Juneau, AK 99801

Dear Senator Sharp:

I write this as a business owner, having lived in Alaska since 1977, and starting my business in 1986. The years have come and gone and our business has evolved as we have provided architectural services around the State. It has not always been easy to absorb the ups and downs of the economy. To live within our financial means, we have set goals and established long term plans. Long range planning has been critical to the success and continued viability of our company.

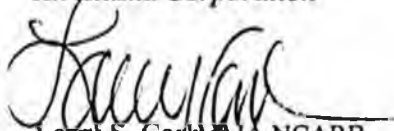
You will be considering the recommendations of the Long Range Financial Planning Commission during the first days of the 1996 session. According to the tone of a recent *Anchorage Daily News* article, it appears that as a body, the Legislature is not in favor of the Commission's recommendations or input from the business community. This concerns me.

Whether or not you adopt the Commission's recommendations, I am writing to urge you to adopt a long range fiscal plan for the State that balances spending with income. Our company and many others believe that the annual gap between State spending and income is the single greatest deterrent to new private sector investment in Alaska. There are significant opportunities for new business development in our State. As our elected leadership, you must be responsible and make the difficult political decisions necessary to bring fiscal balance and create a climate for long term economic health. The private sector players in the State, large and small, are watching you with keen interest. Adoption of a sound long range plan is requisite to the healthy economic development of the State of Alaska for our future and the future of our children.

Thank you for your work on behalf of the citizens of Alaska.

Sincerely,

CASH BARNER • ARCHITECTS, INC.  
*An Alaska Corporation*



Larry S. Cash, AIA NCARB  
Principal/Owner

An Alaska Corporation

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Matthew P. Vogel, Architect

CompuServe 71553.1645

Opps

### Tax burden varies widely

State by state comparison

#### Cigarette

Tax per pack

**Six highest states**

1. Washington 82¢
2. Michigan 75¢
3. Hawaii 60¢
4. Arizona 58¢
5. New York and Rhode Island 56¢

**25. Alaska 29¢**

**Four lowest states**

47. South Carolina 7¢
48. North Carolina 5¢
49. Kentucky 3¢
50. Virginia 3¢

#### Beer

Tax per gallon

**Six highest states**

1. Hawaii 90¢
2. South Carolina 77¢
3. Alabama 53¢
4. Florida, Georgia and North Carolina 48¢
10. Alaska 35¢

**Four lowest states**

47. Illinois 7¢
48. Missouri and Wisconsin 6¢
50. Wyoming 2¢

#### Gasoline

Tax per gallon

**Five highest states**

1. Connecticut 38¢
2. Hawaii 33¢
3. New York 32¢
4. Nevada 29¢
5. Rhode Island 29¢

**Five lowest states**

46. Missouri 15¢
47. New Jersey 15¢
48. Georgia 12¢
49. Wyoming 9¢
50. Alaska 8¢

**The proposed tax rates and the relative rank it would place Alaska**

<b>1. Alaska 1.29¢</b>	<b>1. Alaska 1.05¢</b>	<b>18. Alaska 22¢</b>
------------------------	------------------------	-----------------------

\* We would be tied with three other states

Source: American Petroleum Institute, Federation of Tax Administrators

KEVIN POWELL / Anchorage Daily News

## Gas tax increase would make state average

By RALPH THOMAS  
Daily News reporter

JUNEAU — For years, Alaska motorists have enjoyed the lowest gasoline taxes in the nation. But that would change under a bill lawmakers face this session.

Democratic Gov. Tony Knowles has proposed bumping the state's gasoline tax from 8 cents a gallon to 22 cents. The increase would bring Alaska's gas tax up to the national average, but still 16 cents a gallon short of the tax in Connecticut, which has the highest rate.

The increase, which would bring an

estimated \$40 million a year to the state treasury, was first proposed by a budget commission that Knowles and lawmakers appointed last year. The bipartisan panel recommended the gas-tax hike as one of the first of many tools for closing the state's \$500-million-and-growing annual budget shortfall.

It's unclear what chance the increase has of passing, especially since this is an election year. Not only might voters be upset, but so might fuel wholesalers and retailers, who contributed nearly \$60,000

Please see Back Page, GAS

## GAS: Alaska levy is lowest in nation — for now

Continued from Page A-1

to state candidates in 1993 and 1994.

The Legislature's Republican leaders say voters want to see much deeper cuts in government spending before any new or increased taxes are passed.

But some GOP lawmakers have said they might support a gas-tax increase if there was a guarantee that all of the money raised would be dedicated to road

maintenance and construction. And, to do that, lawmakers would need help from the voters because dedicating tax revenues to a specific use requires amending the state constitution.

In a recent budget speech to the Legislature, Knowles said he supported setting up a dedicated fund for the gas tax.

"Alaskans deserve a safe and reliable public transportation system," Knowles told lawmakers.

# Knowles proposes tax hike

## Tobacco, alcohol levies would soar

By RALPH THOMAS  
Daily News reporter

JUNEAU — Alaskans would pay the nation's highest "sin taxes" on tobacco and alcohol under proposals by Gov. Tony Knowles and others to help balance the state budget.

If the proposals become law, the state tax on each pack of cigarettes would soar from 29 cents to \$1.29 and the tax on chewing tobacco would quadruple. The taxes on wine and beer would more than triple to about 10 cents for a bottle of beer or glass of wine. For hard liquor, the tax would grow by more than 50 percent to about 7 cents for a mixed drink.

Heeding advice from a bipartisan budget commission, Knowles recently proposed the tax hikes as part of the first step in closing the state's so-called "fiscal gap" — a perennial budget shortfall expected to top \$500 million next year. Along with a 14-cents-a-gallon fuel-tax hike that Knowles is proposing, the increases would raise an

Please see Back Page, SIN TAX.

## SIN TAX: Knowles follows revenue advice

Continued from Page A-1

estimated \$100 million a year.

But Knowles and others contend raising taxes on tobacco and alcohol will do more than just help fix the budget. They say higher taxes will reduce tobacco and alcohol use, especially among teenagers. Anti-smoking groups predict a \$1-a-pack increase in the cost of cigarettes would reduce teen smoking by more than a third.

"We call them health taxes," said Anne Marie Holen, who runs an anti-smoking program for the Alaska Native Health Board.

Tobacco industry officials say the tax hikes will not have the health benefits proponents predict. And liquor industry representatives argue that only a small percentage of drinkers abuse alcohol.

"It seems unfair to punish the vast majority of people for problems created by a small minority," said Bob Esterling, president of the Alaska Wine and Spirits Wholesalers Association.

The alcohol and tobacco tax increases were originally proposed by the Long Range Financial Planning

Commission, a panel Knowles and the legislature's Republican leaders appointed last year to find solutions to the fiscal gap.

GOP leaders had initially balked at introducing legislation to implement the commission's tax increases, arguing the Democratic governor should have to sponsor the measures himself. But House Speaker Gail Phillips said Friday the Legislature would introduce the tax-hike bills today.

Getting the increases into law, however, will be no easy feat for Knowles. The tobacco and alcohol industries have hired at least eight lobbyists in Juneau. And Republican lawmakers have all but ruled out any new or increased taxes until state spending has been sharply reduced.

The tobacco industry contributed \$28,600 to state candidates in the last election cycle, while liquor interests donated almost \$78,000, according to candidate reports compiled by the Daily News.

The proposed tobacco and alcohol-tax increases would put Alaska's rates far above the rest of the states. That's especially true for the cigarette tax, which would jump nearly

50 cents per pack above Washington state's rate, currently the nation's highest.

Anchorage voters last year overwhelmingly agreed to increase the local tobacco tax, but rejected a proposed alcohol tax hike. And some Republicans predict that, if the Legislature approves any tax increases, it will be on tobacco.

"Because of the health aspects, it's probably the one that sells the most easily," said Senate President Drue Pearce, R-Anchorage, who accepted \$2,500 in tobacco contributions in 1993 and 1994.

Alaskans are among the heaviest smokers in the country, according to state and federal statistics. In a recent report, state health

## of budget balancing commission

officials said more than one in four adults smoke in Alaska and 20 percent of all deaths in the state during the past two years were "smoking related." The rates are even higher for Alaska Natives.

"Each year, smoking kills more Alaskans than AIDS, aircraft crashes, alcohol, falls, fires, firearms and motor vehicle crashes combined," the report said.

Several health groups, including the Alaska chapters of the American Lung Association and the American Cancer Society, have teamed up with the Alaska Native Health Board to push the tobacco-tax increase.

The groups are armed with studies that show how increased tobacco tax

es have dramatically reduced smoking — especially among teenagers — in other states and countries. In Canada, for instance, where higher taxes increased the price of tobacco by 158 percent over 12 years, teenage smoking dropped by two-thirds, according to the American Cancer Society. However, organized cigarette smuggling became a significant problem for authorities.

"There's probably no other measure the Legislature could pass that would do more to improve the health of Alaskans," Holen said.

Tobacco industry officials don't dispute that higher taxes will lower teen smoking, but say the drop will be nowhere near

what proponents predict.

"You have to realize, these are kids who will pay 15 bucks for a CD and 100 bucks for a pair of tennis shoes," said Walker Merryman, vice president of The Tobacco Institute in Washington, D.C. "I'm not sure an extra buck a pack is going to stop them from smoking."

The best way to combat teen smoking enforce laws already on the books that prohibit cigarette sales to minors, Merryman said.

Rep. Mark Hanley, R-Anchorage, agreed.

"I think taxes generally are to raise revenue, not affect social behavior," said Hanley, who accepted \$700 in contributions from Phillip Morris in 1993 and 1994.

But, in his annual budget speech to the Legislature earlier this month, Knowles made it clear his proposed tobacco tax increase was aimed as much at reducing teen smoking as at closing the fiscal gap.

"Although it's projected to generate \$42 million, frankly, I hope this proposal doesn't raise a single dollar," said Knowles, who didn't get any tobacco money for his election, but received nearly \$16,500 from liquor interests.

## New taxes not the answer

I could believe the headline, "Fiscal crisis real, say top businessmen," on the front page of the Daily News (Jan. 17). But I could not believe what I read in the article.

This coalition of business leaders (Alaskans for a Plan) plans to spend nearly \$600,000 on a statewide television, radio and newspaper advertising blitz to convince the Alaska public that they need to tolerate a new tax and smaller dividends in order to avoid a financial abyss.

I do not know what kind of business these leaders run, but it must be a state-funded business. If I owned a business (which I do not, because I am taxed so heavily I can't afford to start one), the last thing I would want to do is have the people taxed more, which would reduce their buying power.

Companies, especially in today's business climate, do not invest in anything that will not benefit the companies. This leads me to believe that these companies went to the state and made a deal something like this: If we convince the people of this state to accept new taxes and reduced dividends, will you leave us alone and possibly reduce our taxes? And the state said yes!

Don't get me wrong; I believe companies should have tax breaks as incentive to invest and produce jobs.

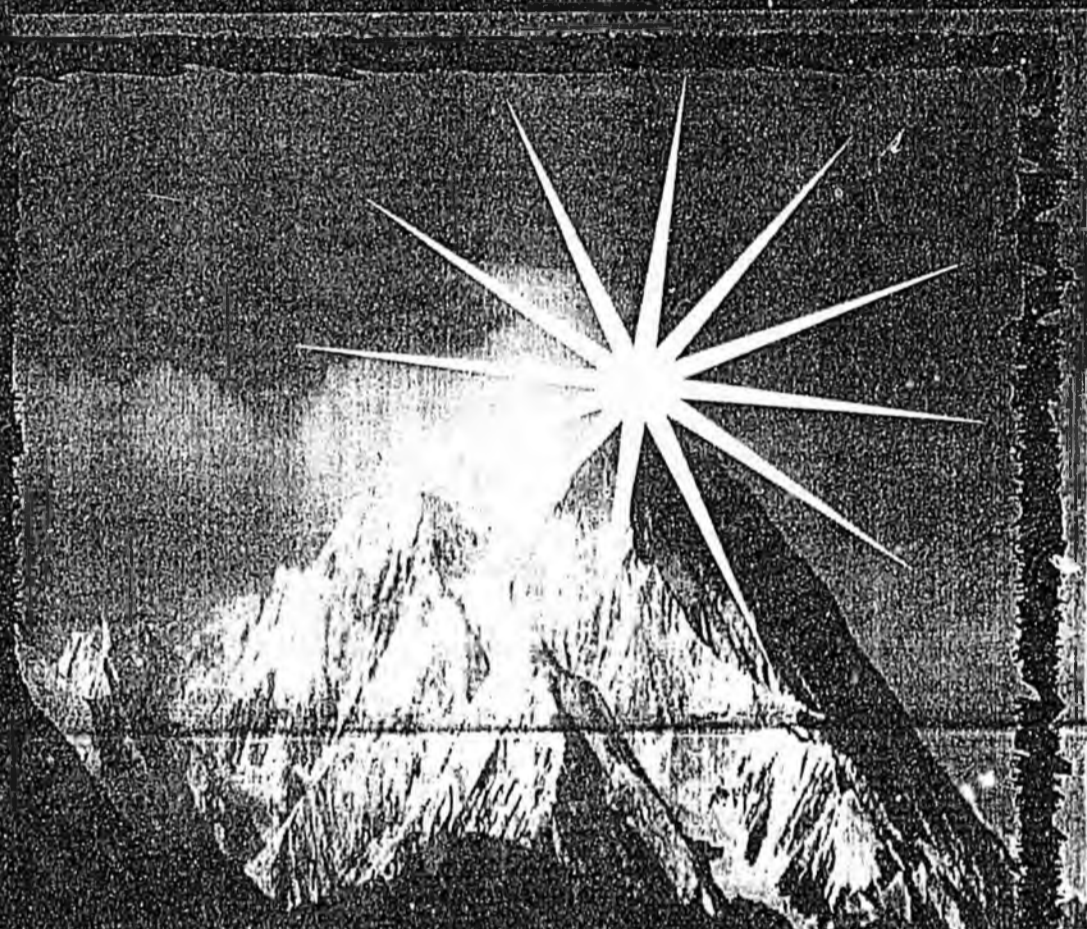
If these business leaders want the politicians in Juneau to fix the so-called "fiscal gap" without fearing for their political necks next fall, they should be convincing the politicians to cut wasteful spending, not convincing the Alaska public to accept new taxes.

— Doug Vaughn  
Anchorage

**THE PRECEDING PAGES  
WERE TREATED AS A UNIT  
IN THE ORIGINAL FILE**

# **An Endowment For Alaska's Future**

## **The State Long Range Financial Planning Commission Report**



The Long Range Financial Planning Commission  
716 West Fourth Ave., Ste. 470  
Anchorage, Alaska 99501

# State Long Range Financial Planning Commission Report

## EXECUTIVE SUMMARY

### Alaska's fiscal gap is real and growing

The State is spending \$524 million more than it will take in during the current fiscal year. That gap will grow to \$1.3 billion per year in today's dollars by 2005 if we make no changes to the State's spending and revenue policies.

The Long Range Financial Planning Commission was appointed jointly by the Legislature and Governor in March 1995 to recommend ways to close the gap and put Alaska on firm financial ground. This report details our plan and our recommendations.

### What does the plan do? It:

- Makes the Permanent Fund the cornerstone of Alaska's fiscal future.
- Closes the fiscal gap by the year 2000.
- Ensures growth of the Permanent Fund to offset declining oil and gas revenues.
- Stabilizes and diversifies revenues.
- Controls State general fund spending.
- Maintains a reserve to dampen the effect of oil price swings.
- Decreases our dependence on volatile oil revenues.

This is a plan for ourselves and our grandchildren. It requires all Alaskans to share in the solution. No action to close the fiscal gap is the greatest threat to Alaska's financial future.

The Commission was asked to recommend a plan for three, five and ten years. To be sure that plans for these time frames did not create a reoccurring fiscal gap after that, the Commission also looked at the likely effects of its plan over a fifteen year period.

### The first three years

The key elements of the three-year plan are to:

#### Cut spending

- Cut current State general fund spending by \$100 million — \$40 million in 1996, \$30 million in 1997, and \$30 million in 1998 — a reduction of \$300 million in today's dollars.
- Reduce per capita State general fund spending from

\$ 4,020 to \$ 3,692 in four years — a reduction to \$3,255 in today's dollars.

#### Increase Revenues

- Increase tobacco taxes by \$1 per pack (\$43 million).
- Increase alcohol taxes by 10 cents per drink (\$20 million).
- Increase motor fuel tax from the 1961 level of 8 cents/gallon to 22 cents/gallon and increase marine fuel tax by 3 cents/gallon (\$44 million).
- Increase user fees by at least \$3 million per year, double motor vehicle license fees, and eliminating motor vehicle license fee exemptions (\$32 million).
- Establish a new tax to generate at least \$20 million from tourists and increase taxes on fisheries and other resources by \$30 million.

#### Use the Permanent Fund as an endowment

- Establish the Permanent Fund as an endowment to partially replace declining oil revenues.
- The endowment will pay up to 4 percent of the Fund's five-year average market value to the general fund for dividends and State services.
- Constitutionally protect Permanent Fund principal by building long-term inflation-proofing into the endowment plan.
- The endowment payout and increased Permanent Fund contribution require voter approval of a constitutional amendment in 1996.

#### Boost the earning power of the Permanent Fund

- Build Permanent Fund principal by
  - (a) making additional special deposits to fund principal;
  - (b) increasing the minimum annual deposit to the Permanent Fund;
  - (c) retaining additional earnings in the Permanent Fund.
- Deposit \$600 million from the Constitutional Budget Reserve into the Permanent Fund this year.
- Close out the Permanent Fund Earnings Reserve once the endowment is in place, by depositing it into the Permanent Fund (approximately \$1.2 billion)
- Increase to 50 percent the minimum contribution to the Permanent Fund from certain oil, gas and mineral lease revenues.

- Retain earnings in excess of the 4 percent annual payout in the fund. Since the projected rate of return to the fund is 4.79 percent after inflation, the Fund should retain earnings above inflation-proofing of at least 0.75 percent annually.

#### Cap the Permanent Fund Dividend pool

- Reduce the total amount spent for the dividend program from \$565 million this year by \$50 million a year for each of the next three years.
- Individual dividends will be about \$900 next year, \$800 in 1997, and \$700 in 1998.

#### Clarify the purpose of the State's reserves

- Maintain the CUR at \$1.5 billion to cushion against oil revenue volatility. Clarify its use and repayment in a constitutional amendment.

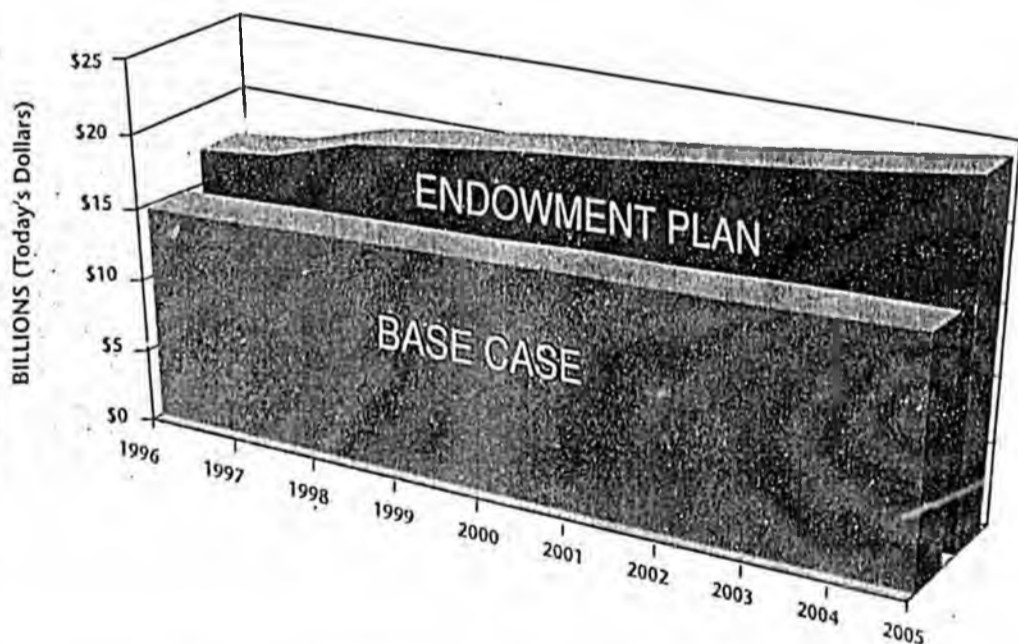
#### Reform the budget process

- Scrutinize all State spending, not just State general funds.
- Report annually to the public on progress toward closing the fiscal gap.
- Focus on whether programs are needed, cost-effective and achieve their intended results.

### The five- and 10-year plan

In 1999, Alaska comes to a fork in the road. By that time the budget is balanced under the Commission's plan. To prevent the fiscal gap from reappearing, we can cut the budget further, institute a personal income tax, increase other taxes, and/or further reduce dividends. The Commission recommends that a follow-up review be done in late 1998 and early 1999 to adjust the overall plan as needed for the succeeding five to ten years. By that time the budget is balanced and we will know more about ANWR, the gas line and federal budget changes. As a result, decisions for first decade of the next century will be less dependent on speculation. Under our plan, after budget cuts, tax increases, the Permanent Fund endowment and dividend reductions have been made, this Commission recommends the State adopt a personal income tax in 2000 to begin in 2002, once the deficit reappears.

Permanent Fund Principal: Comparison of Base Case To Endowment Plan



# State Long Range Financial Planning Commission Report

## FINAL REPORT

### Alaska's fiscal gap is real, and it's growing

The State of Alaska spends more than it takes in each year, and has done so for six of the past nine years.

This year, the State will spend \$524 million more from the State general fund than it will take in — this is the fiscal gap. That gap will grow to \$768 million in three years, to \$879 million in 5 years, and \$1,253 billion in 10 years (in today's dollars) if we make no changes to the State's spending and revenue policies. Our interim report contains more details about the growing fiscal gap and options available to close the gap.

The Long Range Financial Planning Commission was appointed jointly by the Legislature and Governor in March 1995 to recommend how to close the gap and put Alaska on firm financial ground. In the past six months, as directed by the resolution creating the Commission, the Commission has:

- Reviewed and evaluated State fiscal policy and strategy recommendations and assumptions from reports and publications from similar efforts in the past made by the executive branch, the legislative branch, the University of Alaska, nonprofit organizations, and private individuals and organizations,
- Identified and evaluated all current State income sources and assets, including recurring revenue, reserves, physical resources, and investments,
- Identified systemic changes to stabilize the State's revenue stream,
- Identified major reductions in State expenditures,
- Identified new sources of revenue,
- Projected a sustainable long-range financial plan based on a stable revenue stream,
- Evaluated constitutional, statutory, and regulatory language relating to the budget process,
- Reviewed and evaluated forward funding of the State budget,
- Considered the division of responsibility for providing services and raising revenue between the State and local governments and evaluated the effect of the long-range financial plan on local governments,
- Submitted a preliminary report to the Governor and the Legislature, and
- Disseminated information and solicited public comment.

The Commission's deliberations were aided by substantial work and informative presentations by State agency personnel, the Alaska Permanent Fund Corporation staff, Alaska Municipal League and Conference of Mayors, and private citizens who brought additional perspectives to the table.

The Commission's work focused on elements of State spending which affect the fiscal gap. These include:

- General funds, including program receipts
- Permanent fund earnings
- Funds created by appropriations for specific purposes or as "holding accounts"
- Special revenue funds set out in the constitution or statute.

Certain other funds, while included in the overall budget of the state, are not commonly reported in budget presentations, and do not materially affect the fiscal gap.

These include:

- Federal funds
- Loan amounts and loan administrative costs
- University receipts
- Internal service funds
- Transfers between agencies for contractual obligations, including interagency receipts.

The Commission believes the State budget process should include examination of all spending, regardless of whether the funds affect the fiscal gap. To meet the Commission's charge of closing the fiscal gap, though, we focus on the general fund and Permanent Fund.

The Commission has developed a financial plan for the State of Alaska. It brings Alaska's spending into line with recurring revenues. It balances the needs of current Alaskans with the needs of future generations. It requires that all Alaskans share in the solution.

### What the plan does:

#### Makes the Permanent Fund the cornerstone of Alaska's fiscal future

The plan calls for a constitutional amendment establishing the Permanent Fund as an endowment fund with an annual payout to the general fund based on a rolling five year average. The Permanent Fund will continue to grow with additional deposits, and retain some of its earnings in the next few years so that its income replaces declining oil revenues in the future.

#### Closes the fiscal gap by the year 2000

The combination of spending cuts, revenue increases, and uses of Permanent Fund income closes the fiscal gap in four years. With imposition of a State personal income tax in about 2002, the budget balances for another five years.

#### Ensures growth of the Permanent Fund to offset declining oil and gas revenues

The constitutional dedication of mineral lease revenues, royalties and bonuses to the Permanent Fund increases to 50 percent. The annual payout rate from Permanent Fund earnings is capped at a rate of up to four percent of the five-year average market value of the fund, which will allow additional retained earnings to build up the fund. Earnings in excess of the four percent payout rate will, over the long term, fully inflation-proof the fund, and preserve its earning power. Since the projected earnings rate is 4.79 percent above inflation, continued good performance by the fund will result in additional retained earnings of 0.79 percent.

#### Stabilizes and diversifies revenues

A reliable payout from Permanent Fund earnings will stabilize Alaska's income during periods of oil price volatility and substitute for declining oil revenues. New consumption taxes and business taxes will provide a portion of the State's revenues. These revenues will grow as the State's population grows, providing some links between State revenues and its service needs. The State personal income tax, once imposed in about 2002, will be related to State population growth, and will bring in revenues from non-resident workers.

#### Controls State general fund spending

The "bottom line" for general fund spending will shrink by five percent per year in today's dollars for the next four years. Depositing of reserve fund balances and a higher level of oil revenues into the Permanent Fund limits the money available to fuel State spending growth.

#### Maintain a reserve to dampen the effect of oil price swings

The Constitutional Budget Reserve will be available to cushion oil price decreases, and be used to absorb revenues from oil price increases. The second state reserve, the Permanent Fund Earnings Reserve, will be closed and deposited into the Permanent Fund. The Commission recommends maintaining a level of \$1.5 billion in the Constitutional Budget Reserve fund. That amount is approximately one year's oil revenues. Amounts in excess of the \$1.5 billion level should be deposited in the Permanent Fund. The CBR will be replenished by its own interest income, and we further recommend any excess revenues from temporary oil price increases be deposited in the CBR.

#### Decreases our dependence on volatile oil revenues

The combination of Permanent Fund income, increased and new taxes and user fees, and the reimposed State income tax, will offset oil revenues as the primary source of funding for State government operations.

The plan closes the fiscal gap with the following steps:

- Cuts spending,
- Increases revenues, and
- Establishes the Permanent Fund as an endowment,
- Caps the Permanent Fund dividend pool.

### The first three years

The key elements of the three-year plan are to:

#### Cut spending

The State cannot continue to spend at the same level it does today. Notwithstanding needs and demands for increased spending and the impending federal transfer of programs to the State, the Commission believes Alaska cannot close the fiscal gap without cutting State spending.

The plan calls for State general fund spending to be reduced by \$100 million in three years — \$40 million in FY97, \$30 million in FY98, and \$30 million in FY99 — a reduction of \$300 million in today's dollars.

This decline of State spending reduces per capita State general fund spending from \$4,020 to \$3,692 in four years — a reduction to \$3,255 in today's dollars.

The Commission believes this level of reduction in State spending will be painful, but is a necessary step toward closing the fiscal gap. Recent legislatures have managed to hold spending level, which has resulted in real reductions to some State programs.

Within these budget targets, the Commission believes the State should give attention to deficits in the State's infrastructure spending, most particularly for maintenance on publicly-owned facilities, roads and highways.

- The Legislature and the Administration may wish to con-

### The Plan Recommended By This Commission

- **Creates a new philosophy for state revenues**
  - Permanent Fund income begins to replace oil revenues
- **Enhances our ability to save for future generations**
- **Imposes some spending discipline on the State**
- **Defines a role of the Permanent Fund in Alaska's future**
- **Clears up some of the confusion over cash reserves**
- **Suggests embarking upon some structural changes in State government**
- **Involves the public in the decision making process**

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# State Long Range Financial Planning Commission Report

## FINAL REPORT

Continued From Previous Page

sider voter-approved general obligation bond debt as a way to finance capital projects.

General recommendations for budget reductions include:

### Public salaries and benefits

- Enact a retirement incentive program to reduce personal services expenditures.
- Enact a new Tier III retirement system to reduce retirement benefits for new State and local government employees.
- Revise geographic pay differentials for non-covered State employees.
- Study geographic cost differentials in Alaska for use during collective bargaining negotiations with covered State employees (and for use in other State formula programs).
- Compare salaries and benefits of public employees to appropriate public and private markets in Alaska and the Pacific Northwest. Use that comparison to move Alaska's public pay system for State employees, local government employees, and school districts to market.
- Examine the publicly funded health plans for State, local government, school district, and University employees as well as those who receive Medicaid. Look for opportunities to save substantial costs through pooling or other mechanisms.

### Administrative realignment

- Reengineer the delivery of State services to eliminate excessive administration.
- Consolidate state departments and agencies, and realign administrative services.
- Look for opportunities to privatize State programs or to contract out State services. Allow "insourcing" so groups of State employees can offer their own solutions to reduce costs in programs that may otherwise be contracted out.

### Target high-cost programs

- If the current litigation against the Alaska Longevity Bonus is successful (ending the current phase-out), eliminate the program.
- Change the Public School Foundation Formula to reduce the growth in education spending. The required local effort should be reexamined, as well as provisions that allow school districts to obtain greater funding for special category students regardless of the programs offered to those students.
- Enact a welfare reform package to reduce dependency on welfare programs and put current welfare recipients to work.
- Revise fee schedules for services such as Pioneers' Homes to reflect cost and ability to pay.
- Examine areas of State spending with disproportionately high costs when compared with other States and determine whether there are legitimate reasons for such programs.

### Shift revenues and responsibilities to local governments

- Repeal the State mandate for senior citizens' and veterans' property tax relief by local municipalities, but allow local option to grant or withhold the exemption.
- Transfer a portion of State motor vehicle and motor fuel tax receipts to local governments together with the responsibility for class III local road maintenance.
- Eliminate or shift some inspections to local governments with the ability to collect fees for program support.
- Eliminate State general fund support of troopers for road patrols in communities of more than 2,500, but allow communities to continue retain such services if they are willing to pay for them.

### Avoid new costs

- Freeze issuance of certificates of need for new hospitals and reassess need for additional nursing homes

### Funds Which Affect The Fiscal Gap

- General funds, including program receipts
- Permanent Fund earnings
- Created by appropriation for specific purposes or as a "holding account"
- Special revenue funds where specified in the constitution or statute

### Funds Which Do Not Affect The Fiscal Gap

- Loan fund administrative costs
- Loan amounts
- University receipts
- Internal service funds
- Transfers between agencies for contractual obligations, including interagency receipts

### Funds Which Cannot Be Appropriated To Other Purposes

- Federal funds
- Retirement funds
- Health insurance funds
- Trust funds

## Increase Revenues

The Commission believes Alaska cannot balance its budget responsibly without new revenues. The Commission has chosen a short-term package of taxes on consumption that imposes real service costs on the state, with a longer-term plan of reimposing the State personal income tax.

Increases to existing taxes include:

### Tobacco taxes

- Increase tobacco taxes by \$1 per pack on cigarettes and comparable amounts on other tobacco products (raises \$43 million annually, beginning in FY97). This tax increase will dramatically lower teenage smoking and tobacco use, and should somewhat reduce tobacco use by adults, both of which will reduce the State's future expenditures on health care costs. The Commission recommends the taxes increase 25 cents per pack every three years.

### Alcohol taxes

- Increase alcohol taxes by an average of 10 cents per drink (raises \$20 million annually, beginning in FY97). Testimony before the Commission indicated that a substantial portion of the criminal justice system's costs — for police, prosecution, public defense, the courts, and the correctional system — are a result of alcohol abuse. This tax increase pays a small portion of the State's costs that result from abuse of alcohol. The Commission recommends also that taxes be equalized among beer, wine, and distilled spirits so that all alcohol users share in the tax burden. We further recommend that alcohol taxes increase every three years.

Over time, certain of Alaska's tax rates have fallen below the national norms, or have not kept pace with inflation.

We recommend the following increases:

### Motor fuel taxes

- Increase motor fuel tax increases from the 1961 level of 8 cents/gallon to the national median of 22 cents/gallon (raises \$39 million annually, beginning in FY98). This tax should be indexed to inflation, so it rises as consumer prices rise. The Commission believes these tax receipts should be used to fund road maintenance efforts at the State and local level.

### Marine motor fuel taxes

- Increase marine fuel taxes by 3 cents/gallon (raises \$5 million annually, beginning in FY98). This tax should be indexed to inflation, so it rises as consumer prices rise. The Commission believes these tax receipts should be used to fund port and harbor maintenance efforts at the State and local level.

### Motor vehicle license plates

- Double motor vehicle license fees and eliminate exemptions (raises \$29 million, beginning in FY98). These fees are currently well below the national average.

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# State Long Range Financial Planning Commission Report

## FINAL REPORT

### User fees

- Raise user fees by approximately \$3 million annually and index fees to inflation where practicable.

### Fishery and other resource taxes

- Increase taxes on fisheries and other resources by \$30 million.

### New taxes and changes to tax apportionment include:

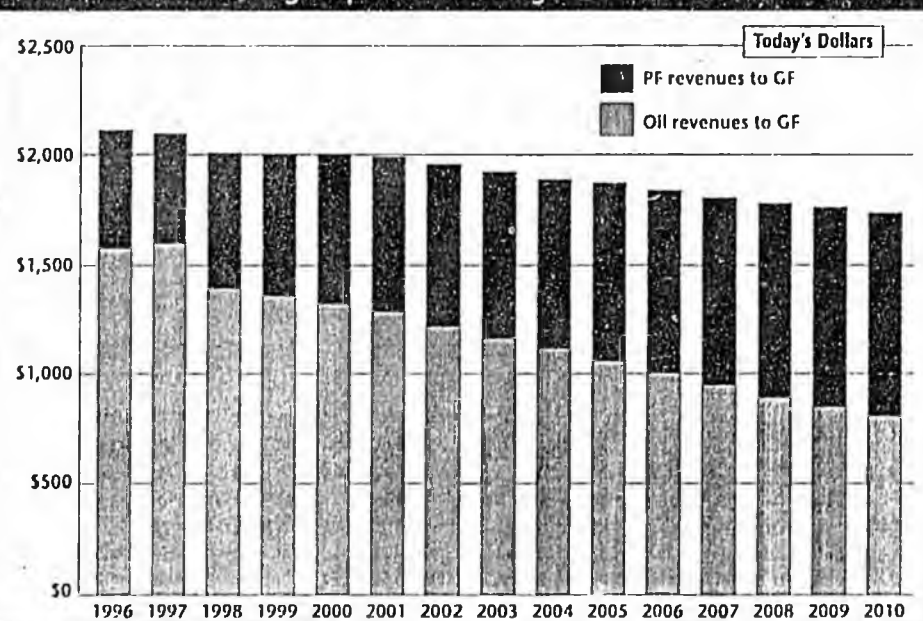
- Establish new taxes to generate at least \$20 million from tourists. While the Commission was unable to reach consensus on the precise method for gaining additional revenue from tourists or the tourism industry, the Commission believes this part of our economy does not fully pay for the State's cost of providing infrastructure and support to the industry.
- The Commission believes the State's oil and gas production property tax, currently set at 20 mills, should benefit both the State and local governments affected by oil development. State law should be amended to limit the local government share to 10 mills on new oil and gas properties built after 1995, ensuring the State receives at least 50 percent of this revenue source.

The Commission considered additional taxes on the oil industry. We found that Alaska is currently in the mid-range of oil taxation nationally. We believe that Alaska is already too dependent upon oil revenues, and that higher oil taxes would create a disincentive to attract and retain petroleum development in Alaska. We believe our plan for closing the fiscal gap and providing a stable revenue and spending climate will ultimately result in increased petroleum revenues as the industry responds by further investment in Alaska oil exploration, development and production.

### Establish the Permanent Fund as an endowment

When the Permanent Fund was established in 1976, public debate centered on setting aside a portion of today's oil wealth to meet the needs of future generations of Alaskans. Later, the Legislature adopted the dividend plan to heighten public interest in preserving the fund and guarding its investment performance, and to directly distribute some of Alaska's oil wealth to its citizens. The Commission believes it is time to follow the original intent of the fund, preserving current capital wealth for current and future generations of Alaskans. The Commission believes the best method for doing this is to follow traditional endowment principles. For our Permanent Fund those principles include preservation of the fund, the best possible level of performance of the fund, and the preservation of Alaska's oil wealth for future generations of Alaskans.

Permanent Fund Earnings Replace Oil Earnings



Our plan calls for the Permanent Fund to grow as an endowment for the State.

- The plan establishes the Permanent Fund as an endowment that pays up to four percent of the Fund's five-year average market value to the general fund for the dividend program and State services. This use of Permanent Fund earnings will partially replace declining oil revenues. The Commission recommends a four percent payout based on the experience of other endowment funds in the United States, and takes into account the Permanent Fund's earning experience, asset allocation, and need to protect the principal.
- Earnings of the Permanent Fund in excess of this four percent payout rate are retained in the fund. Years with good investment performance will, over the long run, balance years with poor investment performance in order to more than fully inflation-proof the fund.
- The plan calls for an increase to 50 percent of the minimum contribution to the Permanent Fund from certain oil, gas and mineral lease revenues. The plan calls for an amendment to the constitution to achieve that increase.
- The endowment is further built up by a deposit from the Permanent Fund Earnings Reserve and deposits of any funds in excess of \$1.5 billion in the Constitutional Budget Reserve.

### Cap the Permanent Fund Dividend pool

The Permanent Fund Dividend program is an important source of protection for the principal of the Permanent Fund and it is important source of income to Alaskans. Without

changes to the program, however, dividends will grow to take a major share of State revenues — \$965 million in 2005. The Commission recommends:

- Reduce the total amount spent for the Permanent Fund Dividend program from \$565 million this year by \$50 million a year for three years.
- Individual dividends will be about \$900 next year, \$800 in 1997, and \$700 in 1998.

### Clarify the purpose of State's reserves

The State maintains two reserve funds that are important in the effort to close the fiscal gap — the Constitutional Budget Reserve (CBR) and the Permanent Fund Earnings Reserve Account (PFER). The CBR consists of funds received in settlements of administrative proceedings or litigation regarding mineral lease bonuses, rentals, royalties, royalty proceeds and taxes. The PFER is a holding account into which is deposited all investment income until the transfers to principal for inflation proofing and to the dividend fund are made. Excess funds in the PFER are held and invested in the same manner as the principal of the Permanent Fund. The Commission determined that under our plan the state needs only one significant reserve.

- The CBR should be maintained at a level of \$1.5 billion to provide stability in the event of a rapid decline in oil prices or production or in the event of a natural disaster. That amount is approximately one year's oil revenues. Funds in excess of that amount should be deposited into the principal of the Permanent Fund. Earnings from CBR investment should continue to flow into the CBR.

- Funds in the CBR should be invested in accordance with the prudent investor rule based upon the purposes of the reserve. The commission recommends that the general fund be allowed to borrow against the CBR to even out the flow of funds required to meet monthly cash flow needs.

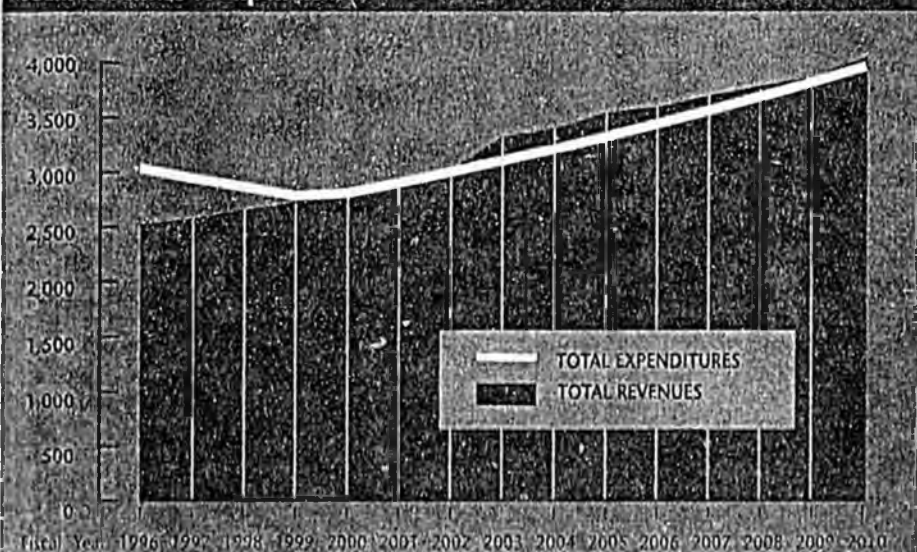
- The sweep provisions in the current CBR should be eliminated (Article X, Section 17 (d) of the Constitution). Sufficient controls on the use and withdrawal of funds from the CBR are achieved by limiting withdrawals from the fund to make up for projected annual revenue declines rather than availability of funds.

- Once the constitutional amendment establishing the Permanent Fund as an endowment is in place in 1998, all funds in the Permanent Fund Earnings Reserve should be deposited into the principal of the Permanent Fund. As an endowment, the Permanent Fund will be effectively inflation-proofed. The dividends will be payable out of the automatic annual withdrawal.

### Reform the budget process

The Commission found the budget process does not yield

Total Revenues vs Expenditures



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# State Long Range Financial Planning Commission Report

## FINAL REPORT

### How Big Is The Fiscal Gap? \$524 Million in Fiscal Year 1996

- Equal to all the salaries and benefits paid to all state agency employees
- Almost as much as the whole Permanent Fund dividend program
- It equals three-quarters of the entire K-12 public school funding program

#### Continued From Previous Page

adequate information concerning the State's finances, nor does it describe what we get for what we spend. It discourages appropriate scrutiny of overall State spending. Although the fiscal gap relates to State general fund spending, special funds set aside or collected affect services delivered by the State and require oversight and control.

- The budget process should include review of all State spending, not just State general funds. The executive and legislative branches should establish procedures to provide appropriate scrutiny and disclosure.

- A report to the public should be prepared annually on progress toward closing the fiscal gap. The Commission suggests the spreadsheet format it has used to show the existence or absence of a fiscal gap for the current and succeeding 10 years.

- The legislature should review each program funded or operated by the State, including loans and special appropriations to determine whether or not it meets its intended purpose and whether the program is needed in the 21st century. State programs should also be reviewed to determine if the service is better delivered at the local level.

- Capital improvement funding should be based on a six-year plan to achieve greater efficiencies in funding, planning, construction and maintenance.

The Commission was asked to examine the division of responsibility for providing services and raising revenues between the State and local governments. This area deserves intensive examination, substantially more than the Commission had time to give it. The Commission believes that the State and local governments must continue to work on the issue of the division of State and local responsibilities.

#### The five- and ten-year plan

In 1999, Alaska comes to a fork in the road. To prevent the

fiscal gap from reappearing, we can cut the budget further, reinstitute the State personal income tax, increase other taxes, and/or further reduce dividends. The Commission recommends that a follow-up review be done in late 1998 and early 1999 to adjust the overall plan as needed for the succeeding five to ten years. By that time the budget should balance and we will know more about several things that are now uncertain such as ANWR, the gas line and federal budget changes. As a result, decisions for the first decade of the next century will be less dependent on speculation.

This Commission recommends reimposition of the State personal income tax once the deficit reappears. Under the Commission's plan, after cutting spending and raising revenues, the fiscal gap reappears in about the year 2002. A personal income tax act will require enactment in the year 2000 in order for it to take effect in 2002.

#### First Session Progress Report on the Financial Plan

##### Legislation

1. Resolution approving financial plan.
2. Permanent fund endowment constitutional amendment goes to the voters.
3. Constitutional budget reserve constitutional amendment goes to the voters.
4. Retirement incentive program.
5. Tier III to reduce retirement costs for new hires.
6. Geographic pay differential for non-covered employees.
7. Road/harbor transfers to local government and fuel tax increases.
8. Senior/veterans tax exemption becomes local option.
9. New oil & gas property tax has 50/50 split before debt
10. Tobacco tax increase.
11. Alcohol tax increase.

12. User Fee increases of at least \$3 million

##### Budget Action

1. Meet fiscal gap target (about \$390 million); \$40 million cut from FY96.
2. Show all funds in State spending plan.
3. Deposit from CBR into Permanent Fund as in plan.
4. Administrative consolidations.
5. Six year capital plan approved.
6. Show Permanent Fund earnings and dividends as part of budget.
7. Do maintenance and deferred maintenance within budget target.
8. Start performance based budgeting.
9. Reduce growth rate of Medicaid and AFDC.

#### Second Session Progress Report

##### Legislative Action

1. Fisheries and other resource tax.
2. Tourism tax or self-support of industry promotion.
3. Deposit from CBR to Permanent Fund as in plan.
4. Additional \$3 million in fee increases/indexing.

##### Budget Action

1. Meet fiscal gap target of about \$220 million; \$70 million cut from FY96.

#### Third Session Progress Report

##### Legislative Action

1. Resolution creating financial planning Commission to review progress and make new recommendations.

##### Budget Action

1. Meet fiscal gap target of about \$60 million; \$100 million cut from FY96.

### What The Plan Does

- Makes the Permanent Fund the cornerstone of Alaska's fiscal future
- Closes the fiscal gap by the year 2000
- Ensures growth of the Permanent Fund to offset declining oil and gas revenues
- Stabilizes and diversifies revenues
- Controls state general fund spending
- Maintains a reserve to dampen the effect of oil price swings
- Decreases our dependence on volatile oil revenues

# State Long Range Financial Planning Commission Report

## FINAL REPORT

LONG-RANGE FINANCIAL PLANNING COMMISSION	(Today's Dollars)										
	FY 1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	
<b>AVAILABLE REVENUES (\$ Millions):</b>											
General Fund Source	1,952	1,882	1,669	1,641	1,607	1,575	1,509	1,464	1,414	1,362	
Permanent Fund Earnings (Net of inflation proofing & ERA deposits)	565	500	630	648	677	700	727	759	785	810	
<b>NEW TAXES AND FEES (\$Millions)</b>											
Highway Motor Fuel Tax (@ \$ 219/gal., indexed)	-	38	39	39	40	41	41	42	43	43	
Marine Motor Fuel Tax (\$ 08/gal., indexed)	-	5	5	5	5	5	5	5	5	6	
Tobacco Tax (\$1/pkg cigs; 75% chewing; +25c triennially)	-	42	41	40	50	49	48	57	56	55	
Motor vehicle license fees (double)	-	-	27	27	26	26	26	25	25	24	
User fee increases	-	3	6	8	11	13	12	12	12	11	
Fishery and other resource tax increases	-	-	28	28	28	28	28	28	28	28	
Tourism tax increases	-	-	19	19	19	19	19	19	19	19	
Alcohol taxes (increase triennially)	-	19	19	19	22	22	22	21	25	25	
Income tax	-	-	-	-	-	-	58	224	227	230	
<b>TOTAL REVENUE</b>	<b>2,517</b>	<b>2,490</b>	<b>2,483</b>	<b>2,475</b>	<b>2,485</b>	<b>2,478</b>	<b>2,495</b>	<b>2,656</b>	<b>2,639</b>	<b>2,614</b>	
<b>EXPENDITURES (\$ Millions):</b>											
Total GF spending on current programs	2,476	2,365	2,264	2,167	2,118	2,135	2,152	2,169	2,186	2,204	
PF Dividends	565	500	438	378	367	356	345	334	324	314	
<b>TOTAL EXPENDITURES</b>	<b>3,041</b>	<b>2,865</b>	<b>2,702</b>	<b>2,546</b>	<b>2,485</b>	<b>2,490</b>	<b>2,496</b>	<b>2,503</b>	<b>2,510</b>	<b>2,517</b>	
<b>PROJECTED ANNUAL FISCAL GAP (\$ Millions)</b>	<b>(524)</b>	<b>(376)</b>	<b>(219)</b>	<b>(71)</b>	<b>1</b>	<b>(12)</b>	<b>(1)</b>	<b>153</b>	<b>129</b>	<b>97</b>	
CONSTITUTIONAL BUDGET RESERVE ENDING BALANCE (\$ Millions)	1,500	1,456	1,412	1,368	1,326	1,285	1,245	1,207	1,170	1,134	
PERMANENT FUND EARNINGS RESERVE ENDING BALANCE	922	1,194	-	-	-	-	-	-	-	-	
PERMANENT FUND MARKET VALUE (\$ Millions)	17,766	17,625	19,391	20,131	20,804	21,459	22,110	22,897	23,657	24,379	
PER CAPITA PERMANENT FUND DIVIDEND	990	852	727	611	582	553	526	501	475	452	
PER CAPITA SPENDING	4,938	4,579	4,250	3,941	3,786	3,735	3,685	3,636	3,589	3,543	

### Special Acknowledgements

The members of the Long Range Financial Planning Commission acknowledge with thanks the contribution of its staff: Brad Pierce, Melissa Fouse, and Bob Walsh. Thanks are due also to House Speaker Gail Phillips, Representative Richard Foster, and OMB Director Annalee McConnell for sharing their staff resources with the Commission.

In addition, the members of the Commission acknowledge the contributions of the Alaska Journal of Commerce and Northwest Strategies in producing this report.

### The State Long Range Financial Planning Commission Members

**Brian Rogers**  
Fairbanks  
*Chairman*

**Bruce Ludwig**  
Juneau

**Mike O'Conner**  
Anchorage

**Judy Brady**  
Anchorage  
*Vice-Chair*

**Annalee McConnell**  
Juneau

**Rep. Sean Parnell**  
Anchorage

**Lee Gorsuch**  
Anchorage

**Hugh Motley**  
Cooper Landing

**Pat Pourchot**  
Anchorage

**Sen. Georgianna Lincoln**  
Rampart

**Rep. Mike Navarre**  
Kenai

**Sen. Steve Rieger**  
Anchorage

**Robert Loescher**  
Juneau

**Mary Nordale**  
Fairbanks

**Marie Westfall**  
Ketchikan

# State Long Range Financial Planning Commission Report

## DISSENTING OPINIONS

*By State Sen. Steve Rieger*

The Long Range Financial Planning Commission has identified a series of measures which would balance revenues and expenditures over the next ten or more years. However, the final Commission Report goes beyond that task, and recommends additional taxes beyond those which are part of closing the fiscal gap, and which instead serve to place additional money into the corpus of the Permanent Fund. These additional measures are excessive.

The major reason for concern about the fiscal gap was the prospect that, if action was not taken, there would be a crisis reached which would trigger a sudden drop in state spending and threaten the economy and people's jobs, or a major (in the nine figures) new tax such as an income tax or state-wide sales tax, or both. These outcomes are all avoided in the Minority Report's plan. However, a major new tax is included in the Commission report.

### The Composite Scenario

A set of meaningful but non-precipitous budget cuts, a series of smaller taxes and fees, and use of a portion of the Permanent Fund's earnings after inflation-proofing, closes the gap entirely for about a decade. Under a "Composite Scenario"

developed during the Commission's deliberations, (and using the Commission's assumptions), by the year 2010 these measures would also result in a Permanent Fund balance of almost \$30 billion and additional cash reserves of over \$5 billion. In today's dollars these numbers would be over \$19 billion and \$3 billion respectively. The Composite Scenario represents a reasonable course for Alaska.

Where the Commission Report and the Minority Report part company most dramatically is the extent to which they pursue the goal of making the Permanent Fund an "endowment" for future government spending. To pursue this thought, the Commission Report recommends diverting an additional \$250 million of today's royalties away from the general fund and into the Permanent Fund, thereby cutting the present state revenue stream by approximately \$250 million per year and actually increasing the fiscal gap; by dumping most present or forecast cash reserves into the Permanent Fund; reducing the dividend payout more than in the "Composite Scenario" referred to above; imposing an additional \$40 million to \$50 million per year in small taxes over those used in the Composite Scenario; and by imposing a major new personal income tax generating \$385 million per

year by the year 2010. These measures, including the smaller reserves, result in a Permanent Fund which is a little over \$40 billion in the year 2010, or the equivalent of \$26 billion in today's dollars.

In the Minority Report's view, these additional measures are not worth the sole accomplishment of a Permanent Fund which is 1/3 larger in size. They do not succeed in creating an endowment for state spending, and impose taxes where they are not needed. The Permanent Fund can be a very substantial source of stability and cash for the future. However, in neither the plan advanced by the Commission nor in the Composite Scenario does it come even close to being the sole source of funding for state government.

The fiscal gap can be closed satisfactorily for the next decade with a much more modest set of measures. These measures would be similar to those shown in the Composite Scenario referred to above. A full version of this Minority Report and the Composite Scenario spreadsheet are available by calling 258-8188—we will mail it to you.

*State Sen. Steve Rieger, R-Anchorage, was a member of the State Long Range Financial Planning Commission.*

*By State Rep. Sean Parnell and Hugh Molley*

### The Commission's Plan Failed to Recognize and Address Alaska's Fundamental Problem: Unstable, Unpredictable Revenues

- Alaska depends upon volatile natural resource revenues for state spending.
- Alaska spends those resources, under the current system, at an unsustainable rate.
- A sustainable level of government spending cannot be defined until Alaska has a *stable* source of revenue.
- The Commission spent the majority of its time grappling with how to close the present fiscal gap rather than focusing on how to stabilize Alaska's revenue stream.
- Alaska's revenue stream must be stabilized and made sustainable for a healthy future: long range planning is impossible without a predictable revenue stream.

### The Commission's Plan Is Unacceptable to the General Public

- The plan assumes the current level of government

spending is acceptable and sustainable.

- The public does not accept this premise and will not accept the plan's recommendations for new taxes, cuts in permanent fund dividends, and expending permanent fund earnings to increase state government unless more meaningful reductions are made.
- The Commission's plan recommends creating a partial endowment using the permanent fund to increase spending.
- The Commission's partial endowment fails to stabilize revenues and fails to define a sustainable level of spending.
- The Commission's plan relies on "faith in the Legislature" rather than building fiscal restraint into the legislative budget process.

### The Benefits of a True Endowment System

- The true endowment establishes a stable and sustainable level of revenues for state funding.
- The true endowment constitutionally forces fiscal restraint upon the Legislature and Governor.
- The true endowment strengthens and protects the permanent fund.

- The true endowment constitutionally protects future windfalls (ANWR taxes and royalties, for example) by depositing them in their entirety to the corpus of the permanent fund.

### Principles to Use for Closing the Present Fiscal Gap

- Once resource revenues have been stabilized through a system, a long range financial plan can be developed.
- A fiscal plan should prioritize meaningful budget reductions before taxes.
- State agencies should be consolidated to operate more efficiently.
- Voters, not the Legislature, must approve an income tax.

*State Rep. Sean Parnell, R-Anchorage, was a member of the State Long Range Financial Planning Commission*

*By Senator Georgianna Lincoln*

### A Different Opinion

While I believe the Long Range Financial Planning Commission did an admirable job identifying the options for closing Alaska's ever-widening fiscal gap, I have concerns that lead to this opinion. I did vote to advance the final document to the Governor and the Legislature, as did the majority of the Long Range Financial Planning Commission. However, I do not believe any commission member considered this to be an endorsement of *everything* within the report. It must be pointed out the commission was given a huge task to accomplish within a very short time and with an extremely small budget.

I applaud the commission for giving the public the opportunity to participate in its work, with serious attention paid to the comments throughout our deliberations. One subject which received, in my opinion, strong public support has not been incorporated into the commission's recommendations and that is reinstatement of the state income tax now. During my years in the legislature, I have wrestled with the wisdom of such an action. Since 1990, Alaska has grown by approximately 100,000 residents with as much as 25 percent of our

work force being *non-resident*; non-residents contribute little to our economy but take much from it. The current plan recommends immediate introduction of a number of smaller taxes based on use with the state income tax implemented *after the year 2000*. I believe a state income tax, which taxes everyone (*resident and non-resident*) equitably, would result in a reduction to the state's fiscal gap, but would not result in such a huge, immediate reduction in state government programs as proposed by the commission. Recommended cuts to these programs would devastate those who can least afford them — our *youth*, our *elders*, and the *disadvantaged*. *Again*, it was my sense in listening and talking to citizens across the state that folks are willing to reinstate the state income tax *now* and not later as the commission report recommends.

We do not know specifically what Washington D. C. will do within the next year in terms of revisions and/or reductions to programs such as welfare reform, Medicaid, and the transfer of federal responsibility for services such as transportation and education to the State. We do know many of these decisions will have a major negative fiscal impact on our Alaska citizens.

Further, I believe economic opportunity is another key to closing the fiscal gap. Jobs, jobs, jobs!!! This plan does not go far enough in providing incentives for entrepreneurship or enhancing economic opportunity throughout our state. In failing to do so, the plan does not propose solutions to diversify the economy, create jobs, and end the vicious cycle of welfare. We must analyze, in the proper perspective, the impacts of closing the fiscal gap in a rational manner. Without question, the state *must* cut spending to close the fiscal gap. Although I support many of the commission's current recommendations, I caution those responsible for implementing a final plan to ensure cuts are spread equitably and economic and job development reaches the smallest of communities throughout our great state.

*State Sen. Georgianna Lincoln, D-Rampart, was a member of the State Long Range Financial Planning Commission.*