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PERSONAL NOTE TO: Commission Members

FROM: Dave Harbour

SUBJECT: This Challenge

DATE: June 17, 1995

I was a little embarrassed by Governor Hammond's flattering and thoughtful suggestion that I should have been appointed to the Commission. I let the Governor, Senate President and House Speaker know of my willingness to serve, but did not lobby for the assignment and, frankly, breathed with relief when I didn't get the hard job you have--distracting me from family and business. I certainly harbor nothing but support for those who made the selection and, for the reason above, appreciate their decision.

However, when you asked for my presentation, perhaps as a result of Governor Hammond's column, I was honored to accept.

Now, what you have is a somewhat unconventional presentation, prepared frankly without the benefit of all the information you've received recently or the in depth discussions you must be having. No instant expert on the subject, I tried, based on personal research, knowledge and political background, to put myself in your shoes afresh, admittedly without the assistance of professional clerical and research staff. Accordingly, my presentation to you is a draft report, prepared as a staff person would prepare a preliminary draft of your concepts for further discussion, as a starting point. I hope it is helpful to you...especially the draft letter from you to the appointing officials stating your position with respect to ethical conduct of Commissioners.

My heartfelt good wishes follow you as you complete your important, pioneering work; may God give you sufficient wisdom, creativity, stamina and courage.

A handwritten signature in dark ink, appearing to read "Dave Harbour". The signature is stylized with a large, sweeping "D" and a long horizontal line extending to the right.

*Brian Rogers, Chair
Alaska Long-Range Financial Planning Commission
P.O. Box 80690
Fairbanks, Alaska 99708*

(Date)

*Honorable Tony Knowles, Governor
Honorable Drue Pearce, Senate President
Honorable Gail Phillips, House Speaker
State Capital
Juneau, Alaska*

Dear Governor Knowles, Senator Pearce and Speaker Phillips:

The Members of the Commission have asked that I express to you on their behalf, their common appreciation and sense of dramatic responsibility for having been appointed to this Commission and assigned the challenge of recommending a State long-range financial plan.

*Because of the enormity of this challenge, we have chosen to make our report to you in two phases. The first, critical phase deals with the philosophical approach we recommend. The second phase addresses the plan's expenditure, revenue and efficiency recommendations. (We would ask that you and the public provide us with formal comment on these phased reports as they are issued. Then, by (date) we shall provide you with the final executive summary along with the final copies of a report which document changes the Commission desires to make to the drafts based on the formal comment we may receive.)**

We feel that an important ground rule of our work from this point forward will be to receive input from political leaders and citizens in only two ways: by written comment and in the form of testimony offered to us in public session. If we encounter, during this process, individuals who wish to privately speak to us about the Commission's work, we shall courteously refuse to comment. We adopt this position as a solemn matter of conscience, not as a legal requirement, because we feel ourselves to be in a particularly complex ethical circumstance.

**There is an argument for issuing your report without public comment on drafts; since the volume of influential response will act to affect your impartiality.*

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All of us have current or former coworkers, family members, neighbors, acquaintances and even spouses who will be affected by the outcome of our recommendations, to greater or lesser degrees. Just as elected officials enact ethics rules to govern the uniqueness of their work, so do we believe that the uniqueness of the Commission's historical assignment requires this unique, ethical rule, and perhaps others, to come.

You should appreciate that we on the Commission have ties to education, oil, rural constituencies, finance, labor, government and more. We have personal, professional and political ties to you who have appointed us. We have all agreed that there must be no sacred cows here--not for any of us, not for you. By giving you the report, we impose on ourselves a binding process which mandates the courage it will take--now, for us and, later, for you--to deal with specific issues.

Finally, you'll note that we have prepared our report with as little legal language or accounting formulae as possible. We feel that the concepts expressed here should be easy to digest by a great majority of Alaskans, even our older children. We also believe that complexity is unnecessary: you have dozens--perhaps scores--of studies and reports on this subject in recent years, access to sophisticated data bases and financial specialists. We believe that our approach will provide sufficient direction with minimal complexity and detail.

Yours sincerely,

**REPORT TO THE GOVERNOR AND LEGISLATURE:
SOLVING ALASKA'S LONG-RANGE
FINANCIAL CHALLENGES**

**PHASE I: Philosophical
Approach to the State's Long-Range Financial Plan**

**Submitted by:
The Alaska Long-Range
Financial Planning Commission
On: (Date)**

(Draft for the Commission's Use)

Prepared by: Dave Harbour

June 17, 1995

(Revision, terminologies: June 20, 1995)

PHASE I DRAFT: PHILOSOPHICAL APPROACH TO THE STATE'S LONG RANGE FINANCIAL PLAN

I. BACKGROUND AND PREMISE FOR FINDINGS

The Commission believes Alaska wants a responsible long-range financial plan. In a family context, "responsible" means:

- A. saving "legacy" monies for retirement, the kids' education and for unexpected emergencies, and*
- B. knowing that when we acquire a capital item, like a house or car, we budget long-range operating revenue to support the acquisition, and*
- C. not acquiring consumer debt in such bulk that it cannot be reasonably repaid with foreseeable income, and*
- D. assuring that when we pass on, we leave our families an absence of debt obligation, at the least, and, preferably a modest financial base.*

To date, Alaska's political process has resulted in irresponsible behavior and disastrous results, if the model above can be used as a guide. We are like irresponsible parents who acquired wealth by accident of birth or good fortune, squandered it on a mountain of material goods. We spent nearly our whole fortune, neglected our possessions until they fell into disrepair, saved little, spent what little we saved on living expenses, then acquired enormous debt. Instead of leaving our children properly educated, without debt, we moved into retirement as our children began to feel a responsibility for absorbing the cost of our survival along with their own.

Our "irresponsibility" has led to:

- a. spending much of the Prudhoe Bay legacy lavishly, saving little;*
- b. acquiring capital projects which we cannot afford to maintain;*
- c. ignoring the production curve (income curve) which has been predicted since the middle 1970s;*
- d. building a dependent web of beneficiaries who pay little to support their government and require great taxation by government of others to sustain their own livelihoods and expectations; and*
- e. now finding ourselves on the brink of insolvency this very year, saved only when we spend a quarter of our retirement account legacy (i.e. the various "reserve accounts").*

II. First finding: Alaska does not face a "Fiscal Gap" or "Fiscal Crisis;" it finds itself amid a growing "Political Gap" or "Political Crisis"*. Common Ground and KAKM, have recently, to their credit, produced documentaries featuring a number of Alaskan political, corporate and civic leaders commenting on state finances. A common theme was that: "We can't cut education, and we can't make much headway by cutting State employees; we can't hurt rural residents by cutting power cost equalization (in fact, rural residents have a "right" to new water and sanitation systems); we can't deny our seniors their monthly bonus; and it would be political suicide to raise taxes. One distinguished leader summed it up by saying that he had immense "confidence" in our children to do a better job than we did. In short, most of the experts see insurmountable problems with cutting spending or increasing revenue and at least one believes that after this generation has squandered the financial legacy of the family that everything will be fine because the children will do a better job. The whole spectacle is deplorable and must stop here and now. It is time to take responsibility. The first stumbling, difficult step an alcoholic takes toward the path of sobriety and responsibility is the admission of addiction. The first step Alaska's leaders must take toward financial responsibility is to admit the irresponsible behavior of the past by eliminating the term, "Fiscal Crisis" (or "Fiscal Gap") and call it what it is, a "Political Crisis" (or, "Political Gap"). Henceforth, this Commission shall refer to the POLITICAL CRISIS in uppercase letters, not in tentative quotation marks, to assist us all in identifying the actual challenge at hand.

*"Political Gap" is a term coined by Larry Crawford, one of Alaska's leading administrative and financial experts on the management of State and local government. "Political Crisis", therefore, is an extension of that concept. A public or private financial officer, he says, would not characterize an unbalanced budget as a "Fiscal Gap"; he or she would cut spending, or increase revenue immediately. If constituents of her or his elected or corporate leader superiors were so affected by the result of such change and impact that action were difficult, the organization would have to bridge a "Political Gap" (thus, a "Political Crisis" emerges).

Alaska's POLITICAL CRISIS is caused by well intentioned citizens and elected leaders working amid outdated political, Constitutional and statutory processes; most of these were created before Alaskans had any idea that they would be gifted with the greatest quick fortune in the history of America. Following are some candid aspects of the flawed processes:

A. Political. I elect you to represent me. An unexpected resource discovery occurs. I ask you to eliminate my taxes and tax the resource, then increase the tax again and again and again and again...after the taxpayers' investment decisions were made based on the earlier tax structure. I want new schools and roads (without my paying for them), new ports, airports, even caterpillar tractors and social centers for my village; I want to help the old folks and students and government employees more lavishly than has ever been done in the Country before. Yes, I know there's a Prudhoe curve, but I want mine now. And, I want to spend every dime, \$2 billion this year, \$3 billion the next, and even around \$5 billion once. And...I don't want you to budget for fixing those things later since I want all the money spent now, not later. And...yes, I realize you have to agree to give Senator Doe what he wants for his constituents in order for him to give you what I want so that I will reelect you. At one point we had a stubborn governor with a savings fetish, and let him set up a "permanent fund", but trading occurred in order to get even those votes. And now, to get reelected, you're thinking about spending all the savings accounts and Permanent Fund dividends and eventually the principal of the Fund because you don't have sufficient operating revenue and don't want to increase taxes or decrease spending...because you have a POLITICAL CRISIS.

B. Constitutional. Not anticipating the arrival of unexpected wealth, we did not assure that in the spending of it we would properly maintain what we bought, assure that spending was sufficiently flexible to change with declining production. And, we had no idea we should protect ourselves from the temptation of overtaxing one class of citizenry and undertaxing another while spending uncontrollably.

C. Statutory. We give such great power to the Governor and Legislature that when faced with the temptation of reelection, they would be superhuman to resist and truly act in the public interest. Accordingly, with little notice and no vote of the people they can enact massive impact tax legislation which can adversely affect future generations to the benefit of the current one; which can penalize one type of citizen, to the temporary benefit of another.

In a "normal" state, where there is not one superpower revenue producer, citizens tax themselves to fund what they want. Of course, there is bargaining and horse trading, but on a relatively low level. But here the POLITICAL CRISIS is caused by the enormity and volume of such action, with a state that gets over 80% of its revenue from one taxpayer and a citizenry content to spend and get and borrow and defer maintenance as long as it does not have to pay.

But it is only a matter of minutes on the clock of Alaskan history until such behavior reaps a terrible harvest; and that day is almost upon us. To solve the POLITICAL CRISIS action is needed immediately; every day that passes without action limits the options for change. For example, taking action now--as painful as it may be to some--is less painful than waiting for 3-4 years until the option for responsible use of reserve accounts is as forgotten as last night's dream.

III. SOLUTIONS TO THE POLITICAL CRISIS.

The solutions proposed below are intended to help elected leaders successfully confront their POLITICAL CRISIS. Former Revenue Commissioner, Tom Williams, wrote us on May 5, saying that Constitutional change would be unlikely to work because of the supermajority Legislative vote required. While we agree with his assessment of difficulty, our obligation is to present you with a plan that works. A complex POLITICAL CRISIS logically requires a somewhat complex--probably not a simple--solution, and we believe it involves political, Constitutional and statutory change in response to the flawed processes reviewed above. A statutory approach alone will not have sufficient force and staying power to withstand the continuing temptations confronting political leaders and those they represent.

A. *Political Solutions to the POLITICAL CRISIS, requiring adjustment of Constitutional and statutory policy are outlined below in greater detail.*

- 1. We must let the citizens be more responsible for their actions by letting them pay a responsible share of what they wish to be spent.*
- 2. We must eliminate the temptation of becoming dependent ever again on predatory tax policies applied to one vulnerable class of taxpayer.*
- 3. We must mandate on political leaders spending restraint so that they can tell voters truthfully, "We can't afford it, unless you pay more."*
- 4. We must reduce the incentives which cause honest men and women to sacrifice good judgment for personal gain.*

B. *Statutory Solutions to the POLITICAL CRISIS. We recommend only two:*

- 1. Convening a special session of the Legislature before year-end, for the purpose of voting to designate from reserve accounts an amount equal to 95% of the FY 1996 budget to "forward fund" the FY 1997 budget.*
- 2. Reducing Legislative compensation to the rate paid in 1992. The wages and salaries of all State employees, including the Governor's, should be reduced by 10%.*

C. *Constitutional Solutions to the POLITICAL CRISIS. These should be enacted in early 1996, effectively communicated to the voters in a cooperative way by the Governor and Legislature, and voted upon by the citizens in November of 1996:*

1. Pass a Constitutional amendment for voter approval which provides for forward based funding. Concept: The Legislature would have provided voters with a model and option for this process by forward funding FY 1977 statutorily, in the Fall of 1995. Only funds received the year before, and escrowed for later use, could be spent, together with accrued interest, in the year following. \$500 million of remaining reserve account monies will be protected in an emergency account, available only in cases of emergency declared by the Governor and confirmed by a 2/3 vote of each house of the Legislature. Such use of emergency funds must be repaid at a rate of 10% plus interest, per year, out of

operating funds available from the year before. This will provide a powerful incentive to not tap the reserve (which, itself, may grow with interest), or, to tap it minimally when an unavoidable catastrophe occurs. Remaining reserve account monies will be deposited in the Permanent Fund.

2. Enact a Constitutional amendment requiring all--not a portion of--natural resource rents, royalties and bonuses be deposited into the Permanent Fund. The Fund will grow more rapidly than before. Concept: resource royalties belong to this and future generations; the rents, royalties and bonuses currently being spent in the operating budget deprive future generations of their ownership legacy.

3. Enact a Constitutional amendment requiring that inflation proofing of the Permanent Fund end and that 100% of Fund income be paid as dividends. Concept: With increased revenue going into the fund, inflation proofing is no longer required. Dividend checks will grow dramatically giving elected officials a solid logic for substantially reducing so-called "entitlement/transfer payment programs" drains on the operating budget. Negative argument: Uncle Sam gets more. Response: the price we pay for a responsible process.

4. Enact a Constitutional amendment reestablishing the personal income tax. The amount of the tax will be initially set (for the first year) at the same percent of Federal tax as was taken before it was repealed. Henceforth, increases could only be recommended to a vote of the people (see below).

5. Enact a Constitutional amendment requiring that all tax increases be recommended to the people by simple majority vote of the Legislature, with approval of the Governor, and that the people vote on the imposition of such increase at a general or special election. Concept: if the citizens wish to spend at a certain level, they are entitled to authorize it by plebiscite, not by lobbying to increase someone else's taxes for their own gain.

6. Enact a Constitutional amendment requiring that any business tax, at the State or Local level, existing at the time an enterprise commenced, could not be increased, only decreased. Concept: Alaska could not replace Prudhoe Bay

revenue if the State's fishing, tourism, mining and forestry industries grew geometrically for ten years; in fact, the budget impact would be negative. Only substantial new investment--probably hydrocarbon related--will begin to replace the Prudhoe decline. Big industry investment dollars have left or bypassed Alaska for more attractive investment climates. With this change, Alaska could become to resource and manufacturing investments what Switzerland is to banking--a secure, solid, certain magnet. If politicians increased taxes, it would be prospectively on investment yet to be made for unknown returns with an obvious dampening effect on prospective investors. And, if politicians wished to tax new ventures prospectively, they would still be required to obtain final approval of the people by plebiscite. We believe that this sort of dramatic and creative guarantee to business could, for example, put Alaska on the front page of every business publication in the world, overnight, and result in one of the world's most attractive new business climates. This concept is especially important in the next ten years as investors worldwide consider the risk/reward impact of other Prudhoe area or ANWR or coal or natural gas pipeline investments, to name a few.

7. Enact a Constitutional amendment requiring that legal settlement windfalls must be deposited into the permanent fund. Note: While the greatest settlements and, thus, the greatest opportunity from this new policy may have already passed, its presence will protect smaller, yet unanticipated, large future windfalls from easy political trading, spending, waste.

8. Enact a Constitutional amendment requiring that State or Municipal capital projects may only be funded when a special escrow is established and invested in secure, guaranteed government investment instruments in sufficient quantity to guarantee that maintenance of the project is assured for its "useful life". Concept: we'll not build anything we can't support with escrowed--not operating--funds. We'll be turning over to our children not debt and broken down facilities, but well maintained roads, schools, ports and bridges. And, we'll be much more careful about which capital projects we support.

9. This last Constitutional amendment we believe would be desirable but optional: limiting terms of office to one for the Governor and Lieutenant Governor, two in the Senate and three in the House. Concept: this amendment and the second statutory change recommend above are optional, along with the amounts, because we believe that with enactment of all of the other changes above, the POLITICAL CRISIS will end and difficult but rational processes will prevail. The amendment and statute are desirable, though, to demonstrate to the people that while they will be expected to undertake certain sacrifices, the government leaders and workers are, at the outset, prepared to share the burden.

10. Finally, we recommend that the Constitutional amendments be passed under one title in such a way that the voters may accept them or reject them as a whole. Approval of only a portion of the Constitutional changes, in our opinion, at best will not solve the POLITICAL CRISIS, and, at worst, could put into place uncoordinated and damaging policies.

IV. Importance of passing the "package". Remember that we have designed this package to assist political leaders in solving their POLITICAL CRISIS, not to propose a complex, difficult-to-pass web of Constitutional change. Without resource revenue all going to the Permanent Fund, we spend our childrens' legacy. Without higher dividends, you can't convince the voters to support a personal income tax or vote to forward base fund or as easily accept reductions in low income programs. Without a personal income tax you can't support the government in a reasonable descent and you still don't give folks a stake in their government and don't solve the problem of overdependence on the single source. And so on. And, without all of the above, the unresolved POLITICAL CRISIS begets financial chaos by the turn of the Century.

V. Comments. We appreciate the work of the Institute of Social and Economic Research. We find its "Safe Landing" concept to be idealistic but not confrontive of the POLITICAL CRISIS; no politician wants to impose new taxes and increase taxes. Similarly, Tom Williams has many laudable ideas about dealing with spending efficiencies which you will see more of in the next report Phase; but he suggests statutory improvements dependent on the power of public opinion to sustain. Roger Cremo is to be commended for his initiative, but he does not involve the people in approving tax increases and relies upon the

Legislature to take a fixed percent of Permanent Fund revenue. Without Constitutionally required forward funding, the Legislature has not sufficient incentive for controlling spending. John Morgan of BP Exploration (Alaska) Inc., addresses the challenge lucidly in his July 25, 1994 Chamber address, "Alaska's Economic Gettysburg". He counsels: "Our only alternative to doing more with less now is to hasten the day when we do nothing at all". Arco Alaska Inc. executives, Ken Thompson, Dave Marquez and George Findling have spoken and written with expertise on the uncertainty facing their decisions in Alaska and the need for stability. Commonwealth North had a broad array of citizens study the issues, providing us with useful insight. Common Sense for Alaska has warned Alaska for over a decade of precisely the challenge now upon us, and is to be appreciated for its faithful diligence to its mission. Clifford Groh, Jr. has given sensitive treatment to a description and the effect of the challenge. The Alliance, State Chamber and numerous other groups are to be thanked for raising the awareness and knowledge of their members. And finally, Governor Jay Hammond, has been the originator and steady protector of the permanent fund. While some--even on this Commission--oppose the concept of a government paying its citizens, we now find that absent the existence of the Fund, all the legacy would have been spent and our financial vulnerabilities very likely would have today been even more extreme.

VI. The Next Steps. *What happens after the Governor and Legislature approve the suggestions given here in Phase I of the Long-range Financial Plan? What happens then is that the elected leaders will have fewer options for how they conduct the people's business: which is precisely how the POLITICAL CRISIS will be conquered. It doesn't mean there won't still be a good deal of debate, dialogue, fencing and trading. It does mean that less will be on the table, we'll be more like a "normal" state and we'll be protecting, not mortgaging the future of our children, and their kids. So, it will be easier...but not easy. Therefore, to complete its assignment, the Commission will provide concrete recommendations for spending and revenue policies in the next few weeks. But we would urge you to begin seriously discussing the merits of this Phase I package; it is critical, and if there becomes growing consensus in support of it by you and the citizens, our assumptions and work will be more solid as we approach the later, less important phase.*

VII. Conclusion. *In the work of literally hundreds of Alaskan citizens and organizations we find merit. We believe that the Governor and Legislature are properly motivated toward finding and approving a real solution, but they possess the same human frailties which governed the decisions of elected officials since we began disposing of the Prudhoe legacy. We urge that our leaders at once admit that our crisis is political and not financial; we urge that our fellow citizens accept the reality that great crisis requires great change and that the pain of change is worth the benefit of stability; we urge that our State recognize its addiction to undisciplined political policy in the face of our unique revenue source; we urge that our State's path be immediately redirected toward responsible passage of the package contained herein, enabling ever present political challenges to never again cause a "political gap" or become a POLITICAL CRISIS.*

* * *

VIII. Attachments. *Attached are charts and graphs depicting the effect on State revenues if the recommended package of Constitutional amendments is adopted. Also attached is a schedule recommending dates of introduction of legislation and timing for inclusion of Constitutional issues on the election ballot. Note that Fiscal Year 1997 represents not much of a reduction in current spending, giving policy makers another year to agree on the tough spending and revenue decisions...but with the help of the Constitutional and statutory changes enacted herefrom. The next year will be the most difficult, with forward funding contributing to the General Fund an amount lessened by the elimination of current resource rents, royalties and bonuses to the general fund. That reduction and the growing imbalance of, now \$1/2 billion, will only be partially off-set by new personal income tax revenue. But the shock will not be as disastrous to the State as a whole as delay would cause, or permanent, and from that point on, the State's finances will be disciplined and predictable.*

ATTACHMENT "A" TO PHASE I REPORT: CHARTS AND GRAPHS (...to be completed)

ATTACHMENT "B" TO PHASE I REPORT: SCHEDULE OF EVENTS (...to be completed)

**PHASE II DRAFT: SPENDING, REVENUE AND EFFICIENCY ASPECTS OF THE
STATE'S LONG RANGE FINANCIAL PLAN**

*(...to be completed, using ideas and data of the type presented by Tom Williams, Common Sense for Alaska, and other sources,
including conclusions resulting from the Commission's independent research.)*

Miscellany

About the Speaker...

Dave Harbour is a 20 year Alaskan, active in civic affairs and public service. He has served as: Chairman of the Anchorage Chamber of Commerce; President of Common Sense for Alaska; Chairman of the Alaska Council on Economic Education; Chairman of the Hugh O'Brian Youth Foundation; President of the Alaska Press Club; President of the American Bald Eagle Foundation. He is an original founder of the Alaska Support Industry Alliance, Arctic Power, Inc., and the Eisenhower/Alaska Statehood Monument Foundation; he was the organizer of Anchorage's 'Tent City Celebration (75th year)', and Anchorage's 'Saturday Market', created in 1993. As director of public affairs for the Arctic Gas Consortium and director of government relations for ARCO, he developed lobbying and public affairs programs for the oil industry in Washington D.C. and Alaska for 14 years.

Two people with ideas left off budget panel

While pleased with creation of that Blue Ribbon Panel asked to address budget gaps, I regret neither Roger Cremo nor Dave Harbour is on it. Both suggest provocative concepts which deserve prime consideration; yet, since these have political frailties and are dramatic departures from past practice, I fear the panel will promptly shelve them.

That would be a disservice to all Alaskans since, compared to other proposals I've heard, either could be modified into more politically acceptable and relatively painless means of bridging those gaps.

Briefly, the Cremo plan advocates putting 100 percent of all resource wealth into the permanent fund. (About 10 percent of money just from oil is now so deposited.) Each year a declining percentage would be withdrawn to fund budgets until such time as a presumably sustainable 6 percent annual drawdown was reached.

Pluses: 1) The legislature would know in advance how much it could spend; 2) A comparatively stable source of funding would replace vagaries of oil pricing and other imponderables.

Minuses: 1) A constitutional amendment would be required; 2) No assurance declining annual percentage "drawdown" could



**JAY
HAMMOND**

be sustained without sacrificing the dividend program. Dividends would remain totally unprotected and likely used to balance budgets before making spending cuts or raising money required through more appropriate means such as taxes.

By contrast, the Harbour plan would put roughly 50 percent of our oil wealth into the permanent fund. The other 50 percent (severance taxes) would remain available for appropriation. From expanded fund earnings dividends would increase. Budget shortfalls would be made up through new taxes or user fees.

Pluses: 1) Dividends would increase, thereby making program cuts and/or new taxes or user fees more palatable.

Minuses: 1) Requires a constitutional amendment

and passage of new taxes.

For the Cremo plan to receive public support, assurance of continued dividends is probably necessary. This could be provided by creating a separate account in the permanent fund that would treat dividends precisely as they would have been had there been no change in the status quo.

This would, of course, so reduce funds available for government spending each year as to leave the declining annual percentage drawdown of the dividend-reduced fund insufficient to meet that year's budget level. To make up the difference, a "sliding scale" income (or other tax) should be imposed. Then, if oil prices should rise or the legislature cut spending sufficiently, the tax required could be reduced accordingly.

Similarly, the sliding scale tax concept should be applied to the Harbour plan.

Because there would be a year's delay before sufficient tax revenues could be raised to fill budget gaps, the budget reserve account should be retained as a buffer. Then should, say, \$500 million from the fund be required to flesh out a budget, a tax sufficient to replenish that \$500 million would be imposed the following year.

Either proposal seems

far preferable, both politically and economically, to alternatives which, while recognizing the need to impose taxes, would forestall or reduce that need by feeding some of your dividend dollars into the equation through imposing a dividend "cap."

Let's not cap dividends. Instead, let's tap them through the sliding scale tax concept, increased user fees and the dividend check-off I proposed in a previous article.

Why?

Because to date no one has answered this question: If more money is needed for government spending, when does it ever make more sense to acquire it by capping dividends (thereby imposing a "head tax" on every Alaskan and only Alaskans) than it would to simply raise that same amount through a tax increase? Roughly 75 percent of it could be paid by those of us who can best afford it from our dividend dollars and the remainder by transient workers and fishermen who now take home about \$900 million annually.

Shouldn't they also at least pay a little something for the price of admission?

□ Jay Hammond is former governor of Alaska.

FORUM/LETTERS

Amendments to Cremo Plan deserve study

The Cremo Plan poses too many imponderables for likely legislative passage.

For example: What happens to dividends? What role would prospective tax income play? What happens if population growth or lower permanent fund earnings make it impossible to meet budgets from an annually declining percentage of the fund's total as Roger Cremo proposes? What inducement is there for legislative curbs on excessive spending?

Perhaps someone has those answers. I don't, nor apparently do many legislators. Until answered, don't expect action on the Cremo proposal. And that's too bad for while I also have problems with some of the plan's particulars, I ardently support the concept. To relegate it to the bone yard would be tragic, for something like it is desperately needed to avoid a financial crisis the likes of which Alaska has not seen before.

The Cremo plan is what we should have done the moment the oil development started gushing dollars into our treasury. Had we deposited ALL into



JAY
HAMMOND

a permanent fund (instead of roughly 10 percent) the fund's \$62 billion potential would now be spinning off about \$6 billion in annual interest — enough to fund government and pay a dividend.

Can we get back to Cremo's objectives? Not unless it is accompanied by some "fail safe" devices such as a spending limit, as well as some answers to the above questions.

Take dividends: Unless otherwise provided for, they would each year have to compete with "needs" deemed

crucial by the legislature. At best, that would lead to reduction of potential dividends through such means as "capping" or use of fund earnings for other than dividends or inflation proofing. At worse, they would be eliminated.

To address this concern, should the Cremo plan be adopted, I proposed a separate account be established in the permanent fund which would continue the dividend program precisely as though nothing had been done to alter the status quo.

Recently I received a proposal by Dave Harbour of Anchorage that may far better address the future of dividends and some of my other concerns.

Harbour proposes initially forward funding the budget by taking, with voter approval, approximately \$2.5 billion from the permanent fund. This withdrawal would be offset by depositing the almost \$2 billion now in the budget reserve and earnings reserve, plus additional resource wealth which Harbour, like Cremo, would deposit annually into the fund.

The difference between the

To offset the inevitable impact of new taxes on Alaskans, Harbour proposes 100 percent of permanent fund earnings be dispersed in dividends:

Cremo plan and Harbour's is that Cremo would deposit ALL resource wealth into the fund while Harbour would deposit only lease, bonus and royalty dollars. Severance taxes (roughly 50 percent of our oil income), along with prospective income or employment taxes, would be used to fund government at whatever level the legislature feels compelled to impose upon us. If the legislature fails to use constraint, taxes increase.

To offset the inevitable impact of new taxes on Alaskans, Harbour proposes 100 percent of permanent fund earnings be dispersed in dividends.

Dividends would about double. Inflation proofing's loss would be more than offset by the vast (almost five-fold) increase in the percentage of

resource wealth flowing into the fund.

At the same time the state income tax would be reimposed.

Even so, with doubled dividends most Alaskans would be financially better off, while also capturing some taxes from millions now leaving the state in the pockets of non-residents.

The initial income tax percentage would be that required to flesh out severance taxes sufficiently to meet budget needs... another inducement for the legislature to curb spending.

Subsequent tax increases would require a vote of the people, save in emergencies such as earthquakes and floods; when the legislature could authorize additional expenditures by a two-thirds vote.

The "amendments" Harbour

proposes to the Cremo plan warrant thorough study. Should the legislature ignore these concepts, by default it may feel compelled to use the earnings reserve of the permanent fund or cap dividends in order to forestall putting an income tax on the table. By doing so they will simply be dealing from beneath the table: a hidden dividend "head tax" to all Alaskans and only Alaskans.

Fortunately, Gov. Wally Hickel promised during his campaign to veto any appropriations of permanent fund earnings for other than dividends or inflation proofing.

I hope the legislature will not challenge his veto.

But should the governor not be re-elected will his replacement have the intestinal fortitude to resist legislative efforts to dip into your dividends, rather than increase them as Harbour proposes, so you can better meet your inevitable forthcoming tax or user fee obligations? You better ask your favorite candidate.

□ Jay Hammond was governor of Alaska from 1974 to 1982.

Adults need safety tips, too

We tell our children to wear a safety helmet while riding their bikes and believe that this will keep them from harm's way. This is not so. We need to stress safety not only to the children but the adults as well. We as adults driving large vehicles that outweigh the little ones by thousands of pounds need to be alert for children riding their bikes.

When you get into your car or truck, look



sale — with none of the waiting-period-background-check-sales-tax mumbo-jumbo. Doubtless there are many more handgun ads hanging on grocery store bulletin boards city-wide. If I were denied a handgun at a gun shop where a sale is at least subject to record-keeping, I'd probably be mad enough to buy a couple of handguns from private sources.

The Brady Law may actually have put more guns in the hands of those with questionable

WALTER J. HICKEL
GOVERNOR



P. O. Box 110001
Juneau, Alaska 99811-0001
(907) 465-3500

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

April 30, 1993

*Mr. Dave Harbour
2440 East Tudor Road, No. 463
Anchorage, AK 99507*

Dear Dave,

Thank you for sharing your views for fighting declining resource production and revenues. I appreciate all the public input as we all work toward a solution to better the Alaska economy.

I have taken the opportunity to forward your suggestions to Commissioner Rexwinkel of the Department of Revenue.

Again, thank you for your letter.

With best regards.

Sincerely,

A handwritten signature in cursive script that reads "Walter J. Hickel".

Walter J. Hickel
Governor

cc/enc: Commissioner Rexwinkel

Alaska State Legislature

HOUSE OF REPRESENTATIVES



REPRESENTATIVE FRAN ULMER

March 4, 1993

Dave Harbour
2440 East Tudor, #463
Anchorage, AK 99507

Dear Dave:

I very much appreciated your testimony before the Anchorage Caucus on Saturday. Thank you so much for the report of Common Sense Alaska 1983 and the 1980 report on Alaska's state spending policy. It brought back many wonderful memories as I looked through the book and saw pictures of friends from around the state who have changed hats since then. It was a trip through history reviewing the comments and suggestions from many of Alaska's leaders in 1980. It's amazing to me how many of those issues are now as they were then; more a challenge of wills than one of resources. What Alaskans face will require a change of attitude toward what they expect government to do for them for free!

I want you to know that I still feel the recommendations that were offered at the Governor's Economic Summit in Anchorage in December are on target. I am disappointed by the lack of attention being paid to them by my colleagues. Most of the legislators who are committed to cut the budget have no understanding that this, by itself, would not be adequate to do the job, and that this approach will have severe negative impacts on the economy. Other options include user fees, tax increases, and sustainable economic development.

Please let me know when you are in Juneau so that we might have an opportunity to talk about these issues.

Sincerely,


Fran Ulmer



Representative Sean R. Parnell

Dear Dave:

Thanks for your thought-provoking material regarding Forward (Cash) Based Budgeting. I worked many hours with Mark Hanley in support of the Cruise Plan because I believe, like you, that without fundamental change we are headed over the edge of a cliff. Your idea has merit and I will work to bring a long range fiscal strategy to fruition here. Thanks, again.

Sean

THE ALASKA LEGISLATURE



* HONORING * * DAVE HARBOUR *

The Eighteenth Alaska Legislature recognizes Anchorage resident Dave Harbour's contributions on behalf of Alaskan agriculture, and to the citizens of Alaska.

A 20-year Alaskan, Dave Harbour has been active in Alaskan civic affairs and public service throughout his years in the Great Land. He has served as chairman of the Anchorage Chamber of Commerce, president of Common Sense for Alaska, Alaska chairman of the Hugh O'Brien Youth Foundation, chairman of the Alaska Council on Economic Education, and has been active in other civic groups too numerous to mention here.

As director of public affairs for the Arctic Gas Consortium, and director of government relations for ARCO Alaska, Dave Harbour devoted fourteen years to developing lobbying and public affairs programs in Washington, D.C., and Alaska for our state's most economically productive industries.

Mr. Harbour is a founder of the Alaska Support Industry Alliance; Arctic Power, Inc.; and the Eisenhower/Alaska Statehood Monument Foundation. He was the organizer of Anchorage's Ten City Celebration (75th Year); and, in 1993, created the Saturday Market, which provided a marketplace for Alaskan farmers, artisans, manufacturers, and creators of local products to display and sell their wares.

It was also in 1993 that Dave Harbour was named Man of the Year by the Alaska Farmers' and Stockgrowers' Association. He received this honor for his diligence and hard work as executive director of the Anchorage Municipal Parking Authority in providing space and promoting the Farmer's Market in Anchorage. This market provides Alaska's farmers an excellent location to display and sell the Great Land's agricultural bounty to residents and tourists alike, offering the opportunity to develop new markets for Alaska-grown products such as fireweed honey, potatoes, and a wide variety of vegetables, berries, and berry products.

The members the Eighteenth Alaska State Legislature express their admiration and gratitude to Dave Harbour for his ceaseless efforts to improve the quality of life in the Great Land, and to increase the opportunities for Alaskans and their children.



James H. Hallford
SPEAKER OF THE HOUSE
Rick Halford
PRESIDENT OF THE SENATE

Date:

March 28, 1994

Requested by:

Senators Kermula, Hallford, Kettiv, Pearce, Little, Zharoff,
Lincoln, Leman; Representatives Carnev, Menard, B. Davis, Green, James,
Mackie, MacLenn, Mulder, Navarre, Phillips, Ulmer, Willis