

SCOMM

101:28

Lawmakers cast cool eye at state finance proposal

By STAN JONES
Daily News reporter

The legislative committees that control Alaska's finances will get their first official look Tuesday at an ambitious long-range plan for balancing the state checkbook.

And the early signs are, some of the top lawmakers on the House and Senate finance committees will be looking askance.

Like most of its predecessors, the latest proposal for closing Alaska's fiscal gap calls for measures that could be political poison at election time. Measures like spending Alaska Permanent Fund money to keep state government afloat, bringing back the personal income tax and carving a huge

slice off the Permanent Fund dividend paid annually to each Alaskan.

"I think the changes in the Permanent Fund are unnecessary and dangerous," said Rick Halford, the Chugiak Republican who co-chairs the Senate Finance Committee. "They change the Permanent Fund from a savings account to a spending account and they change the benefits from the people of Alaska to the government of Alaska."

Halford's committee and its counterpart from the state House of Representatives will meet jointly Tuesday at the Anchorage Leg-

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FINANCE: Lawmakers' first look at plan comes Tuesday

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islative Information Office. They will hear a presentation on the plan from Brian Rogers, the former legislator who chaired the commission that drafted the plan this summer.

Rep. Mark Hanley, who co-chairs the House Finance Committee, said he wants to hear Rogers' pitch, but also has doubts about some aspects of the plan.

For one, he doesn't think it does enough to cut state spending. The plan calls for the state operating budget to drop by \$100 million over three years, then to start expanding again with inflation and population increases.

"One of the assumptions is that government has to grow," Hanley said. "It's faulty right off the bat, but that doesn't mean it can't be changed."

Gov. Tony Knowles has been generally in favor of the plan, but even he has stopped short of wholesale endorsement. In a newspaper column last week, he said, "It may not be perfect, and new ideas may come forward make the plan even better."

Knowles' fellow Democrats in the Alaska Senate are having qualms about the plan, according to Senate Minority Leader Jim Duncan, D-Juneau. Duncan said they met with Knowles in Anchorage last month and let him know they weren't yet prepared to back the plan.

"It's going to take more thinking and discussion before we're ready to jump on that train," Duncan said.

The chief goal of the plan is to

bring state spending in line with revenue. This year, the gap between the two is expected to run about \$525 million. The difference will be made up by drawing money from a big state savings account called the Constitutional Budget Reserve.

Under the commission's plan, the fiscal gap would drop to zero by 2000. And by 2003, the state would be running a budget surplus of about \$200 million a year.

To do this, the plan would stop the growth of the Permanent Fund dividend and — over 15 years — slice its value by more than two-thirds. From \$990 this year the dividend would drop to \$544 in 2010, according to the commission's projections. Under current law, the commission projects the dividend would grow to \$1,788 in 2010.

The plan calls for the income tax — repealed when the state was flush with oil money in the early 1980s — to kick in again in 2002 and be raising \$300 million a year by 2005.

The plan also would impose new or higher taxes on gasoline, boat fuel, tobacco and liquor.

And it would divert more oil dollars into the Permanent Fund while allowing legislators to take a small percentage of the principal directly out of the fund for the first time since it was set up 19 years ago. Those two changes would require constitutional amendments, which would have to be submitted to the voters, probably in next year's general election.

Rogers agrees that nearly everything in the commission plan is apt to make somebody mad, per-

haps a lot of people mad. But he says the challenge for critics is to come up with an equivalent alternative.

"If they're saying 'No' to cutting the dividend ... then they're saying 'Yes' to what?" Rogers said. "To more budget cuts? To more taxes? If the choice were to say 'No' to any piece, I think a lot of us would like to say 'No' to most of the pieces."

A couple of new ideas have surfaced since Rogers' commission made the plan public last month. A few days ago, Knowles proposed that the question of cutting Permanent Fund dividends also be put to a vote of the people.

Hanley and Halford both said they could go along with the idea, but doubted the dividend cuts would pass unless the budget is slashed more deeply.

"Constituents that I hear from don't feel they would support the taxes or the new dividend caps," Hanley said.

Knowles was not available for an interview for this story. "I'm afraid the governor is a little busy," said Knowles aide Bob King. "He's enjoying some family time."

But King said Knowles was confident Alaskans would approve the dividend cuts if they were part of a package that included budget cuts.

The other new wrinkle, also just out last week, came from Dave Rose, who was executive director of the Alaska Permanent Fund for 10 years ending in 1992. He proposes that the Permanent Fund be left untouched, but that an existing state savings account — the

Constitutional Budget Reserve — be converted into a kind of separate mini-Permanent Fund.

The budget reserve would get some of the Permanent Fund's earnings, which would be invested. The legislature would be allowed to spend the income from those investments, but not the principal of the budget reserve itself.

Rose's plan would also trim the growth of the Permanent Fund dividend, but not as drastically as the commission's plan.

Rose estimates the overhauled budget reserve could produce \$400 million or \$500 million a year in earnings, enough to close most of the fiscal gap. The big advantage, he said, is that his plan would put a buffer between money-hungry legislators and the Permanent Fund itself.

"I think the people of Alaska want to keep the Permanent Fund as a savings account and that's really the purpose of this," Rose said.

Hanley said Rose's plan was at least simple, but did have one problem: By locking the principal of the budget reserve away from legislators, it could leave the state with no cushion in case a plunge in oil prices.

Rogers and Halford both said that having two permanent funds — a big one and a little one — might just confuse Alaskans.

"Why have two investment funds instead of one?" Rogers asked.

□ Daily News reporter Ralph Thomas contributed to this story.

ALASKA DIGEST

Published By The Alaska Register

October 1995

CLOSING ALASKA'S FISCAL GAP

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 \$1.4 billion per year by the year 2005 if no changes are made 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. The following are their recommendations:

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 & 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.

The Plan closes the fiscal gap by:

- * Using the Permanent Fund as an endowment,
- * Cutting spending,
- * Increasing revenues, and
- * Capping the Permanent Fund dividend pool.

This is a plan for ourselves and our grandchildren. It requires all Alaskans share in the solution. The biggest threat to Alaska's future is that no action will be taken to close the fiscal gap.

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 large problems after that, the commission also looked at the likely effects of the plan over a fifteen year period.

The first three years

Using the Permanent Fund as an endowment

- * Establish the Permanent Fund as an endowment that pays up to 4% of the Fund's five-year average market value to the general fund. The use of Permanent Fund earnings will partially replace declining oil revenues.
- * Amend the constitution to increase from 25% to 50% the minimum contribution to the Permanent Fund from certain oil, gas and mineral lease revenues.

needed for the succeeding five to ten years. By that time, many things will be advanced and several things that are now uncertain - such as federal budget changes - will be known. As a result, decisions for FY2000-2010 will be less dependent on speculation.

Cont. on Pg. 14



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PRESS RELEASE

October 2, 1995

The Alaska Municipal Bond Bank Authority announced today that a bond sale for \$5,110,000 was sold to the low bidder John Nuveen & Co. Incorporated at a true interest cost of 4.9675%. The serial bonds mature within a ten (10) year period and are tax-exempt. The proceeds of the bond issue will be used to make a loan to the Lake & Peninsula Borough to fund various school projects for the Lake & Peninsula School District, and to make a deposit to the Bond Bank's reserve fund.

This general obligation bond issue is the Borough's first financing in the national tax-exempt bond market, and represents an innovative approach and partnership between the Borough and the Bond Bank in funding essential projects. The Borough does not levy a property tax at this time, but because of its conservative budgeting practices and financial health, the Borough, working with the Bond Bank was able to access the tax-exempt bond market at very attractive interest rates. The Borough's financial information reflects a General Fund balance of \$3,133,064 at the end of Fiscal Year 1995, and projects a budgeted Permanent Fund Balance for Fiscal Year 1996 of \$2,449,888. The School District has a total budget of \$9,122,100 for Fiscal Year 1996.

The Lake and Peninsula Borough was incorporated as a Home Rule Borough in April of 1989, and has a Manager form of government. The Borough consists of 17 small and widely scattered communities, with only two connected by road. The Borough is located on the Alaska Peninsula, encompasses approximately 28,000 square miles, and extends from Lake Clark in the north to Ivanof Bay in the south. The Borough School District operates 15 schools, all accredited by NWASC, and includes approximately 500 students in grades K through 12, 90% of which are Alaska Native.

Commercial fishing and fish processing are the most important industries in the Borough. The Borough contains three of the State's most important salmon fishing districts, which include Egegik and Ugashik on Bristol Bay, and Chignik on the Pacific Coast. Approximately 40 fish processors operate within the Borough during the peak fishing season.

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MEMORANDUM OF AGREEMENT

RE: MUNICIPAL DEBT CONTRACT RATINGS

Standard & Poor's Corporation (S&P) rates the creditworthiness of specific bonds or debt obligations for a fee upon written request from an issuer, or from an underwriter, financial consultant, institution or other purchaser, provided that the issuer has knowledge of the request.

The fee is based on the time and effort to determine the rating and accrues upon completion or termination of the rating process and is not contingent upon the sale of the bonds or debt obligations. The fee is not a payment to circulate, disseminate or publicize the rating. However, S&P has the right to disseminate the rating to its own customers and subscribers or through its own or other media. Expenses incurred, such as those for meetings outside S&P's offices or for field trips, are also payable to S&P.

The Applicant agrees to provide or otherwise furnish to S&P all pertinent information in a timely manner together with all subsequent material changes in and additions to such information prior to, at the time of, and subsequent to the assignment of the rating. Failure to furnish information in a timely manner may result in no rating or withdrawal of the rating. S&P relies on the party submitting such information for its accuracy and completeness and substantiation thereof.

It is understood that the rating is an evaluation of the information submitted and does not involve an audit by S&P. S&P has the right to raise, lower, suspend or withdraw the rating at any time, in its sole discretion, depending on the information S&P then has, or the lack thereof, or other circumstances, including, but not limited to, issuance of new bonds or debt obligations by the issuer, all without notice.

Neither party may assign this agreement without the consent of the other party.

CORPORATE AND MUNICIPAL DEBT RATING DEFINITIONS

Long-term debt

A Standard & Poor's corporate or municipal debt rating is a current assessment of the creditworthiness of an obligor with respect to a specific obligation. The assessment may take into consideration obligors such as guarantors, insurers, or lessors.

The debt rating is not a recommendation to purchase, sell, or hold a security, inasmuch as it does not comment as to market price or suitability for a particular investor.

The ratings are based on current information furnished by the issuer or obtained by S&P from other sources it considers reliable. S&P does not perform an audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or for other circumstances.

The ratings are based, in varying degrees, on the following considerations:

1. Likelihood of default—capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation;
2. Nature of and provisions of the obligation;
3. Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditor's rights.

AAA Debt rated 'AAA' has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

AA Debt rated 'AA' has a very strong capacity to pay interest and repay principal and differs from the highest rated issues only in small degree.

A Debt rated 'A' has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.

BBB Debt rated 'BBB' is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

Speculative grade rating definitions

Debt rated 'BB', 'B', 'CCC', 'CC', and 'C' is regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal. 'BB' indicates the least degree of speculation and 'C' the highest. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major exposures to adverse conditions.

BB Debt rated 'BB' has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments.

B Debt rated 'B' has a greater vulnerability to default but currently has the capacity to meet interest payments and principal repayments. Adverse business, financial, or economic conditions will likely impair capacity or willingness to pay interest and repay principal.

The 'B' rating category is also used for debt subordinated to senior debt that is assigned an actual or implied 'BB' or 'BB-' rating.

CCC Debt rated 'CCC' has a currently identifiable vulnerability to default, and is dependent upon favorable business, financial, and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial, or economic conditions, it is not likely to have the capacity to pay interest and repay principal.

The 'CCC' rating category is also used for debt subordinated to senior debt that is assigned an actual or implied 'B' or 'B-' rating.

CC The rating 'CC' is typically applied to debt subordinated to senior debt which is assigned an actual or implied 'CCC-' debt rating.

C The rating 'C' is typically applied to debt subordinated to senior debt which is assigned an actual or implied 'CCC-' debt rating.

CI The rating 'CI' is reserved for income bonds on which no interest is being paid.

D Debt rated 'D' is in payment default. The 'D' rating category is used when interest payments or principal payments are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period. The 'D' rating also will be used upon the filing of a bankruptcy petition if debt service payments are jeopardized.

Plus (+) or Minus (-): The ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus to show relative standing within the major rating categories.

Provisional Ratings: The letter 'p' indicates that the rating is provisional. A provisional rating assumes the successful completion of the project being financed by the debt being rated and indicates that payment of debt service requirements is largely or entirely dependent upon the successful and timely completion of the project. This rating, however, while addressing credit quality subsequent to completion of the project, makes no comment on the likelihood of, or the risk of default upon failure of, such completion. The investor should exercise judgment with respect to such likelihood and risk.

L The letter 'L' indicates that the rating pertains to the principal amount of those bonds to the extent that the underlying deposit collateral is insured by the Federal Savings & Loan Insurance Corp. or the Federal Deposit Insurance Corp. and interest is adequately collateralized. In the case of certificates of deposit the letter 'L' indicates that the deposit, combined with other deposits being held in the same right and capacity will be honored for principal and accrued pre-default interest up to the federal insurance limits within 30 days after closing of the insured institution or, in the event that the deposit is assumed by a successor insured institution, upon maturity.

* Continuance of the rating is contingent upon S&P's receipt of an executed copy of the escrow agreement or closing documentation confirming investments and cash flow.

Municipal Notes

A Standard & Poor's note rating reflects the liquidity concerns and market access risks unique to notes. Notes due in 3 years or less will likely receive a note rating. Notes maturing beyond 3 years will most likely receive a long-term debt rating. The following criteria will be used in making this assessment:

—Amortization schedule (the larger the final maturity relative to other maturities the more likely it will be treated as a note).

—Source of payment (the more dependent the issue is on the market for its refinancing, the more likely it will be treated as a note).

Note rating symbols are as follows:

SP-1 Very strong or strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics will be given a plus (+) designation.

SP-2 Satisfactory capacity to pay principal and interest.

SP-3 Speculative capacity to pay principal and interest.

Dual Ratings

Standard & Poor's assigns "dual" ratings to all debt issues that have as part of their structure a put option or demand feature.

The first rating addresses the likelihood of repayment of principal and interest as due, and the second rating addresses only the demand feature. The long-term debt rating symbols are used for bonds to denote the long-term maturity and the commercial paper rating symbols for the put option (for example, 'AAA/A-1 +'). With short-term demand debt, the note rating symbol is used with the commercial paper rating (for example, 'SP-1 +/A-1 +').

(9)

Standard & Poor's Ratings Services,
A Division of The McGraw-Hill Companies, Inc.
Public Finance Department
25 Broadway
New York, New York 10004-1064

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and.....

Richard P. Larkin
Managing Director
Telephone 212/208-1767
Reference No.: 917614

September 27, 1995

Mr. Norman J. Levesque
Executive Director
Alaska Municipal Bond Bank Authority
550 West 7th Avenue - Suite 1325
Anchorage, AK 99501

Re: *\$5,110,000 Alaska Municipal Bond Bank, General Obligation Bonds, Series 1995C,*
dated: October 1, 1995, due: August 1, 1996-2005

Dear Mr. Levesque:

Pursuant to your request for a Standard & Poor's rating on the above debt obligations, we have reviewed the information furnished to us and, subject to the terms and conditions of the **MEMORANDUM OF AGREEMENT** on the reverse side hereof, have assigned a rating of 'A' to the obligations. S&P views the outlook for this rating over the intermediate to longer term as stable.

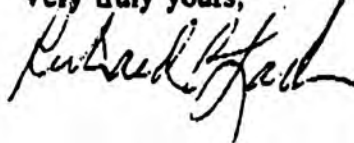
Please note that the information referred to in the third paragraph of the **MEMORANDUM OF AGREEMENT** includes annual audits and budgets and, for revenue bond ratings in connection with construction financing, progress reports, not less often than quarterly, covering the project being financed.

S&P relies on the issuer and its counsel, accountants and other experts for the accuracy and completeness of the information submitted in connection with the rating. In addition, it should be understood that the rating is not a "market" rating nor a recommendation to buy, hold or sell these securities. Please note that the rating, as is the case with all of S&P's municipal ratings, does not address the likelihood that interest payable on the Bonds may be deemed or declared includable in the gross income of Bondholders by the relevant authorities at any time.

In the event that you decide to include this rating in an Official Statement, prospectus or other offering literature, we request that you include S&P's definition of the rating together with a statement that the rating may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information.

We are pleased to have been of service to you. Our bill for the analytical work performed will be sent to you in due course. If you have any questions, please contact us.

Very truly yours,



ed

cc: Ms. Elizabeth Pollack, Assistant Vice President
Seattle Northwest Securities

(7)



General Obligation/Special Tax

September 25, 1995

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Alaska Municipal Bond Bank

Additional Indebtedness: The Bond Bank is authorized to have up to \$300,000,000 in bonds outstanding. There is an authorization from the state to increase this amount to \$550,000,000, provided that the \$250,000,000 can only be issued for school construction. The increase becomes effective only if the voters of the state approve an amendment to the State Constitution.

Authorized Investments: (1) Direct obligations of or obligations guaranteed by the United States or agencies of the U.S.; (2) Banker's acceptances drawn on and accepted by banks and certificates of deposits on Banks with combined capital and surplus aggregating at least \$200,000,000. (3) Interest bearing time deposits or certificates of deposit of a bank or trust company secured and collateralized by obligations of

the type described I (1) or by General Obligations of the State having market value at least equal at all times to the amount of such deposits or certificate, to the extent that such deposit or certificate is not insured by the Federal Deposit Insurance Corporation.

State Intercept: If a Bond Bank participant is in default on the payment of principal or interest to the Bond Bank, then the Bond Bank may notify any department or agency of the State to withhold the payment of money held by it and payable to the participant and pay over such money to the Bond Bank for the purpose of paying principal and interest on the Bonds of then Bond Bank. The State is not contractually obligated to provide such state aid payments and the amount of the intercept is uncertain.

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Alaska Municipal Bond Bank

Bond Bank Participants

Participant	Amount Outstanding 6/30/95 (\$000) ☐	Moody's Rating
Aleutians East Boro	\$5,720	NR
Bristol Bay Boro	1,730	NR
City & Boro of Juneau	620	Baa1
City & Boro of Sitka	8,745	NR
Fairbanks North Star Boro	1835	A
Kenai Peninsula Boro	13,240	NR
Matanuska-Susitna Boro	1,665	Baa1
Anchorage	4,575	A1
Cordova	795	NR
Craig	1,500	NR
Haines	1,885	NR
Homer	3,855	Baa
Kenai City	7,421	NR
Ketchikan	4,985	Baa1
Kodiak	145	NR
Nenana	1,430	NR
Nome	670	NR
Palmer	780	NR
Petersburg	4,583	Baa1
Seward	8,774	NR
Soldotna	825	NR
Unalaska	5,025	NR
Wrangell	7,737	NR
Lake Peninsula Borough ☐	4,600	NR
Total	\$93,140	

☐ Amount lent to the participant not of the reserve with the Bond Bank☐ Current offeringadministrative
factors:

Form of Government: Five-member board, three appointed by the governor with the approval of the legislature. Commissioners of revenue and of com-

munity regional affairs are members ex-officio. Chairman is elected by the members. The board appoints the executive director.

security
provisions:

Bond Security: The bonds are issued under and secured by the 1976 general resolution and are general obligations of the bank, secured only by a pledge and assignment of the municipal bonds and the participant loan payments. The bonds of the bank are not general obligations of the state

Flow of Funds: The general resolution established the Debt Service Fund, Reserve Fund and Operating Fund. The Reserve Funds established within the Statutory Reserve Fund and is two-thirds funded from

state appropriations (special account) and one-third from bond proceeds (ordinary account).

Reserve Requirements: An amount between 10% and 15% of the total principal amount of municipal loans outstanding or maximum annual debt service, whichever is greater. Percentage of reserve requirements decrease to 10% as the portfolio expands. With this issuance, reserve is over-funded with \$15,356,671 on reserves.

(5)

General Obligation/Special Tax

September 25, 1995

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Alaska Municipal Bond Bank

debt factors: Debt Statement as of 6/30/95 (\$000):

	Rating	Amount Issued	After Delivery
1976 General Resolution (G.O.)	A	\$291,820	\$98,420
Ketchikan Gateway Borough Airport	Aaa	410	195
1987 Resolution (City of Ketchikan)	Aaa	15,030	9,905
1988 Resolution (Kodiak Port)	A	4,500	3,500
1989 Resolution Series A & B Homer Water Revenue	A	2,550	2,405
1990 Resolution (Yakutat)	A	1,195	1,105
1993 Resolution (Kodiak Water)	A	2,500	2,380
1995 Resolution (Seward Electric)	Aaa	3,225	3,225
Coastal Energy Loan Program	NR	35,456	13,743

Rate of Retirement

Principal Amount Due	Amount (\$000)	% of Total
In 5 years	\$61,525	62.5
In 10 years	92,070	93.5
In 15 years	96,625	98.2

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Alaska Municipal Bond Bank**analysis:****General Obligation, Unlimited Tax Pledge**

With this offering 24 local governmental entities have issued debt through the Bond Bank under the 1976 general resolution. These communities represent small entities which might otherwise be excluded from the capital market if issuing on their own. There are, however, some larger cities and boroughs which add some diversity to the portfolio. The loan payments to the Bond Bank from local units are subject to an unlimited tax pledge of those local units.

Sizable Reserve for General Obligation Debt

Reserve Fund was established under the bond resolution, through which funding is maintained at an amount equal to between 10% and 15% of total principal outstanding or maximum annual debt service, whichever is greater. The Reserve Fund is currently overfunded with \$15.8 million in reserve with the Trustee. The bank also has an additional \$16.1 million in a custodian account, which represents that portion of the state appropriation and investment earnings that has not yet been reserved for outstand-

ing general obligation and revenue bonds. These funds are available to bondholders should the reserve funds be depleted. However, funds in the custodian account may also be used for establishing reserves for future Bond Bank borrowings and may not be available if the existing reserves fail.

The State Can Withhold Aid to Participants

The state can withhold payment of state aid to any agency of the participant in the event of the participant's failure to make a loan repayment to the bond bank. State aid represents a substantial portion of the revenues of local governments in Alaska, and is usually well in excess of debt service requirements. It is possible that when at a time when a participant is in default, State appropriations to the municipality have already been made for that budget period and no funds are available to intercept. In such cases the existing reserves would be used for payment and, according to the statutes and the cash flow of funds outlined in the Resolution, the intercepted funds from subsequent appropriations would be used to replenish the reserves to the required limit.

sale information: Legal Name of issuer: Alaska Municipal Bond Bank.

Date of Bonds: October 1, 1995.

Security: The bonds are issued under and secured by the 1976 general resolution and are general obligations of the bank, secured only by a pledge and assignment of the municipal bonds and the participant loan payments.

Use of Proceeds: The proceeds net of the reserve requirement will be lent to Lake Peninsula Borough for School Improvements.

Key Contacts:

Chief Financial Officer: Norman J. Levesque
Executive Director, (907) 274-7366.

Advisor: Seattle Northwest Securities, Seattle,
(206) 628-2882.

Bond Counsel: Wohlforth, Argetsinger, Johnson
& Brecht, Anchorage, (907) 276-5093.

Auditor: KPMG Peat Marwick, Anchorage,
(FY 1994).

rating history: May 1976:

A

analyst: Kevork Khimian
(212) 553-4756

3

Moody's **Municipal** Credit Report

Alaska Municipal Bond Bank

September 25, 1995

	New Issue	General Obligation/Special Tax
sale:	\$5,110,000	1995 Series C
date:	For bids September 26	

Moody's rating: **A**

credit comment: The Bond Bank Issues these General Obligation Bonds to make loans to municipalities throughout the state and to partially fund a debt service reserve. The bonds are a general obligation of the Bond Bank and are payable from loan repayments and the Bond Bank's reserve funds. The proceeds of the current offering will be lent to Lake Peninsula Borough for school improvements. The **A** has been confirmed based on the following factors:

- General obligation, unlimited tax pledge of the participants and the overall strength of the portfolio. Each participant's loan agreement with the bond bank is secured by a general obligation, unlimited tax pledge.

- Sizable reserves available for bond repayment. An overfunded Reserve Fund of 16.1% of outstanding general obligation debt provides considerable bondholder security. The availability of an additional \$16.1 million, in a custodian account, further enhances the reserves.

- State intercept of aid to participant to meet debt service. If a bond bank participant fails to meet its obligation to the bond bank, the state may withhold state aid to the participant. Total state aid is often a substantial component of each bond bank participant's budget, thereby assuring full and timely replenishment of reserves if they are drawn upon.

key facts:

Reserve Fund as % of Outstanding General Obligation Bonds:	16.1%
General Obligation Bonds Outstanding:	\$98,420,000 [□]
Other Reserve Funds Available But Not Dedicated for General Obligation Bonds:	\$16,135,059 [□]

[□] Includes the current offering.

[□] Funds in the Custodian Account of the Statutory Reserve Fund which have not been reserved for specific outstanding Bond Bank Debt.



(2)

Fiscal budget panel completes wish list

By Tim Bradner
Alaska Journal of Commerce

10/15/95
ATC

The state Long-Range Financial Planning Commission completed six months of work Oct. 1 on a 15-year fiscal plan for the State of Alaska that included a number of recommendations designed to generate other income when oil revenues are substantially depleted.

The nine-member panel of state officials, legislators and citizens endorsed a package of stiff new taxes, budget cuts and Permanent Fund dividend reductions. The commission also proposed "front-loading" of the Permanent Fund with cash reserves so that it will generate more income in later years.

The plan would require \$100 million in budget cuts over three years, starting with a \$40 million cut to be made by the state Legislature in 1996 and successive \$30 million cuts made in the 1997 and 1998 sessions.

The effect of this, in inflation-adjusted dollars, would be equivalent to a \$300 million, or 5 percent, cut in existing services, commission Chairman Brian Roger of Fairbanks said.

New taxes on tobacco, alcohol and fuel would have to be enacted by the 1996 Legislature, including a new \$1 per pack tax on cigarettes, a doubling of alcohol taxes and increases in state motor and marine fuel taxes to national averages.

The plan asks the fisheries industry to contribute \$30 million a year more in taxes, and the tourism industry to contribute \$20 million yearly, beginning in fiscal 1998. A personal income tax would be imposed in 2002 at one-half the rate of the state's income tax when it was repealed in 1981.

Permanent Fund income used for dividends would be decreased by \$50 million in each of three years from the current-year allocation of \$565 million, with funding for dividends then "frozen" at \$415 million permanently.

As for the Permanent Fund itself, the commission recommended depositing the money remaining in the fund's earnings reserve into the corpus of the Fund and depositing any

Continued on Page 14

FOCUS

Fiscal planners offer new ideas

Continued from Page 5

money in excess of \$1.5 billion in the Constitutional Budget Reserve, and from oil litigation or other windfalls, in the Permanent Fund.

This "bulking up" of the Permanent Fund would allow it to more than double in 10 years to \$30.5 billion, and reach \$40.7 billion by 2010, at which time it would be contributing \$1.5 billion yearly to help fund the state budget.

A constitutional amendment, approved by voters, would be required to convert the Fund to an endowment, with 4 percent of an average of the five previous years' earnings appropriated to help support public services.

"This plan has something to offend everyone," Rogers quipped, when briefing Gov. Tony Knowles and legislative leaders.

"There are numerous provisions of the plan that we don't like, but the majority of us feel that, on balance, this was the best plan to close the fiscal gap," Rogers said.

Six commission members endorsed the plan, but three others dissented:

- Rep. Sean Parnell, R-Anchorage, said, "I don't believe people will accept using Permanent Fund earnings and raising taxes without a significant downsizing of government." Also, the plan does little to reduce state dependence on volatile oil revenues or provide for sustainable spending, he said.

State Sen. Steve Rieger objected to the plan's imposition of a personal income tax in 2002 when the commission's own projections show substantial budget surpluses in years 2003 and 2004.

Rieger also said the endowment plan for the Permanent Fund, which requires depositing current cash reserves and diverting more state royalty income to the Fund, and substantial new taxes on fisheries and tourism, isn't necessary.

Less drastic steps would be sufficient to cover the short-term gap, he argued, and a new financial planning commission would convene in the future.

Mary Nordale, a Fairbanks attorney and former Commissioner of Revenue, said she doesn't support using the Permanent Fund as an endowment for state government.

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

ALASKA PUBLIC OFFICES COMMISSION

TONY KNOWLES, GOVERNOR

REPLY TO:

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Sept 13, 1995

Brian Rogers, Chairman
State of Alaska
Long Range
Financial Planning Commission
716 West Fourth Avenue
Anchorage, Ak 99501

Dear Mr. Rogers:

I have recently reviewed the preliminary report of The Long Range Financial Planning Commission, "Alaska's Growing Fiscal Gap." As the Executive Director of the Alaska Public Offices Commission (APOC), I have some concerns. As you probably know, the APOC administers four disclosure laws: AS 15.13, the Campaign Disclosure Law; AS 39.50, the Conflict of Interest Law; AS 24.60, The Legislative Financial Disclosure Law; and AS 24.45, the Lobbying Law. These laws require public officials, politically active groups, and lobbyists and their employers to disclose campaign contributions and expenditures, personal financial interests and funds expended to influence the administrative or legislative branches of state government. All of this "disclosed" information is available to the public.

I recognize that it is difficult in a short report to make all your assumptions clear. It is not clear to me with regard to the APOC what your Commission envisions. Scenarios one and two include the APOC in a category named "consolidate/eliminate". Since the APOC and the Alcohol Beverage Control (ABC) Board are the only two programs in that category with funds remaining after FY 2000, it would appear that these two programs would be consolidated. The ABC Board controls the manufacture, possession and sale of alcoholic beverages in the state, a very different function from APOC. It is unclear to me how the two programs could be functionally consolidated.

With regard to the estimated savings column by FY 2000, the amount remaining represents a 75% reduction of APOC's budget including program receipt revenues. Over the last several years, the APOC has received significant cuts in its budget and as a result, is minimally funded at its current level. It is not possible to run a credible program that meets the expectations of the public and carries out the basic mandates of the four disclosure statutes with anything less. Further, Article II, Section 12 of the Alaska Constitution requires lobbying to be regulated.

As I understand from talking to Melissa Fouse, staff to your commission, part of the intention of scenarios one and two is to demonstrate the drastic cuts that would be necessary to reduce the general fund by \$500 million dollars. These are only examples, not recommendations. Although, I appreciate this distinction, all too often ideas committed to paper have a life of their own and a validity that may not have been intended. A credible and effective Alaska Public Offices Commission can not be supported with the funds remaining after a 75% reduction.

Sincerely,



Karen Boorman
Executive Director
Alaska Public Offices Commission

cc: Alaska Public Offices Commission Members

LAW OFFICES OF DONALD M. JOHNSON, P.C.
1400 West Benson Boulevard, Suite 110
Anchorage, Alaska 99503
(907) 276-2808

Testimony of Donald Johnson
before the Long-Range Financial Planning Commission
September 13, 1995

Mr. Chairman, my name is Donald Johnson, and I appreciate the chance to share my views on the interim report of the Long-Range Financial Planning Commission.

I am an attorney in private practice here in Anchorage. Most of the people I represent don't own their own businesses, and aren't oil company executives. They're average Alaskans, doing their best to get by.

Many of them are long-time residents who have ridden out Alaska's boom-and-bust cycles, and stayed on. They have paid a high price, though. Cutbacks in the private sector have rippled through the economy. Instead of stable, high-paying work, they now work at jobs paying a third to a half of what they once made -- if they have jobs at all.

That's why it's hard for them to watch public employees work a 37-hour week, and get annual inflation-adjusted raises. That's why it's hard to see the state spend millions for non-essential services and programs when they have to cut back to bare necessities. The average Alaskan has taken his lumps and adjusted to new economic realities, and it is time for the state bureaucracy to take its lumps as well.

The state spends more than \$3 billion dollars each year, and keeps spending more every year, while the North Slope is running out of oil. It is obvious that Alaska spends more than it takes in. And it's obvious that the solution is to spend less. There are lots of opportunities.

Alaskans will have to give up some of their special entitlements, like the Longevity Bonus, the rural power subsidies, and property tax rebates. We should zero-out the Alaska Seafood

Marketing Institute and Alaska Tourism Marketing Council budgets, and make these industries carry their own weight.

The Department of Corrections needs an overhauling. When it costs more than \$90,000 per year to house an inmate, something is just plain wrong.

The Legislature needs to make a significant effort at welfare reform. We need to reduce the number of people getting benefits.

I think we should take a hard look at some form of an incentive-driven program. Our social conscience, expressed in governmental action should be that we can help you if you need it, but you must work for it. For a lot of people, our present system fosters a degrading lifestyle that leads them to decide that they would lose more in welfare benefits than they would earn in wages. You can't blame them for making the astute financial decision to stay on welfare.

There is a finite minimum amount of money, food, housing and clothing that a person or family needs to survive, while retaining some modicum of self-respect. Requiring recipients to help in achieving this through their own contributions should lessen the cost of our help, and build the recipient's self-esteem.

In short, our government leaders will have to get used to the idea that the state cannot -- and should not -- pay for everything, regardless of cost. And they must realize that they have no right to reimpose income taxes or limit Permanent Fund dividends until they demonstrate that they are using the revenue they presently have access to wisely and efficiently.

With all due respect, we've been hearing about the state's budget deficit for several years now. I'm glad this commission is finally working to find the solutions to this situation. It is long past the time for Alaska to restore some sanity to our fiscal planning process.

Good luck, and thank you for your time and attention.



SENATOR DAVE DONLEY

ALASKA STATE LEGISLATURE

August 30th, 1995

Mr. Brian Rogers, Chairman
Long Range Financial Planning Commission
P.O. Box 80690
Fairbanks, Alaska 00708

Dear Mr. Rogers,

I wanted to advise you, as well as other commission members of my response toward the preliminary report of the LRFPC, specifically, capping the Alaska Permanent Fund Dividend, and imposing either a sales or income tax. I understand the LRFPC is considering many options, including these, in order to address Alaska's declining revenue and to stabilize our economy in the future.

While I do not support any change in the Alaska Permanent Fund Dividend program as it is now, if it were to be modified, I do not believe that capping the amount of the dividend awarded to residents each year would be in the best interest of the Fund. Instead of capping the amount of dividends disbursed to each Alaskan, a **lower percentage of the annual income for distribution as dividends** would make much more sense. The same financial goals would be attained while preserving the Fund and politically insulating it against future raids. Unlike with 'capping' the dividend, Alaskans would retain their interest in increasing the value of the fund while the State of Alaska will have accessed additional operating revenue.

I do not support any new taxes. I will continue to oppose any new taxes until the state can decrease spending. A sales tax is regressive and places more of the tax burden on Alaskans and less of the tax burden on transient workers. I do not support the imposition of an income tax, although an income tax is more logical and credits can be given for local taxes paid. Income tax with such credits has advantages over sales tax in that it:

1. minimizes the burden on Alaskans,
2. is deductible from federal income tax paid,
3. encourages the formulation of local governments for the 20% of Alaska that currently has no local government, and
4. is a progressive, fair system of taxation.

The local boundary commission has determined that there is an adequate financial base

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MEMBER: Senate Finance Committee • Senate State Affairs Committee

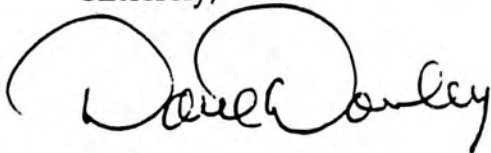
Produced in House

Brian Rogers
August 30th, 1995
Page Two

in rural Alaska to support the formulation of local governments statewide and an income tax with credits for local taxes paid would encourage the formulation of local governments. Currently, the State of Alaska governs unorganized Alaska yet the residents do not contribute any local or state tax.

Once again, I do not support any change in the Alaska Permanent Fund Dividend program as it is now. If it were to be modified, I do not believe that capping the amount of dividends distributed to each Alaskan is in the best interest of the Fund. In addition, I do not support new taxes, although an income tax could be tailored to give credit for local taxes paid, whereas sales tax has no such option.

Sincerely,

A handwritten signature in dark ink, appearing to read "Dave Donley". The signature is fluid and cursive, with the first name "Dave" and last name "Donley" clearly distinguishable.

Senator Dave Donley

DD/kb



**Testimony of Kenneth J. Luckey
to the Long-Range Financial Planning Commission
9/13/95**

Thank you for the opportunity to comment on Alaska's state budget. My name is Kenneth J. Luckey, and I hope I can help give you a perspective you might not have heard yet.

I'm a businessman -- I work for a contracting company that depends on a healthy oil industry here in Alaska. Any businessman will tell you that you just can't spend more than you earn without going broke. It's that simple. So I'm glad to see the state is finally trying to balance its budget. But you won't balance it unless you make sure that the oil keeps flowing.

I have seen how the state has kept the oil industry off balance for years. They've changed tax laws retroactively, kept tax return audits in limbo for years, and constantly jack up the permitting requirements. They've generally made it so the oil industry doesn't know if it still makes sense to invest here or not.

This kind of uncertainty filters down to contractors like me. I never know if I should keep employees on my payroll, or buy new equipment, or not. It makes it very difficult to carry out a business plan any distance into the future.

I'm like many here in Alaska. I came here because Alaska is full of opportunities if you're willing to work hard and play by the rules. I know times are tough, but you can't keep changing the rules in the middle of the game and expect everyone to keep playing.

You'll do a lot better on your bottom line -- in terms of oil revenue, and in terms of keeping jobs and families and businesses in the state -- if you make it easier for the oil industry to explore new oil fields, especially the marginal fields. That way, you keep money coming in so you have time to cut the fat out of the state budget.

I personally believe Alaskans could get by with a lot less money going to Permanent Fund dividends, power cost equalization, welfare and mental health programs, property tax rebates -- a lot of things that people everywhere else pay for themselves.

I raised my family here in Alaska, and I love it. It's my home, and I want to be able to stay here and watch my children have families and careers of their own. But an awful lot of people can't stay in Alaska if the state government tries to cut down on its feed bill by killing the goose that lays the golden egg.

Thanks for giving me the chance to testify.



Anchorage Education Association



Affiliated with The National Education Association
1840 South Bragaw Street, Suite 103, Anchorage, Alaska 99508
(907) 274-0536

To: Alaska Long -Range Financial Planning Commission
From: Rob Pfisterer, President Anchorage Education Association
Subject: Alaska's Growing Fiscal Gap
Date: September 14, 1995

For several years now many in Alaska have been concerned with the potential of a fiscal crisis when the oil revenues are depleted. It is very prudent of the state to be concerned about this possibility. When considering the alternatives available to our state it is important to remember that our state constitution mandates that our citizens must have adequate public safety and that our children must be educated.

I would like to give you a rationale as to why it is important to fully fund our public schools. Since prior to our nation's founding we have a history of communities and states funding public education. The reason for this was so that all children should have an education. Our founding fathers were concerned that if we did not have an excellent public education system then only those who could afford school would receive an education. If this were to occur we would have an elite group who would be educated and thus would be created a class system in America.

At this point in time we are faced with the very real possibility that by not funding public education at a level that will allow our schools to present a high quality program we will force wealthy and middle class parents to send their children to private schools. This exodus from the public system would damage the very heart of democracy in not only America but also Alaska.

It is all too easy to say that we are just adjusting to a potential fiscal problem. We often hear Chamber members decry the tax word or sales taxes. Many citizens don't have children in schools. But the fact remains that as a community we thrive when all our citizens are well educated. As a community we must think about the future of our society and how that society will be prepared for the 21st Century. Our very democracy and system depend upon an educated citizenry who are capable of not only functioning in the work place, but also being able to make the decisions of a democratic society.

Because of these philosophical reasons it is important that we fund our public schools not only at present levels, but by providing additional money to make

certain that our society's future is guaranteed. I would urge the Planning Commission to use this as a guide when recommending cuts to state agencies, and formulating our revenue raising methods.

The citizens of the State of Alaska must accept responsibility for their children's future. To do this we must re-establish a state income tax, create a state sales tax, and promote economic growth to ensure our economic future. All this may sound like "pie-in-the-sky", however, our children's future depends on it.

Thank you for taking the time to consider my suggestions.

JOHN HAVELOCK
608 W. Fourth Avenue
Anchorage, Alaska, 99501
907-276-1916

September 13, 1995

Brian Rogers, Chair
The State of Alaska Long-Range Financial Planning Commission
Legislative Building, Anchorage

Dear Mr. Rogers:

I would appreciate your bringing the enclosed paper to the Commissioners attention. This was prepared as a preliminary draft for the review of the Board of Alaska Common Ground. However, as I look at your time schedule and Common Grounds schedule of meetings, there will be little or no opportunity for you to consider any of these observations in your report if they are first run through the Common Ground board. Accordingly, I am submitting them for your use or interest without any representation that they represent any but my own views. I hope, of course, that the Commission may find some of this material of use. You may use what you will, without the need of attribution.

The monthly Board meeting of Alaska Common Ground will be on September 27. There is also an informal, public workshop session, sponsored by Common Ground to be held on September 23d which may produce informal views, like the ones expressed under this cover letter. I assume that you will be going to print about the 25th to meet your October 1 deadline.

What I do know is that Alaska Common Ground considers the work of your commission to be the first business of the state in these times and, as a non-partisan, non-profit educational, open membership organization, stands ready to implement whatever suggestions you may have, formal or informal for carrying forward your work after October 1.

September 13, 1995

Page 2

I would like to make a few observations about your scenarios overall. You should not be using a school (and college) enrollment scenario that is inconsistent with overall population growth. Both the projections you use strike me as overstating growth. You do not appear to factor in the fact that all solutions to the Fiscal Gap, except tapping the Permanent Fund (which none of you seem to favor) will result in a major decline in the number of dollars circulating in the economy. With luck and adequate funding of the public side, this will result in a flattened economy and not a depressed one. But the plain implication of these cuts is that the state is not going to experience the kind of growth to which we are accustomed today. What we hope to achieve through a fiscal gap policy is an economy that does not so shift the balance between public and private sector activity as to cause dislocations that will push the general economic decline into depression.

Sincerely yours,

A handwritten signature in black ink, appearing to read "John Havelock", with a long, sweeping horizontal line extending to the right.

John Havelock
(vice-chair Alaska Common Ground)

cc: Esther Wunnicke (Chair)

THE FISCAL GAP

PART ONE

STATEMENT OF CAUSES AND WHAT MUST BE DONE

1.1. **Support Of The Commission.** The Long Range Financial Planning Commission has cast a long overdue searchlight on the predicament created for Alaska state government by funding operating costs out of one time only revenues.

1.2. **Growth Without Revenue.** This predicament has dramatically exposed a structural flaw in the state's public economy. The problem is that, in a nearly tax-free climate, growth in the private economy does not generate the revenue required to meet increased service costs that track population growth generated by economic growth.

1.3. **The Origin Of The Fiscal Gap.** Growth without growth in state revenue means that a gap has developed between what the state takes in and what it spends. This fiscal gap enlarges as revenue from the oil at Prudhoe Bay declines and as the need for state services expands with growth in population and as costs rise from inflation. Remaining taxes are not indexed for inflation and accordingly have steadily fallen.

1.4. **Size Of Fiscal Gap.** The fiscal gap, now over a half billion dollars a year, will more than double if the population of Alaska increases as we expect and if modest growth in the private economy occurs as we hope.

1.5. **Comparison With State Payroll.** Even the existing fiscal gap can not be met by cuts in government. To illustrate the size of the problem, the entire state payroll is a half billion dollars, the size of the current fiscal gap.

1.6. **Cuts And Taxes.** The fiscal gap requires that the state both increase revenue and reduce expenditures. But if addressed now, rather than waiting until the gap has doubled and must all be met in one year, the measures required are not drastic.

1.7 **Norms For American States.** The revenue measures required are well within the norms for levies elsewhere in the United States, and no

cuts are required that would do serious damage to the Alaska way of life or the quality of life for any of our citizens. But both revenue measures and cuts must be spread across the spectrum and will involve some sacrifice.

1.8. **Alaska's Costs.** The fiscal gap is there because Alaska has the lowest rate of non-oil taxation of any state of the United States, while Alaska's geography dictates the highest costs of delivery of public services of any state. The fiscal gap is telling us we can not finance all government services on oil revenue alone.

1.9. **Effect of Income Tax Repeal.** The structural problem was created by the repeal of the Alaska State Income tax. Repeal of the income tax means that population growth in Alaska does not generate revenue to cover the required expansion of public services.

1.10. **The Duty Of Leadership.** The governor and legislature can correct this structural flaw by adopting appropriate revenue measures to assure that funds to address expanding public need are generated by private economic growth.

1.11. **Public Hostility To Government.** To accomplish this task the state's political leadership must find the political will to do so in the face of an atmosphere of extraordinary and excessive hostility to both government and taxes. The required political will not be forthcoming without leadership in the community permitting the political leadership to do what is necessary.

1.12. **Past Gains.** This popular permission will not be forthcoming without an enhanced public appreciation that existing government operations have become more efficient and that program expenditures are neither frills nor fat.

1.13 **Program Pullbacks.** Public understanding and acceptance of revenue measures will require a broader appreciation of the cuts that have already occurred in state government over the last six years, a closer examination of programs adopted in a time of perceived great wealth, with some pullbacks, and a continuation of the belt tightening of the last six years.

1.14. **Goals For Alaskans.** The mandate of the Long Range Financial Planning Commission was to address the fiscal issues and set an array of fiscal responses. The report does not define any guiding principles or goals for Alaska. A solution to the fiscal problem requires first that such principles and goals be articulated so they may be respected in the formulas required to resolve the fiscal crisis.

1.15. **Alaska : A Unique Community.** We cherish and recommend to you the belief that Alaska is a unique place which has given birth to a unique community with common goals and aspirations, even while this sentiment seems to have shriveled in many other regions of the United States. We believe that state and local governments of Alaska are instruments of the people's common will and that democratic processes, presently flawed as they may seem, can assure that these governments reflect the common will.

1.16. **Alaska's Special Values.** Therefore, we do not see the job of cutting the government to require going to the "bare bones." This is like attending to the needs of the body while ignoring the face. Alaska has a face which it presents to the world and which we must look at every day in the mirror. There are unique aspects to Alaska's way of life that are supported through government. They are usually (though not always) little things in terms of cost. They include a special reverence for elders, an appreciation for performing and visual arts, an exceptional commitment to education, a helping hand for the unlucky, and a outsized respect for the privacy of the individual. These and similarly valued features make up the face of Alaska that gives us a right to be proud citizens of a proud state. We should not spite our face in the name of economy.

1.17. **The Common Vision Must Be Supported By Taxes.** Taxation is required so that private economic growth does not attenuate the services provided to the established population. The structural problem of a tax-free economy must be met. But the level of taxation will depend upon our collective vision of what is required of the public sector in this state.

1.18. **Wealth In Self-Respect Is Matched By Sources Of Revenue.** In meeting the fiscal gap, we do not believe that the state's public services must be impoverished. Alaskans are indeed fortunate that more than half of its public service bills can be met from oil revenue. Alaska

is still a state rich in resources, rich in self-respect, rich in its sense of community, rich in compassion for the unfortunate. A solution to the fiscal gap is well within the capacity of the people of this state and requires neither truly drastic revenue measures nor cruel or unmeasured program sacrifices.

1.19. **A Consensus Package.** To meet the fiscal gap, the political leadership of the state needs to adopt a consensus package in which most Alaskans make some sacrifice as present or future program beneficiaries and in which those with the means make some sacrifice by way of revenue contribution.

1.20. **Commission Scenarios.** The scenarios set out in the preliminary report of the Commission are extreme cases intended to dramatize the outer limits of various positions and are not intended to articulate Alaska's values and goals. The consensus solution will tend to draw on all of these scenarios to bring about a moderate solution which reflects the unique Alaska character.

1.21. **Selecting Foundation Principles.** The following set of principles are recommended as a guide to the development of a plan. Following the statement of principles, a scenario is set out involving legislative enactments and budgetary adjustments that respects these principles and implements a solution to the fiscal gap.

PART TWO

PRINCIPLES TO GUIDE A SOLUTION TO THE FISCAL GAP

2.1 **An Income Tax So Growth Pays Its Way.** Private economic growth must pay its way. Existing economic activity must pay a share. Therefore some kind of additional tax structure, including an income tax, must be an ingredient of the plan.

2.2 **Phase Out Non-Need-Based Programs.** The state should substantially reduce or eliminate all programs, unless self-funded, which are not based on need. However, "need" does not have to be defined at a "bare bones" level and phase outs can be arranged to avoid sudden impact hardship.

2.3 Keep The Permanent Fund Dividend As A Measure Of Performance Of The Fund. The exception to this second principle is the Permanent Fund Dividend program which has an overriding value in assuring that every citizen of the state has tangible evidence that the state is of direct benefit to that citizen, regardless of station in life or relation to other state programs. However, the Permanent Fund Dividend need not rise as fast as the growth of the capital of the fund.

2.4 Use The Permanent Fund. The Permanent Fund is not sacrosanct. No government should accrue funds without a firm concept of what those funds are to be used for. The original purpose of the Permanent Fund was to create a source of funding for state services, particularly for the "rainy days" when there was a significant reduction in oil revenue. This concept, if approved on consensus, should be incorporated in legislation and standards set to trigger use of capital as well as income on capital.

2.5 Recreational Activities With Health Costs Should Pay Their Way. Considering the high costs of providing health care and public safety services relating to alcohol and tobacco, and the failure of cents per unit rates of taxation to reflect inflation in prices, current rates of state taxation are unreasonably low.

2.6 Use Phasing But Only To Avoid Special Hardships. Where a tax increase is indicated by the application of these principles, and the tax is a major magnitude jump, consideration should be given to phasing the tax in so that those paying the tax have a chance to make financial adjustments and are not faced with market dislocation or substantial hardship. An adjustment phase is even more likely to be necessary if benefits are cut. On the other hand, solve the problem now while the political will is energized. Do not leave major elements to later debate. Phase ins and phase cuts should trigger automatically.

2.7. It Is O.K. To Use Reserve Funds. The state has \$3 Billion in existing reserves that can be used to cushion the shock of revenue renewal and to made adjustments as real world numbers develop. If the reserves are drawn down at a rate not to exceed \$500 Million the first year and \$50 Million less each successive year, then the draw down will cover a ten year phase in period and leave \$350 Million for contingencies.

2.8 Capitalize The Capital Budget. Facilities that are to be enjoyed

in the future should expect a contribution from the future generations that benefit from the expenditure. Capital projects should return to funding through bonding, voted on by the people or supported by revenue generated by the activity.

2.9 Avoid Minor Cuts With Controversial Content. There are many areas in which revenues can be raised and cuts made. The focus should be on those that make a real difference. Many areas, such as revenue from mineral development and cuts in power equalization, involve constituencies that view their situation as desperate or where complex policy issues are involved. It is not worth the political bloodletting involved for the minimal effect that most of these changes would have on the fiscal gap. These changes can be considered by the legislature as a part of its regular agenda after and separate from implementation of a fiscal plan.

2.10 Reinvent Government Rather Than Savaging Weak Constituencies. Cuts should reflect an overall view of what Alaskans expect of their government. Piecemeal reductions, sometimes called "cutting until it hurts," test constituency political strength and do not necessarily reflect what is best for Alaska in the big picture. "Cutting until it hurts," rather than rational program evaluation, will also have the effect of alienating a larger and larger portion of Alaskans from their government. Alienation is already a problem that threatens the stability of government and the peace and prosperity of our people.

2.11 Count On The Lifting Of The Oil Export Ban. The lifting of the oil export ban is well within the realm of reality and its fiscal benefit should be counted as a resource to meet the fiscal gap. On the other hand, neither the development of ANWR nor the gas pipeline is capable of delivering resources to the state government in the next decade, even if soon authorized. Each is too problematic to be counted for some years in the fiscal planning process.

2.12 Focus On The Immediate Gap Issue. The longer the term chosen for planning, the less reliable the forecast in the furthest years. It is not clear, for example, whether the fiscal gap is a cliff (a drop in resource revenue never to be recovered) or a chasm (a valley to be bridged until new oil and gas revenue come on-stream ten to fifteen years hence). Thus we should not inflict drastic injury to present interests to protect interests

of uncertain definition that are more than a decade into the future. The focus of the current effort should be to avoid the disastrous drop in available revenue and crash in expenditures which will occur in four to five years if nothing is done. There is no uncertainty about the existence of this problem, only a lack of will to deal with it.

2.13 **Avoid Deceptive Comparisons.** It is deceptive to rely on comparisons with the average per capita expenditures of other states in assessing what Alaska spends on services. Alaska's small population spread over a large area and the State's responsibility for functions carried by local government in other states, means that Alaska state government costs will inevitably seem high in comparison. When the differences created by these impacts are assessed accurately, Alaska does not provide an extravagant or wasteful level of services to its people.

2.14 **Avoid Linkage To Other Issues- Health And Welfare.** A national debate with a state counterpart has raged on the issues of health care rights and the structure and impact of welfare. Each of these issues is too big to subsume under the rather simple issues involved in bridging the fiscal gap. Each debate should go forward on its own terms. It would be counterproductive to attempt to resolve these issues as a part of bridging the gap, though it can be expected that there will be a temptation to forge a linkage by those who hope to find some advantage in the health care or welfare debates. It is clear that the federal solutions will involve cuts in the amount of funds available that will result in mandated costs in health and welfare expenditures in this state. State cuts will only exacerbate the hardship caused by federal cuts. We should reexamine state policy only as the dust settles on the national debate.

2.15 **Stick To The Main Problem.** The next principle is similar. There are many things that arguably need to be changed in state government programs, government processes, and even constitutionally mandated procedures. The fiscal gap program should focus narrowly on the gap. Some will see the fiscal gap as an opportunity to address such changes but many of these issues carry heavy baggage that will bog down solutions to the fiscal gap. These issues require extensive debate and should be dealt with in the regular legislative process.

2.16 Avoid Exaggerated And Excessive Reactions. The solutions to the fiscal gap problem do not necessarily involve extreme measures. Alaska, with its fiscal gap, is still the richest and most fortunate of states. Alaska also has the most manageable of problems. Caution should be exercised in overstating the gap. For example, the solutions required as well as the consequences of failing to act to address the gap, will have a considerable effect in slowing overall growth. More than straight-line projections of population pressure based on percentage historical job growth or school enrollment (particularly when conflicting) are not justifiable. Revenue losses are conservatively stated and the benefit of lifting the oil export ban, which appears to have support of President and Congress, is not included. A middle course, not the most conservative projections, should be used in setting the base lines for decision.

2.17 Accept The Reality All but a small part of the fiscal gap was caused by repealing or reducing taxes leaving oil revenue to pay the way. By the same token, the solution is to bring our taxes back in line with the expenses of state government, expenses which are largely in line with the historic aspirations of the Alaska people.

PART THREE

A MODERATE SCENARIO FOR ADDRESSING THE FISCAL GAP CRISIS

3.1 The Permanent Fund. Introduce a formula for reducing the growth in the Permanent Fund Dividend but otherwise leave the Permanent Fund Dividend alone. Above \$1,000, the Permanent Fund Dividend should rise at a rate one half as great as the present rate ¹ and should cap at the rate of inflation above \$1200. We do not want the PFD to become an incentive for immigration. Provide formulas for the release of permanent fund capital in the event of sharp economic downturns.

3.2 Required Services Of Government. Leave welfare, Medicaid, Medicare, education, and education loans alone. The damage done by federal cuts should not be duplicated and compounded at the state level.

¹The data in the fiscal gap report does not give enough data to calculate this number with confidence. A graduated cap could be set at a percentage to produce such a number.

3.3 **Programs For Seniors.** The longevity bonus and property tax exclusion should be restricted to families with an income of less than \$50,000 per year after medical expenses. Pioneer Home fees of persons with incomes above \$100,000 should be increased to \$1,200 per month and annually adjusted upwards for inflation. Since this calls for a significant change in the previously expressed values of the state, each of these reductions should be put to a vote of the people with the alternative of paying an appropriately increased percentage on the income tax. This could be done on an advisory basis with legislative action to follow.

3.4 **Capital Budget.** The capital budget should be submitted to a vote of the people on the same basis.

3.5 **An Income Tax.** Establish a progressive state income tax as the best and fairest method of raising revenue. It is also the most economically reasonable in that it picks up the income earned in this state by out-of-state residents. Since this tax is deductible from federal income tax, on average, a fifth of an individual's state income tax is paid by the federal government. Care should be taken in establishing this tax not to incorporate special interest tax breaks that have been adopted by the Congress over the years without broad public understanding or support.

3.6 **Minimum Income Exclusion From Income Tax.** An income tax is a preferred method of raising revenue, but that does not mean that the rate needs to be as high as it was when repealed. Nor does the income tax need to tax low and moderate incomes, provided that other sources of revenue are also tapped. Nor does it have to reflect all of the exemptions and deductions of the federal income tax. For example², 69% of the revenue from the income tax, as structured at the time of its repeal, came from net taxable incomes over \$50,000 (on average gross incomes of \$65,000). That income is generated from under 2% of those filing a return. We recommend that the exclusion be at least at the \$50,000 (\$65,000 gross) level. A tax at 3%, half the level of the tax repealed in the oil boom, levied only on net incomes above \$50,000 would net \$154 Million, almost 1/3 of the amount necessary to meet the gap. Revenue from such a tax would rise with economic and population growth, as required by

²Numbers used in this draft are all taken from the Commission's report or extrapolated from those numbers.

principle 12.1.

3.7 Alcohol And Tobacco. The rate of taxation of alcohol and tobacco should be fixed no lower than the average of other states and better in the top quarter percentile. Alaska has very low taxes at present. The Commission has pointed out that a tobacco tax of \$1 per pack would raise \$57 Million. This tax should be at least .50 per pack for a revenue of \$26 Million. The commission has stated that a tax on alcohol of 3-4 cents per drink would raise \$19 Million. Even considered as a benign commodity, alcohol is a luxury purchase. While the structure of the tax requires technical attention, there is no reason why an additional \$40 Million could not be raised from alcohol taxes.

3.8. Motor Fuel Tax. Alaskan consumption taxes on motor fuel have stayed abnormally low as a result of inflation and lack of revenue pressure. Alaska spent \$130 Million of its own funds on highways and public facilities³. The current 8 cents per gallon motor fuel tax raises only 33.5 Million. A raise of 8 cents per gal would still leave Alaska's tax level well below national rates. A raise in excess of 8 cents to the national median may impose too sharp a burden all at once on low income motorists. A further raise should be considered in three-five years.

3.9. Marine Fuel Tax. By the same token a raise of 3 cents per gallon on marine motor fuel would raise \$5 Million.

3.10 Fish Landing Tax. The Commission's scenarios propose fish taxes that could raise \$3.5 Million. These taxes should be imposed following two principles. First, each Alaska industry should at least pay for its own regulation. Secondly, natural resource extraction should bring some revenues to the State.

3.11. Severance Tax On Oil. In the event that the export ban is not lifted, increase severance taxes on oil by 10 cents per barrel. Hold advisory vote on this question too.

³The Commission report does not provide a breakdown between public facilities and highways. A good case can be made that the gas tax should fund highway maintenance and the state match of federal highway funds 100%.

APPENDIX B.

MEMORANDUM OF AMERICAN CASES AND RECENT ENGLISH CASES ON THE LAW OF TRADING WITH THE ENEMY.

By CHARLES WARREN, Assistant Attorney General of the United States.

I.

AMERICAN CASES.

→ (1) Every species of intercourse with the enemy is illegal. The prohibition is not limited to mere commercial intercourse.

Johnson, J., in *The Rapid* (1814) (8 Cranch, 155, 162, 163):

"Whether this was a trading in the eye of the prize law such as will subject the property to capture.

"The force of the argument on this point depends upon the terms made use of. If by *trading* in prize law was meant that signification of the term which consists in negotiation or contract, this case would certainly not come under the penalties of the rule. But the object, policy, and spirit of the rule is to cut off all communication or actual locomotive intercourse between individuals of the belligerent States. Negotiation or contract has therefore no necessary connection with the offense. *Intercourse* inconsistent with actual *hostility* is the offense against which the operation of the rule is directed, and by substituting this definition for that of *trading with an enemy* an answer is given to this argument."

And see especially Story, J., in *The Julia* (1814) (8 Cranch, 181, 193, 194, 195):

"Nor is there any difference between direct intercourse between the enemy countries and an intercourse through the medium of a neutral port. The latter is as strictly prohibited as the former."

See also Story, J., in *The Julia* (1813) (1 Gallison, 594, 602, 603):

"* * * It would seem a necessary result of a state of war to suspend all negotiations and intercourse between the subjects of the belligerent nations. By the war every subject is placed in hostility to the adverse party. He is bound by every effort of his own to assist his own government and to counteract the measures of its enemy. Every aid, therefore, by personal communication or by

other intercourse which shall take off the pressure of the war or foster the resources or increase the comforts of the public enemy, is

→ strictly inhibited. No contract is considered as valid between enemies, at least so far as to give them a remedy in the courts of either government, and they have, in the language of the civil law, no ability to sustain a *persona standi in judicio*. The ground upon which a trading with the enemy is prohibited is not the criminal intentions of the parties engaged in it or in the direct and immediate injury to the State. The principle is extracted for a more enlarged policy, which looks to the general interests of the Nation, which may be sacrificed under the temptation of unlimited intercourse or sold by the cupidity of corrupted avarice."

See also *The St. Lawrence* (1814) (8 Cranch, 434); *The Alexander* (1814) (8 Cranch, 169); *The Rugen* (1816) (1 Wheaton, 62); *United States v. Barber* (1815) (9 Cranch, 243); *United States v. Sholdon* (1817) (2 Wheaton, 119).

Common
Law

To: State of Alaska Long-Range Financial Planning
Commission

in the note too the

City Desk of the

Daily News

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Alaska Aerospace
Development Co.

Anchorage P.D. #143

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Charles E. McKee

9/13/95

To: Anchorage Daily News

City Desk 9/13/95

In my interest to address
the oil contamination in Prince
William Sound.

I Charles E. McKee

communicated with an incorp-
ated citizen (such as your
self) constituting increased
comforts of same in cases
of law; Common law.

Intrapsment is of my
concern by one or more
corporation(s) be it muni-
cipal, State or more enlarged
using common law!

Charles E. McKee

P.O. Box 143452

Anch, AK 99514

40. In a case styled Hooven & Allison Co. v. Evatt (U.S. Ohio, 324 U.S. 652, 65 S.Ct. 870, 880, 89 L.Ed. 1252 (1945)), the U.S. Supreme Court addressed definitions or characters for the "United States" for the last time -- the case merits judicial notice. In the decision, the court said that the United States may denote operation of the United States as sovereign among sovereigns in the family of nations; the United States is a geographical (territorial) self-interested entity under Congress' exclusive jurisdiction; and the United States can be the legitimate government for the states united under the Constitution for the United States of America. The two constitutional loopholes employed to justify demarcation of the United States as a self-interested entity; what in this text is being described as the federal United States, are at Article I § 8: 17 & 18, and Article IV § 3:2. These provisions, contrary to the founders' intent, have been interpreted to vest Congress with authority respecting the federal United States almost without constitutional limitation. Though the Constitution created the United States by way of delegation by the states collective, the interpretation has been construed in such a manner that Congress can allegedly do pretty well as Congress pleases within the territorial bounds of congressional sovereignty -- the District of Columbia, United States territories such as American Samoa, Guam, etc., and on federal enclaves such as military bases.

41. This self-interested federal United States was institutionalized in the years immediately following the Civil War, beginning with the fourteenth amendment, promulgated at bayonet point, in 1868. Section 1 of the fourteenth amendment is as follows:

All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside. No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.

42. This new citizen-subject of the United States ("... subject to the jurisdiction thereof...") constituted a colorable citizenship as the fourteenth amendment United States citizen did not have inherent rights of Preamble sovereign people rhetorically referenced as United States citizens in Article I of the Constitution. The fourteenth amendment citizen-subject class enjoyed whatever rights Congress might confer as privileges, not rights, although the class was assured due process and other benefits assured state citizens when they lived in any of the fifty state republics. An amount of clarity was shed on the subject in the Slaughterhouse cases in the 1870s. Note the distinction between 1855 and 1875 court comments:

A citizen of any one of the States of the union, is held to be, and called a citizen of the United States, although technically and abstractly there is no such thing. To conceive a citizen of the United States who is not a citizen of some one of the States, is totally foreign to the idea, and inconsistent with the proper construction and common understanding of the expression as used in the Constitution, which must be deduced from its various other provisions. The object then to be attained, by the exercise of the power of naturalization, was to make citizens of the respective States. (Ex Parte Knowles, 5 Cal. 300 (1855))

We have in our political system a Government of the United States and a government of each of the several States. Each one of these governments is distinct from the others, and each has citizens of its own who owe it allegiance, and whose rights, within its jurisdiction, it must protect. The same person may be at the same time a citizen of the United States and a citizen of a State, but his rights of citizenship under one of these governments will be different from those he has under the other. (United States v. Cruikshank, 92 U.S. 542 (1875))

43. This distinction is today retained in definitions in the Immigration and Nationality Act, located as 8 USC § 1101(a):

(21) The term "national" means a person owing permanent allegiance to a state.

(22) The term "national of the United States" means (A) a citizen of the United States, or (B) a person who, though not a citizen of the United States, owes permanent allegiance to the United States.

44. Employing the convenience of colloquial use, all Americans are nationals of the United States, but all nationals are not citizens of the United States. The national is the universal class; the citizen is the special class within the universal. However, the citizen does not have all constitutional and common law assurances as inherent rights -- rights to the national are privileges to the citizen

as the citizen is a subject class provided constitutional and common law benefits at Congress' pleasure. Congress can theoretically extend or retract those benefits on a whim. De jure citizens of allodial right; the We the People identified in preambles for U.S. and state constitutions, are nationals of the United States and citizens of their respective state republics.

45. The next step in the monumental fraud came in 1871 when the District of Columbia was incorporated as a municipal corporation and political subdivision of the federal United States. The Constitution allocates ten square miles for the seat of government. Until after the Civil War, people who lived in the present District of Columbia remained under Virginia and Maryland legal jurisdiction as citizens of their respective states. The common law of the states remained in full force. The whole of the land area was ceded to the federal United States prior to incorporation, then in the latter part of the 1870s, the original was dissolved and the District of Columbia re-incorporated as a single municipal corporation. The District of Columbia formally became a federal State; a political subdivision of the federal United States, so it in effect became what the Supreme Court was to describe as government within a government.¹⁸

46. The seeming third major leg in federal treason was a shift by the U.S. Supreme Court in Juilliard v. Greenman, 110 U.S. 421. In this decision, the high court reversed fields from its position just four years before. One of the more vocal critics was Naval Academy founder George Bancroft, writing to the matter at length in "A Plea For the Constitution of the United States: Wounded in the House of Its Guardians". Bancroft, along with numerous others concerned about power the self-interested United States was usurping, called the Juilliard decision one of the most blatant cases of revisionist history ever perpetrated by an institution of such alleged esteem. However, the high court was in federal forum: Where the U.S. Constitution mandates that Congress mint coin and regulate value, then prohibits the states from making anything but gold and silver coin legal payment for debt, it does not expressly prohibit the federal United States, in self-interested capacity, from printing paper money. By 1884, in the midst of economic chaos following the Civil War, reconstruction of the South, and westward expansion, the self-interested federal United States launched its own rising star at the expense of legitimate constitutional government for the states united.

47. Much of this convoluted notion of federal states versus legitimate constitutional state republics made its way into territorial and state enabling act legislation in the period following the Civil War (the "Imperial Congress"). Nevada and other states are presently engaged in efforts to gain control of public lands within their territorial borders, based on the Equal Footing Doctrine,¹⁹ which the United States demanded as a condition for granting statehood.²⁰ Oklahoma will likely be one of the states which claims sovereign authority over its public lands when the sordid mess is unraveled. The People of Oklahoma agree with Eureka County, Nevada district attorney William E. Schaeffer's conclusion in his forty-eight page opinion: "The Feds have to go!"

48. During Oklahoma territorial days, territorial courts had two distinct characters: They

¹⁸ Original District of Columbia incorporation, Statutes at Large, Dec. 1869-1871, Session III, Chapter 62; reincorporated, Statutes at Large, Oct. 1877 to March 1879 (Vol. XX), Session II, June 11, 1878, Chapter 160; Supreme Court identified the District of Columbia as a government within the government in The Metropolitan Railroad Company v. The District of Columbia 132 U.S. 231.

¹⁹ U.S. Constitution, Art. IV § 3.4

²⁰ U.S. retention of public lands is written into the Oklahoma Constitution at Article I § 3: "The people inhabiting the State do agree and declare that they forever disclaim all right and title in or to any unappropriated public lands lying within the boundaries thereof ... and that until the title to the public land shall have been extinguished by the United States, the same shall be and remain subject to the jurisdiction, disposal, and control of the United States." The original thirteen states gave western "waste" lands beyond original borders to the United States to dispose of to help pay debts held over from the Revolution, but the lands had to become new, independent states or revert to jurisdiction of the original states. Congress unilaterally began indulging territorial appetites on behalf of the federal United States following the Civil War, thus abridging the Equal Footing Doctrine.

Claim of lien

Keep in mind the Republic was being attacked from within while the 14th amendment was being proposed, the intent was the artificial legal person (ie) the corporation would have a perpetual life more so than that of the communist mind.

Also knowing they would become involved by grant of State, The Constitution states in part: "No state shall... make anything but gold and silver coin a tender in payment of debt." Thereby invalidating the grant also in what manner had the artificial person tendered payment for the grant by State!

Charles E. McKee 9/21/1995

UNITED STATES OF AMERICA)
STATE OF ALASKA) ss.

This is a photocopy of the original.

Charles E. McKee being first duly sworn on his oath deposes and says: I am the claimant named in the foregoing Claim of Lien; I have read the same, know the contents thereof and that the same is true as I verily believe.

Subscribed and sworn to before me this 21 day of September, 19 95

James H. Hayes
Notary Public for Alaska.
My commission expires
5-30-97



ALASKA CRAB COALITION

3901 Leary Way (Bldg.) N.W., Suite #6 • Seattle, WA 98107 • (206) 547-7560 • FAX (206) 547-0130

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①

TESTIMONY OF ARNI THOMSON, EXECUTIVE DIRECTOR OF
THE ALASKA CRAB COALITION BEFORE THE
STATE OF ALASKA
LONG RANGE FINANCIAL PLANNING COMMISSION
ANCHORAGE, ALASKA
SEPTEMBER 12, 1995

The Alaska Crab Coalition (A.C.C.), a fisheries trade association, is completing its tenth year representing the owners of 57 Bering Sea crab vessels, 11 of the the major crab processing companies and 60 service and supply companies from Washington, Alaska and Oregon. The focus of the association is to encourage sound conservation and research based management policies and practices that will generate sustainable harvests of king and tanner crabs in the Bering Sea and Aleutian Islands.

Through its membership in the Alaska State Chamber of Commerce, the ACC has been following closely the work of the Long Range Financial Planning Commission. ACC supports the goals of the ASCC and the Commission, to close out the fiscal gap created by non sustainable tax revenues and declining oil production.

In seeking to achieve these difficult goals by the year 2005, the ACC recommends, in regards to fisheries resource management, that Alaskans carefully focus the tools of budget reduction and taxation, focus on the long term and use this opportunity to develop a realistic framework for sustainable revenue production.

The ACC's two major areas of concern tonight are:

1. The need for maintenance of an adequate Fish and Game applied research and management budget for Bering Sea crab fisheries. This is the engine that will drive rebuilding and sustainability of the king and tanner crab resources.
2. Royalty fees of 4% to 12% of gross revenues are being considered for limited entry fisheries as part of the solution for closing the one half billion dollar fiscal gap (estimated annual revenue \$19 to \$60 million per year).

ACC boat owners, characteristic of the fleet as a whole, are primarily composed of small family held businesses, partnerships and small corporations. There are approximately 250 full time crab vessels in the Bering Sea fleet and 100 additional part time vessels that depend on other fisheries for the major portion of their livelihoods. Approximately 35% of the fleet, or 120 vessels are registered to Alaskans and the balance of the fleet are registered to non residents.

Bering Sea crab fisheries occur in the 3-200 mile federal

waters, the Exclusive Economic Zone. However, under a special delegation of authority, spearheaded by the ACC in 1989, a joint management plan with the federal government delegated management jurisdiction to ADF&G and the Board of Fisheries. Although an offshore fishery, 90% of the crab is landed and processed by shorebased plants, or floaters anchored inside the three mile zone of State waters. The same companies that process and market Alaska salmon and herring are involved in the Bering Sea crab fisheries. With the bulk of the product being landed and processed ashore or in State waters, the fishery is subject to the normal State and borough raw fish taxes and licensing fees.

In 1994 the landed value of Bering Sea crab fisheries was \$266 million and the first wholesale value exceeded \$500 million. Over 90% of the State of Alaska shellfish production is derived from the Bering Sea and Aleutian Islands. Based on the landed value of the catch, the fleet and the processing sector of the industry contributed 8-9% of the gross revenue, an estimated \$22 million to the State of Alaska General Fund. Actual Fish and Game research and management costs do not exceed \$1.5 million for the Bering Sea crab fisheries.

Additional taxes are forthcoming in 1997 as a result of NPFMC action taken in June of this year. The NPFMC approved a limited entry program for not only Bering Sea crab fisheries, but all Gulf of Alaska and Bering Sea groundfish fisheries. The new program is modelled after the rather successful Alaska salmon and herring limited entry program and it too is a permit style program. The ACC supports the new program as an interim step towards rationalization of the crab fisheries.

When the new program goes into effect in 1997, taxation of the fleet effectively doubles with the onset of a CDQ program which transfers 7.5% of the quotas (and revenues) from the fleet to non participants in the coastal villages of Western Alaska. Based on 1994 revenues in the crab fisheries, this equates to \$20 million of lost income to the fleet (both Alaskans and non residents) that is to be allocated to Alaskan residents around the Bering Sea. Thus, by 1997, the Bering Sea crab fisheries will be contributing a projected \$40 million to the General Fund and the Bering Sea communities, an amount that is equal to the entire Commercial Fisheries Management and Development Division of Fish and Game. Notably, this summary of taxes is taken off the top of vessel owners and processors income before IRS payments.

Additional taxation in the form of the proposed royalty fees for all limited entry fisheries, one of the alternative solutions being suggested by the Commission--could well become the straw that breaks the camel's back of the Bering Sea crab industry. Imposing royalty fees in a permit style

limited entry program for Bering Sea crab fisheries will be counterproductive, possibly ruinous to the industry and detrimental to the long term sustainability of the fisheries sector of the Alaska State economy. The business management of Bering Sea crab vessels is high risk and high cost, presently exacerbated by dramatic overcapitalization pressures and declining quotas and revenues.

However, the ACC will support a royalty fee of up to 2% within the context of a market based individual vessel quota program--for Bering Sea crab fisheries. A well designed program adds market value to a vessel owner's business, reduces the loss of vessels and most of all, reduces the loss of lives because it slows down the race for fish. The hazards and the mortality rates involved in the race for the Bering Sea crab quotas have become notorious in international fishing circles. The permit system is not the final solution for Bering Sea crab fisheries in the sense that it has been for the less hazardous Alaska inshore salmon and herring fisheries. The race for fish intensifies under a permit style program. All available capital is reinvested in technology to continuously improve a vessel's competitive position and boats and lives are lost in the pursuit. The pace of the fishery has become almost unbelievable.

Although fishing vessel quota programs are controversial amongst some Alaskan small boat owners, the limited entry permit program is widely accepted. These permits add considerable equity to a vessel owner's business and in some of the more lucrative fisheries, the permit values equal the value of the fishing vessels. The permits are fully transferrable in the market place and differ only in a matter of degrees from transferrable vessel quotas. Vessel quotas have the distinct advantage of providing a built-in industry buyback of excess fishing capacity that avoids costly government funded buyback programs.

In published testimony before the U.S. Senate Subcommittee on Oceans and Fisheries in March of 1995 in Anchorage, the ACC publicly supported a royalty fee of up to 2% of gross revenues of Bering Sea crab landings, to be dedicated to conservation and management and for economic adjustment assistance, within the context of a fishing vessel quota program. In 1994 this would have generated over \$5 million--three times the program costs for conservation and management of Bering Sea crab fisheries. In essence, a fishing vessel quota program can form the basis for a quasi privatized fisheries management program for the crab fisheries.

This concludes ACC's recommendations for sustainable revenue production for two renewable resources, Bering Sea and Aleutian Islands king and tanner crabs.

ALASKA CRAB COALITION

OVERCAPITALIZATION IN BERING SEA CRAB FISHERIES

	12/31/89 BOATS 1989	12/31/93 BOATS 1993	INCREASE SINCE 1/1/90	% INCREASE
BAIRDI	109	289	180	165%
OPILO	168	246	78	46%
B BAY RKC	211	302	91	43%

AVERAGE NUMBER OF BOATS FOR THE BAIRDI, OPILO & KING CRAB FISHERIES

	1989	1993	INCREASE	INCREASE
	162	279	117	72%

FISHING DAYS

	1989	1993	DECREASE	DECREASE
BAIRDI	110	50	60	
OPILO	112	60	52	
B BAY RKC	12	9	3	
AVERAGE	234	119	115	49%

Reference: ADF&G, Westward Region reports

Prepared: 5/12/94

-BOXSCORE-

Entry Permit Prices
(as of 4-1-95)

Area	Salmon/ Herring	Gear	Market Range*	State Value*	Offers*
Southeast	H	Seine (SN)	200+	173.8	180+
P.W.Sound	H	SN	65+	80.2	63.5+
Cook Inlet	H	SN	70	61.2	69.5+
Kodiak	H	SN	90	75+	85
Southeast	H	Gillnet (GN)	31-	33.4	29-
P.W.Sound	H	GN	55	74.8	50
Kodiak	H	GN	29	23.3	26
Norton Sound	H	GN	12-	13.2	12
P.W.Sound	H	Pound (PN)	20+	27.2	16+
Southeast	S	SN	75+	75	72+
P.W.Sound	S	SN	67.5	47.1+	67+
Cook Inlet	S	SN	45	134.5	N/A
Kodiak	S	SN	52+	38.1	50+
Chignik	S	SN	210	238.3	200
False Pass	S	SN	180	193.4	N/A
Puget Sound	S	SN	ARO	N/A	N/A
Southeast	S	GN	72+	64.4+	70+
P.W.Sound	S	GN	68+	59.7+	65+
Cook Inlet	S	GN	115+	67.6+	100+
False Pass	S	GN	320+	329.8	310+
B. Bay	S	GN	225+	180.9+	215+
Puget Sound	S	GN	ARO	N/A	N/A
Yakutat	S	Set Net (SGN)	50	42.5	40
P.W.Sound	S	SGN	65	75	55
Cook Inlet	S	SGN	32+	24-	29+
Kodiak	S	SGN	105	90	100+
False Pass	S	SGN	110+	107.9	105+
B. Bay	S	SGN	47.5+	36.4	45+
Norton Sound	S	SGN	ARO	7.8	N/A
Southeast	S	Hand Troll	8.5	7.4+	8
Southeast	S	Power Troll	28-	27.4+	27.5
Chatham	B-Cod	Lg-Ln	N/A	175.5+	180+
Clarence	B-Cod	Lg-Ln	N/A	120	140+
Southeast	Crab	King/Tanner (KTA)	165+	106.3	135+
Southeast	Crab	King/Tanner (KTA)	190+	153.1	170+
Puget Sound	Crab	Pots	8	N/A	7

Prices may vary in accordance with market conditions.

* in thousands

+ denotes an increase from last month.

N/A denotes No Activity.

- denotes a decrease from last month.

ARO denotes Any Reasonable Offer.

■ Buyers trying to purchase primary salmon cards are stymied as they now face the possibility of missing this year's fishing season. Secondary salmon fisheries have turned into shark feeds as buyers scramble in last-ditch efforts to engage in any fishery this summer.

■ A number of sellers have decided to take their permits off the market and go fishing this summer, with ex-vessel prices continuing to look encouraging.

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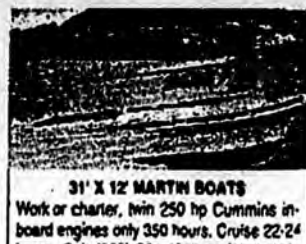
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A Position Paper
(Mercifully Short)
from
The Alaska Support Industry Alliance
on
The Preliminary Report
of the
Alaska Long-Range Financial Planning Commission

We of the Alliance commend you of the Commission on your energy. Unfortunately, we cannot say as much for your Preliminary Report. It's not a report. It has no sense of direction. It has no focus. It is a grab-bag of everything. Its only contribution is a credible case on the realness of the fiscal gap.

But we of the Alliance have known of that phenomenon for almost a dozen years; since, that is, January 1984 when at our first Meet Alaska Conference Harold Heinz, then President of Arco Alaska, laid out a prognosis of the gap rapidly coming our way. The tragedy is that little, if anything, of consequence has been done about it by our Alaskan legislative leaders or governors. And the greater tragedy is that now, twelve years too late, your Commission cannot find the key to the solution.

Your report almost comes to grips with the solution but lets it slip away. On page 4, you ask the question, "What can be done to close the fiscal gap?" Your unhappy answer comes in thirty words in six sub-sections. Two of those words advise: *cut spending*; the remaining twenty-eight advise: *raise revenue*. You've got it all wrong. You need to reverse that to twenty-eight to two to cut spending.

That great bonanza of sudden wealth that came into the Alaska state government treasury was used to build a megagovernment, for some time and still much larger than we need or than we can sustain. But your report seeks to do just that, raise lots of revenue from the private sector to hold on to the excess that we unwisely created when the cash was flowing in.

You seem intent upon granting Alaska's political leaders license to tax away private earnings needed for investment to create a robust private economy. Don't. To the contrary, you need to advise them to trim the Alaska state government back to a reasonable and sustainable size without adding more burden to the private economy by taxing away its limited resources. Alaska needs basic government, providing public safety, a judicial system, infra-structure, and public education. Those need to be delivered effectively and economically. Young punks who commit crimes need to be jailed and high school graduates need to read at the twelfth grade level. However, throwing more money at these challenges has proven ineffectual. Wise management is needed. Finally, we need a modest level of environmental and business regulation that is simple, effective, and relatively non-intrusive. If our leaders can deliver these things, we the people will yield some of our sovereignty to our government. You will recall that Machiavelli, a renowned political consultant, advised the Prince to avoid violating his subjects' wealth or their women. We expect no less from the Alaska state government.

To achieve this kind of economical and effective government, our leaders need to move quickly to substantial downsizing of Alaska's government. They need to reduce the number of departments, consolidating functions. They need to eliminate the hundreds of special programs, and combine the remaining ones into a much smaller number of entities. And of what remains they need to reduce most budgets by twenty to thirty percent annually for the next four or five years. Only by such bold action will they reduce our government expenditures by the better part of a billion dollars.

Get real, Commissioners. For 615,900 residents, Alaska's government is rich. Alaska does not have a revenue problem; it has a spending problem. Unless you address that head-on, the economic future for the people of Alaska will be grim. But if our government officials will go boldly where few have gone before and reduce spending sharply without picking clean the pockets of Alaskans, the new century can know a great Alaskan prosperity

rec. 9/13/85
LRFP

**Energy Efficiency and Job Creation:
The Employment and Income Benefits from
Investing in Energy Conserving Technologies**

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October 1992



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EXECUTIVE SUMMARY

Numerous studies have examined the energy, economic, and environmental impacts of a national energy strategy that emphasizes greater energy efficiency. *America's Energy Choices*, for example, showed that vigorous adoption of cost-effective energy efficiency and renewable energy measures could reduce national energy intensity in 2030 by nearly 50 percent, dramatically reduce our nation's petroleum dependence, save consumers more than \$2 trillion net over the next 40 years, and cut carbon dioxide emissions in 2030 by more than 70 percent relative to emissions in 1988.¹ However, *America's Energy Choices* and similar studies only consider direct economic impacts — the cost of energy efficiency measures and the value of the energy savings.

The purpose of this study is to build on *America's Energy Choices* by analyzing the indirect economic benefits of a high efficiency energy strategy — the impacts on employment and income that could result from shifting economic activity away from the energy supply sectors of our economy and from reducing the cost of energy services. We compare a High Efficiency scenario for all end-use sectors of the economy to a Reference, business-as-usual scenario.² We also examine the employment and income impacts that result solely from improving the fuel economy of automobiles and light trucks.

The analysis is conducted using an input-output economic model. Dividing the economy into 25 sectors, the input-output model estimates the overall employment and income effects from changes in spending patterns in particular sectors.³ The changes consist of investments in energy efficiency measures and reductions in energy consumption and thus energy bills. The model accounts for direct (i.e., on-site) effects, indirect (i.e., supplier) effects, and induced (i.e., responding) effects from investments and expenditures at all levels.

The High Efficiency scenario assumes extensive efficiency improvements in all sectors of the economy -- more efficient vehicles, improved appliances, better insulated buildings, more efficient lighting, manufacturing improvements, and the like. All of the

1. *America's Energy Choices: Investing in a Strong Economy and a Clean Environment*, Alliance to Save Energy, American Council for an Energy-Efficient Economy, Natural Resources Defense Council, and Union of Concerned Scientists, Washington, D.C., 1991.

2. The high efficiency scenario used in this study is based on the Market case scenario in *America's Energy Choices*.

3. The IMPLAN input-output model was updated and modified for conducting this study. The IMPLAN model was originally developed by the U.S. Forest Service.

efficiency measures are cost effective on a life-cycle basis considering only direct energy costs (i.e., without quantifying and taking into account externalities). The additional investment in energy efficiency measures in the High Efficiency scenario averages about \$46 billion per year during 1992-2010. These investments result in about 20 percent less energy consumption in 2010 compared to the Reference scenario, with absolute energy consumption rising slightly during 1992-2000, but then declining slightly during 2001-2010. Energy use per unit of GDP falls 2.4 percent per year on average during 1990-2010 in the High Efficiency scenario. This rate nearly matches the decline in energy intensity in the United States during 1973-86. We also estimate a 24 percent reduction in carbon dioxide (CO₂) emissions, 14 percent reduction in nitrogen oxides (NO_x) emissions and five percent reduction in sulfur dioxide (SO₂) emissions in 2010 in the High Efficiency scenario relative to the Reference scenario.

Based on our input-output analysis, the High Efficiency scenario leads to more jobs, higher personal income, and marginally higher GDP throughout the twenty-year period (See Table S-1). We estimate that about 293,000 new jobs could be created by 1995, 471,000 new jobs by 2000, and nearly 1.1 million jobs by 2010 on a net basis. The addition of 1.1 million jobs in 2010 represents approximately a 0.7 percent increase in the projected employment level that year (see Figure S-1). Likewise, the rise in personal income during the twenty-year period in the high efficiency case reaches 0.5 percent by 2010, while the increase in GDP is less than 0.1 percent.

The positive employment and income results are due primarily to the relatively low labor intensity of the energy sectors (coal, oil and gas extraction, fuel refining, and electric and gas utilities) compared to the economy as a whole. Conserving energy reduces the energy bills paid by consumers and businesses, thereby enabling greater purchase of non-energy goods, equipment, and services. The result is a shift of economic activity away from energy supply industries and towards sectors of the economy which employ more workers per dollar received. Regarding the different effects, less than 10 percent of the net jobs created are associated with direct investment in efficiency measures while more than 90 percent are associated with energy bill savings and respending of those savings.

Most sectors of the economy gain jobs and generate additional income while a few sectors lose jobs and generate less income in response to widespread energy efficiency improvements (see Table S-2). Our analysis shows the largest absolute increase in jobs is in the construction, retail trade, and services industries. These sectors install energy efficiency measures and gain new business orders from the respending of energy bill savings.

As expected, the energy supply industries employ fewer workers in the High Efficiency scenario as compared to the Reference scenario. The oil and gas extraction industries and gas utilities lose the most workers in percentage terms. It is important to recognize that the projected job losses in Table S-2 are based on comparison with the Reference

scenario. Considering the projected change in the actual employment levels between 1990 and 2010, a total of about 200,000 jobs could be lost in the five energy sectors by 2010 in the High Efficiency scenario. These potential job losses are due primarily to expected productivity improvements, not to changes in absolute energy use during 1990-2010. In addition, individual companies may be able to reduce any adverse jobs impacts by diversifying into the energy efficiency field (e.g., if utilities hire workers to implement energy efficiency programs).

Efficiency improvements solely in automobiles and light trucks also yield favorable jobs and income results. In the Vehicle Efficiency scenario, we assume that the average rated fuel economy of new cars increases from 28 miles per gallon in 1990 to 40 miles per gallon in 2000 and then to 50 miles per gallon by 2010, with equivalent percentage improvements in the fuel economy of light trucks. Compared to the Reference scenario, the Vehicle Efficiency scenario produces 72,000 and 244,000 more jobs in the overall economy by 2000 and 2010, respectively. About 20 percent of the net increase in jobs is within the motor vehicle industry itself. Furthermore, we find that there is a net gain in jobs in the nation as a whole even if there is either a moderate increase in the fraction of vehicles that are imported or a slight drop in vehicle sales at the same time that fuel economy increases. Conversely, a decrease in import share or an increase in vehicle exports would yield even more new jobs than indicated above.

The results of this study are consistent with other input-output studies that examine how energy efficiency improvements affect employment levels. These other studies, which consider more limited efficiency investments and/or geographic coverage, indicate that specific energy efficiency measures or programs create more jobs at the regional or state level as compared to energy supply projects.

In conclusion, this study adds a new dimension to the national debate over energy priorities. Energy efficiency improvements lead to more jobs and higher personal income at the national level, in addition to saving consumers money, reducing energy imports, and cutting pollutant emissions associated with energy supply. In terms of energy policy objectives, it is unnecessary to choose either economic benefits and jobs on the one hand or environmental protection on the other. We can create more jobs and better protect the environment by adopting policies that enhance energy efficiency. Given the economic, energy, and environmental challenges that our nation faces, can we afford not to act?

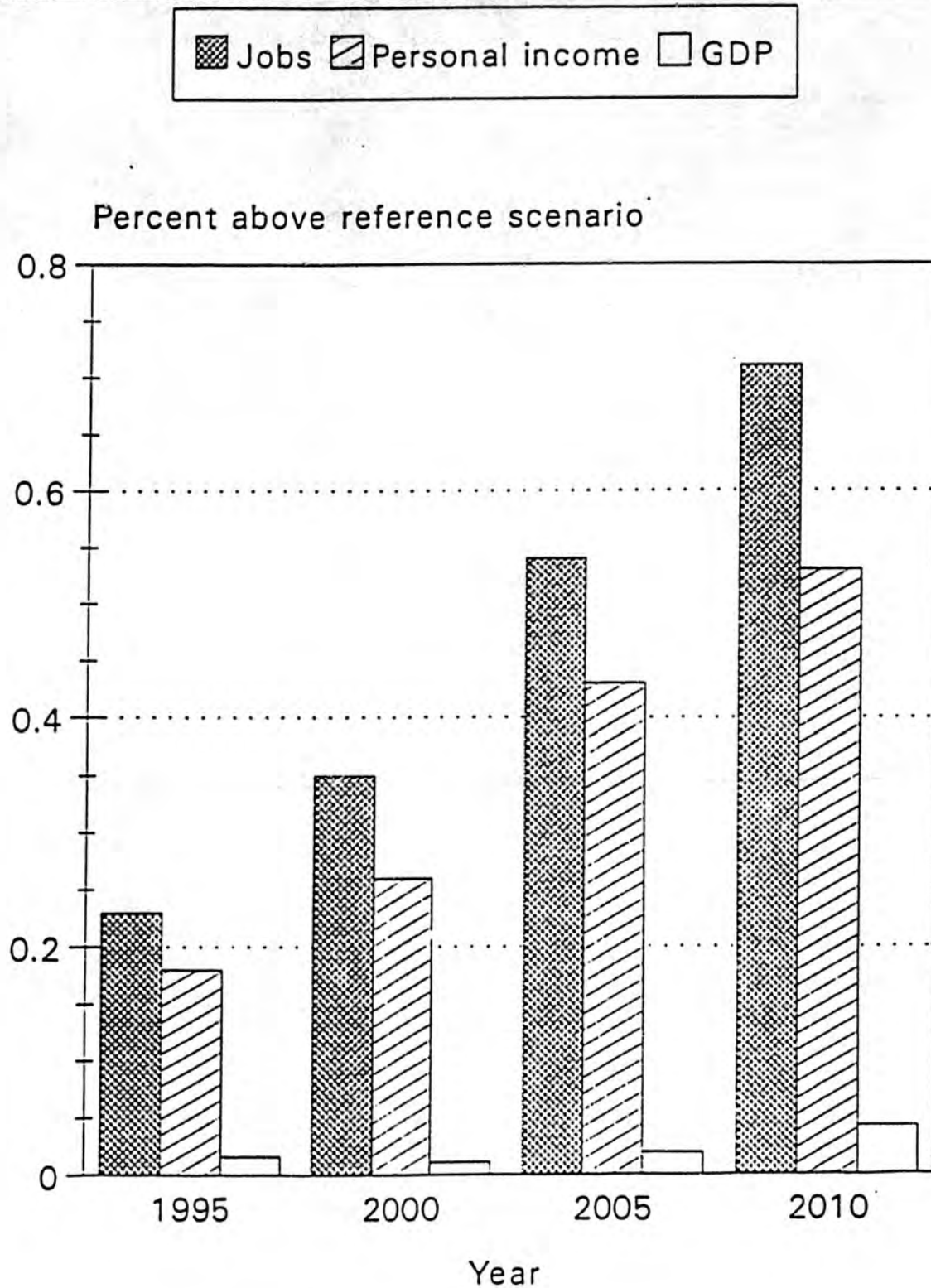
TABLE S-1. SUMMARY OF INPUT-OUTPUT ANALYSIS

	1990	1995	2000	2005	2010
Reference Scenario					
GDP (Billion 1990\$)	\$5,514	\$6,205.6	\$6,993.0	\$7,889.7	\$8,911.1
Jobs (Thousands)	122,600	129,273	136,494	144,273	152,650
Income (Billion 1990\$)	\$3,290	\$3,712.4	\$4,192.9	\$4,741.0	\$5,366.3
Energy (Quads)	85.02	90.49	95.61	101.20	106.10
Btu/GDP (1990\$)	15,419	14,582	13,672	12,827	11,906
High Efficiency Scenario					
GDP (Billion 1990\$)	\$5,514	\$6,206.6	\$6,993.8	\$7,891.2	\$8,914.8
Jobs (Thousands)	122,600	129,566	136,965	145,049	153,737
Income (Billion 1990\$)	\$3,290	\$3,719.0	\$4,203.6	\$4,761.2	\$5,394.8
Energy (Quads)	85.02	87.14	88.07	87.06	85.35
Btu/GDP (1990\$)	15,419	14,040	12,593	11,033	9,574
Net Efficiency Gains					
GDP (Billion 1990\$)	n/a	1.0	0.8	1.5	3.7
Jobs (Thousands)	n/a	293.0	471.0	776.0	1,087.0
Income (Billion 1990\$)	n/a	6.6	10.7	20.2	28.5
Energy (Quads)	n/a	-3.4	-7.5	-14.1	-20.8
Btu/GDP (1990\$)	n/a	-542.0	-1,079.0	-1,794.0	-2,332.0

**Table S-2. Differences in Employment Levels in 2010,
High Efficiency vs. Reference Scenario**

Sector	Net Job Changes	Percent Change
Subtotal Gains	1,503,088	n/a
Construction	342,101	4.4%
Retail Trade	197,491	1.1%
Services	152,264	0.3%
Agriculture	118,569	3.6%
Restaurants	105,259	1.3%
Health Services	91,651	0.8%
Finance, Insurance, Real Estate	77,931	0.8%
Non-Durable Goods	73,589	0.8%
Other Manufacturing	72,824	1.1%
Motor Vehicles	53,587	6.2%
Wholesale Trade	44,644	0.5%
Hotels and Lodging	34,404	1.4%
Food Processing	27,270	1.8%
Stone, Glass, Clay	26,403	4.1%
Primary Metals	23,417	2.3%
Transportation/Communications	22,873	0.4%
Chemicals	22,018	1.8%
Pulp and Paper	10,958	1.5%
Miscellaneous Mining	3,943	2.1%
Water/Sewer Utilities	892	0.4%
Subtotal Losses	(416,309)	n/a
Refining	(8,095)	(5.4%)
Coal Mining	(20,300)	(11.9%)
Gas Utilities	(71,090)	(31.0%)
Oil and Gas Extraction	(139,080)	(30.4%)
Electric Utilities	(177,744)	(21.6%)
Net Employment Gain	1,086,779	n/a

Figure S-1
Net increase in jobs, personal income, and GDP
in the High Efficiency scenario



I. INTRODUCTION

In many respects, the United States is still the world's most powerful economy. Per capita economic output is greater in the United States than in any other industrialized country when purchasing power parity is used to calculate gross domestic product. But with the lingering recession and unemployment approaching the eight percent mark, community and business leaders increasingly worry about the nation's ability to generate economic growth and new employment opportunities. Their concern is reinforced by a productivity growth rate that slipped from a robust 2.8 percent per year in the 1960's to a lackluster one percent per year in the 1980's. Under these circumstances, development strategies are being stretched in new directions to find a way back to the growth plane.

The prevailing economic development models are somewhat like a three-legged stool which supports our nation's material well-being. One leg might be thought of as the factories and equipment needed to produce the nation's goods and services. The second leg is the labor force required to operate the factories and the equipment, while the third leg is the influx of natural resources which becomes the material basis for goods and services. Unfortunately, most development theorists focus on only two of the three legs: that is, the nation's factories and equipment (which they refer to as *capital*) and its work force (or *labor*). The third leg, America's resource flow, is often ignored.

Instead, it is assumed that if stockholders receive sufficient compensation for their investment in capital, if production workers are reasonably educated, and if wages are paid at a rate sufficient to maintain the skills of the work force, the economy will always find the resources it needs to continue the nation's production efforts. This is not the case. The continuing failure to restore the nation's rate of productivity growth to the levels of the 1960's, coupled with the unexpected successes of the Japanese and West German economies, has prompted a serious reexamination of conventional development strategies. Among the issues being looked at more closely is the relative inefficiency of American energy use.

A. THE ROLE OF RESOURCES IN ECONOMIC ACTIVITY

When viewed from a materials and energy perspective, the American economy is perhaps only 10 to 15 percent efficient.¹ Some observers suggest that it may be this level of resource inefficiency which constrains the effective use of capital and labor. Electricity, typically thought of as being 100 percent efficient at the end use, is a case in point. It takes energy to explore, mine and produce the coal, natural gas and oil needed to power electrical turbines. It takes energy to build transmission lines and power plants. And, of course, there are large losses of useful energy in the power generation, transmission and distribution systems of a utility.

Once the electricity reaches a building or factory, there are other losses that occur in the end use or manufacturing process. Motors that power pumps, assembly lines and fabrication equipment dissipate energy, particularly under variable loads. Steam, water, and other forms of process heat are lost to the air. And inefficient heating, air-conditioning and ventilation systems in the factory use more energy, partly to compensate for the process losses. In buildings, inefficient lighting generates more heat than useful light while appliances consume much more electricity than is necessary.

Inefficient production and use of electricity, as well as other forms of energy, can inhibit economic growth in a number of ways. First, substantial amounts of capital must be devoted to energy supply investments — in fact, energy supply represented 40 percent of new plant and equipment expenditures as of 1982.² Second, net oil imports — \$57 billion as of 1990 — are a major contributor to our trade deficit already and are expected to increase substantially with "business-as-usual" policies during the next 20 years.³ In short, inefficient energy use diverts dollars from other productive investments and from the U.S. economy as a whole.

1. Richard S. Claassen and Louis A. Girifalco, "Materials for Energy Utilization," *Scientific American*, October 1986, pages 103-117.

2. J. Goldenberg, T.B. Johansson, A.K.N. Reddy, and R.H. Williams, *Energy for a Sustainable World*, Wiley Eastern Limited, 1988, page 27.

3. The U.S. Department of Energy projects that net oil imports will cost the United States \$94 billion in 2000 and \$142 billion in 2010. See *Annual Energy Outlook 1992*, DOE/EIA-0383(92), Energy Information Administration, U.S. Department of Energy, 1992.

B. THE ONGOING ENERGY DEBATE

During the last 20 years, the United States has experienced three major political and economic crises related to energy use and especially to our dependence on imported petroleum. Despite those painful lessons, U.S. dependence on imported oil exceeds seven million barrels per day. Moreover, our current wasteful use of energy inflicts heavy damage on the environment and threatens the nation's ability to compete in the global marketplace. When measured in terms of energy use per dollar of gross domestic product (GDP), the U.S. is about twice as energy intensive as West Germany, Switzerland, Denmark and Japan.⁴ Part of this difference is due to the efficiency of energy use, part is due to different energy services, and part is due to structural differences among countries.

In 1986, the United States consumed 74.3 Quads of primary energy, almost identical to the amount of energy consumed in 1973.⁵ Even more remarkable, the nation's real GDP grew by 35 percent during this same period. As a result, our energy intensity — measured by energy use over gross domestic product, or *E/GDP* — declined by 26 percent, or 2.3 percent annually.⁶ Indeed, despite relatively stable energy use during this period, population grew by 14 percent, industrial production (measured in real dollars) increased by 29 percent and the number of passenger cars increased by 33 percent. Efficiency improvements in all sectors explain about two-thirds of this gain. Structural changes and interfuel substitution explain the balance.⁷

In the 1980's, energy conservation fell from political favor. Oil prices plummeted in 1986. Since 1986, energy use has been rising at about the same rate as GDP. At the same time, there has been growing concern about urban smog, global warming and other environmental problems linked to energy use. These concerns, together with a slumping economy, have triggered a protracted debate about the need for revising our national energy policies.

4. These comparisons are taken from 1988 data contained in *Energy Balances of OECD Countries, 1987-1988*, Organisation for Economic Cooperation and Development, Paris, France, 1990.

5. One Quad is equal to 10^{15} Btus of energy. This is equal to about 170 million barrels of crude oil, or about 26 days of U.S. motor gasoline consumption (based on 1990 figures).

6. *Annual Energy Review 1991*, DOE/EIA-0384(91), U.S. Energy Information Administration, U.S. Department of Energy, Washington, D.C., June 1992.

7. Office of Technology Assessment, *Energy Use and the U.S. Economy*, OTA-BP-E-57, Congress of the United States, June 1990, page 4. See also, Lee Schipper, Richard B. Howarth, and Howard Geller, "United States Energy Use From 1973 to 1987: The Impacts of Improved Efficiency," *Annual Review of Energy*, Volume 15, 1990, pages 455-504.

Characterizing one side of the debate is President Bush's National Energy Strategy (NES)⁸, which emphasizes a continued reliance on fossil fuels and nuclear power. With only limited support for energy efficiency, energy consumption is projected to grow from 85 Quads in 1990 to over 126 Quads in the year 2030 under the NES policy scenario.⁹

On the other side of the debate are studies and strategies that emphasize increased investments in energy efficiency and renewable energy technologies. According to these studies, the potential for cost-effective energy savings is very significant.¹⁰ In the midst of this debate, a group of four energy and environmental groups launched a new technical study, known as *America's Energy Choices*, in order to examine the role that energy efficiency and renewable energy technologies can play in meeting the nation's economic and environmental challenges.¹¹

8. U.S. Department of Energy, *National Energy Strategy: Powerful Ideas for America*, Washington, D.C., 1991.

9. What is especially revealing about the lack of support for energy efficiency in the NES is that DOE performed analysis indicating that widespread efficiency improvements are feasible. For example, one working document outlined a scenario that would reduce U.S. energy consumption in the year 2030 by 31 percent over current policies. Ironically, the analysis indicated a strengthening of GNP as a result of increased energy efficiency. See, Energy Information Administration, *Very High End-Use Conservation Excursion, Energy Consumption and Conservation Potential: Supporting Analysis for the National Energy Strategy*, SR/NES/90-02, U.S. Department of Energy, Washington, D.C., 1990.

10. There now exists a large body of literature describing cost-effective technologies to improve overall energy efficiency. Examples include Howard S. Geller, Eric Hirst, Evan Mills, Arthur H. Rosenfeld and Marc Ross, "Getting America Back on the Energy-Efficient Track: No-Regrets Policies for Slowing Climate Change," American Council for An Energy-Efficient Economy, Washington, D.C., October 1991; Office of Technology Assessment, *Building Energy Efficiency*, U.S. Congress, OTA-E-518, Washington, D.C., May 1992; Roger S. Carlsmith, *et al.*, "Energy Efficiency: How Far Can We Go?," Oak Ridge National Laboratory, Oak Ridge, TN, January 1991; ICF Incorporated, *Preliminary Technology Cost Estimates of Measures Available to Reduce U.S. Greenhouse Gas Emissions by 2010*, Fairfax, VA, August 1990; Marc Ross, Marc Ledbetter, and Feng An, "Options for Reducing Oil Use by Light Vehicles: An Analysis of Technologies and Policy," American Council for An Energy-Efficient Economy, Washington, DC, December 1991; and Office of Technology Assessment, *Energy Efficiency in the Federal Government*, U.S. Congress, OTA-E-492, Washington, D.C., May 1991.

11. See, Union of Concerned Scientists, *et al*, *America's Energy Choices: Investing in a Strong Economy and a Clean Environment*, Washington, D.C., 1991, page 1.

The study relied on a computerized modeling system known as the Long-Range Energy Alternative Planning (LEAP) model to investigate the implications of four energy futures through the year 2030.¹² The four scenarios include a:

Reference Case, a business-as-usual scenario which reflects current energy policies and trends;

Market Case, which selects energy technologies based on the goal of minimizing the cost of energy services;

Environmental Case, which assigns monetary values to the environmental impacts of energy use;

Climate Stabilization Case, which seeks to meet predetermined targets for reduction of carbon dioxide emissions to the atmosphere.

Each of these four cases assumes successively greater reliance on energy efficiency and renewable energy technologies.

The Reference Case, built on assumptions published by the U.S. Department of Energy,¹³ indicated a 41 percent rise in the nation's energy use by the year 2030 (from 1988). Perhaps more importantly, carbon dioxide emissions were projected to rise 58 percent by that same year. Each of the three efficiency and renewable energy investment strategies demonstrated a dramatic reduction in both energy use and pollutant emissions.

Based upon data used for the most aggressive scenario (the Climate Stabilization Case), by the year 2030 the nation's energy requirements would be cut nearly in half from the Reference scenario. The carbon dioxide emissions would actually be reduced by more than 70 percent from 1988 levels in that same year.

Perhaps the most intriguing result of the *America's Energy Choices* study is that consumers would enjoy a net energy bill savings of some \$2.3 trillion over the 40-year period ending in 2030.¹⁴ This result arises from efficiency measures that save energy at lower cost than producing equivalent amounts of energy from new conventional sources such as fossil-fuel power plants.

12. LEAP was designed by the Stockholm Environment Institute-Boston Center at the Tellus Institute, Boston, MA 02110.

13. *1990 Annual Energy Outlook*, DOE/EIA-0383(90), Energy Information Administration, U.S. Department of Energy, 1990.

14. *America's Energy Choices*, op. cit., page 2.

II. ECONOMIC IMPACTS

Until recently, one of the less appreciated benefits of energy efficiency investments is their ability to promote new employment opportunities throughout all levels of the economy. A number of studies have shown that as energy efficiency is more widely implemented, economic well-being is also strengthened. This, in turn, enhances job opportunities (see Part IV of this study).

While the direct economic impacts of energy efficiency and renewable energy options were analyzed in *America's Energy Choices* (AEC), the study did not explore the employment and income benefits of the more aggressive efficiency scenarios. The model used in the study was not designed to estimate the indirect impacts which result from improvements in energy productivity.

To understand the full opportunity for employment and income benefits from energy efficiency improvements, this current project was launched. More specifically, this report explores the changes in gross domestic product (GDP), jobs, and employment compensation that result from the Market Case efficiency investments found in *America's Energy Choices*. To distinguish the results of this inquiry from the AEC findings, we use the term **High Efficiency scenario** which connotes investments in energy-efficient technologies as prescribed for all sectors in the AEC Market Case.

A. ENERGY EFFICIENCY INVESTMENTS

The starting point of *America's Energy Choices* was to track, in detail, exactly how energy is used within the residential, commercial, industrial and transportation sectors. From there the AEC report explored a variety of assumptions and technologies to determine an appropriate mix of investment opportunities that might fit within different energy efficiency scenarios.

The analysis included applications that ranged from commercial lighting and residential appliances to the movement of freight and people on the nation's highways, railroads and airlines. It examined space heating and cooling, industrial motor drives, and the development of renewable energy technologies such as solar water heating, solar electricity generation, and biomass fuel production.

Table II-1 provides a list of representative energy efficiency technologies (or bundles of technologies) examined in the AEC study, together with their respective cost of conserved energy (1990\$).¹⁵ The purpose is to illustrate the range of costs and technologies associated with the type of investments recommended in the Market Case.¹⁶ The efficiency investments save energy at much lower cost than supplying energy in today's marketplace.

Table II-1. Costs of Energy Efficiency Investments ¹⁷	
Technology	Average Cost of Conserved Energy (\$/MBtu)
Engine Controls for Heavy Trucks	\$2.24
Office Building Improvements	\$2.71
Efficient New Office Buildings	\$2.74
Hospital Building Improvements	\$2.88
Efficient New Retail Buildings	\$3.51
High Efficiency Gas Furnace	\$3.68
Retail Building Improvements	\$4.15
Improved Automobile Efficiency	\$4.24
Residential Lighting Improvements	\$6.83
Commercial Lighting Improvements	\$6.85
Efficient Industrial Motors	\$7.33
High Efficiency Refrigerators	\$10.35
Source: These representative technologies or technology bundles are taken from the "Technical Appendixes" of <i>America's Energy Choices</i> , op. cit.	

15. The cost of conserved energy is the incremental cost of the technology necessary to save a given amount of energy. The investment is amortized over the useful life of the technology using a three percent real discount rate. The three percent rate is intended to reflect the cost of capital to society based on the long-term average yield on U.S. Treasury bonds. This discount rate does not represent the cost of capital to consumers or businesses in the marketplace.

16. More than 100 separate technologies were evaluated for the complete study. For a complete recitation of costs and other assumptions about each of the scenarios and technology applications, see the technical appendices associated with *America's Energy Choices*, op. cit.

17. For comparison, the average 1990 residential electric price was \$22.96/MBtu, the average 1990 residential natural gas price was \$5.62/MBtu, while the average price of gasoline was \$9.74/MBtu (including taxes).

With a Reference Case established to show how the economy would likely behave through the year 2030, the AEC analysis then developed a scenario that included energy efficiency and renewable energy technologies that appeared to be cost effective for consumers using market energy prices. The resulting forecasts yielded the Market Case of *America's Energy Choices*. The projected total energy requirements and carbon dioxide emissions associated with these two scenarios are highlighted in Table II-2.

Table II-2. Summary Results of the Reference and Market Scenarios of America's Energy Choices				
Data	1988	2000	2010	2030
Gross National Product (Billion 1990\$)	5,292	7,090	8,941	12,792
Reference Case				
Primary Energy (Quads)	85.3	96.4	105.0	120.2
Energy/GNP (kBtu/\$)	16.1	13.6	11.7	9.4
CO ₂ Emissions (Billion Tons)	5.3	6.0	6.8	8.3
Market Case				
Primary Energy (Quads)	85.3	88.5	83.4	82.2
Energy/GNP (kBtu/\$)	16.1	12.5	9.3	6.4
CO ₂ Emissions (Billion Tons)	5.3	5.4	4.7	3.8

As the information from Table II-2 illustrates, both the AEC's Reference Case and Market Case assume the same level of economic growth as measured by the projected levels of Gross National Product (GNP), expressed in billions of 1990 dollars. The difference between the two cases is the level of energy consumption associated with each. In the Reference Case, energy intensity declines from 16,100 Btus per dollar of GNP in 1988 to 9,400 Btus in the year 2030.

By comparison, the Market Case shows a much steeper decline in energy intensity, dropping to 6,400 Btus per dollar of GNP by 2030. The difference in energy intensities results from a cumulative \$1.2 trillion investment in energy efficiency and renewable energy technologies in the period 1988 through the year 2030 (net present value based on a three percent real discount rate). The investment is projected to reap a cumulative energy bill savings of \$3.1 trillion in that same period, yielding a net savings of \$1.9

trillion (once again in terms of a net present value based on a three percent real discount rate).

For comparative purposes, the carbon dioxide emissions associated with each case are also shown in the above table. As might be expected, the added investment in efficiency and renewable technologies in the Market Case lowered projected emissions by 54 percent over the Reference Case in the year 2030. While the Reference Case indicates an absolute increase in emissions, moving from 5.3 to 8.3 billion tons in the years 1988 to 2030, the Market Case shows an absolute decline in emissions to only 3.8 billion tons in 2030.

B. FRAMEWORK OF ANALYSIS

While the Reference and Market Case found in *America's Energy Choices* were used as the starting point for the employment and income analysis in this study, four significant changes were made. The first change was to shorten the time frame from the years 1988 through 2030 to the years 1990 through 2010. The second change was to move the starting year from 1988 in the Market Case to the actual economic profile for 1990. The efficiency investments were not assumed to begin until 1992, however. A third point was to report national output as the Gross Domestic Product (GDP) rather than GNP as done in the original study. This change was done to incorporate the revised reporting format of the federal government. The fourth change was to consider only vehicle efficiency improvements in the transportation sector. Structural and behavioral changes that lead to reduced vehicle use were not included in this analysis because of the uncertainty surrounding their cost, lead time, and energy impacts.

The major economic parameters for 1990 are summarized in Table II-3.¹⁸ The 1990 data form only the starting point for comparison between the Reference and the High Efficiency scenarios developed in this study. The projections for the year 2010 in the Reference scenario are based upon a variety of data sources.¹⁹ As will be discussed

18. The 1990 GDP and income (i.e., employee compensation) data was obtained from the *Survey of Current Business*, U.S. Department of Commerce, Bureau of Economic Analysis, July 1992. The 1990 employment data were provided by the Office of Employment Projections, Bureau of Labor Statistics, U.S. Department of Labor. Employment includes both wage and salary workers, the self-employed and unpaid family members. Energy forecasts and prices were taken from the *Annual Energy Outlook 1992*, DOE/EIA-0383(92), Energy Information Administration, U.S. Department of Energy, January 1992.

19. Energy forecasts and prices were taken from the *Annual Energy Outlook 1992*, DOE/EIA-0383(92), Energy Information Administration, U.S. Department of Energy, January 1992. Forecasts for GDP growth were taken from *America's Energy Choices*, which, in turn, was based on Department of Energy projections as of 1991. Two other reports, *Outlook 2000*, Bureau of Labor Statistics, U.S. Department of Labor, April 1990, and *BEA Regional Projections to 2040*, Bureau of Economic

later in this report, an input-output model was calibrated to the 1990 economy and projected forward to 2010 based upon these economic forecasts.

Table II-3. 1990 U.S. Economic Profile Data

GDP (Billion 1990\$)	\$5,514
Total Employment	122,584,000
Income (Billion 1990\$)	\$3,290
Energy (Quads)	85.02
Energy/GDP (kBtu/\$)	15.4

Costs and Savings Compared to Reference Scenario

Once the economic and energy consumption trends were established in the Reference scenario, changes were introduced in the model to reflect new energy efficiency investments. Based upon the original data in *America's Energy Choices*, the efficiency investments and cumulative energy savings for the years 1995, 2000, 2005 and 2010 are presented in Table II-4. The data are reported for each of the major end-use sectors in billions of 1990 dollars.

Using the year 2010 totals as the focal point, for example, we note in Table II-4 that about \$60 billion of efficiency improvements will be made in that year. At the same time, the energy bill savings in 2010 from all efficiency measures in the economy that year is estimated to be \$167 billion. These energy savings accrue from efficiency investments made in the years 1992 through 2010. These include savings for all fuel types and end-uses.²⁰

Analysis, U.S. Department of Commerce, June 1990, also were used to select economic growth assumptions.

20. Again, for a complete review of the assumptions behind the efficiency and renewable energy investments, see the Technical Appendices for *America's Energy Choices*. It should be noted that while the energy prices by fuel, end-use and year were adapted from the DOE *Annual Energy Outlook*, they were modified to reflect assumptions about fixed and variable cost components as well as the responsiveness of the prices to reduced energy demand. See the discussion on this point found in section II-D.

Table II-4. Summary of Annual Efficiency Investments and Energy Savings of the High Efficiency Scenario (Billions of 1990\$)								
End-Use	1995		2000		2005		2010	
	Invest	Save	Invest	Save	Invest	Save	Invest	Save
Residential	11.98	6.77	12.19	15.37	19.45	28.75	19.87	42.48
Commercial	2.33	2.29	2.33	5.17	7.83	15.41	7.83	25.76
Industrial	15.12	4.59	15.11	12.47	13.36	20.49	13.36	29.16
Transportation	5.14	8.60	5.48	21.83	18.33	45.22	18.60	69.56
Total	34.57	22.25	35.11	54.84	58.97	109.86	59.65	166.96

The data for 1995 (Table II-4) show that the efficiency investments exceed the savings during the early and mid-1990's. This occurs because each investment occurs once with the installation of the new efficient equipment, while the energy savings from that equipment will occur in subsequent years. After several years of such investments, the total annual energy savings from all prior investments begin to exceed that year's new investment total.

By 2000, the energy savings from investments in efficiency measures in previous years are worth \$55 billion while an additional \$35 billion is spent on new efficiency improvements that year. By 2010, the savings are nearly 2.8 times the investment for that year. The cumulative investment in energy efficiency measures from 1990 through 2010 is about \$835 billion (1990\$). The cumulative energy savings during that same period of time is estimated to be about \$1.4 trillion (1990\$). This results in a net savings of nearly \$600 billion for consumers and businesses relative to the Reference scenario (net present value at three percent real discount rate). Once again, this is a first order assessment. It only considers the direct cost of efficiency measures and the value of the resulting energy savings. Also, additional energy savings will occur after 2010 from investments made prior to that date. These savings are excluded from this study, making our results conservative in terms of the overall benefits from energy efficiency improvements.

Establishing an Economic Model

Each sector of the economy — whether agriculture, construction, health or electric utility services — supports different levels of total economic activity, employment and personal

income. As the level of expenditures are increased or decreased, the level of employment supported by a given sector will rise or fall by some amount. In the case of the High Efficiency scenario, we want to know whether investing \$835 billion over an 18-year period (1992 through 2010) yields enough energy cost savings to end up with significantly more jobs than might otherwise occur.

Given a pattern of efficiency investments and their resulting energy savings (Table II-4), the question can now be asked: "What are the *net benefits*, if any, from those efficiency investments?" One tool that can assist in the evaluation of the job and income benefits is known as input-output analysis, sometimes called multiplier analysis.

Input-output analysis can be used to evaluate the job and income benefits (i.e., the "outputs") which are likely to result from the changes in spending patterns (the "inputs") created by the investment in particular technologies or sectors. Changes in each sector will actively affect all other sectors that are linked to it. Using input-output analysis, the impact of a dollar spent in different sectors of the economy can be traced and measured.

For example, let us suppose (in a highly simplified example) that a 10-horsepower motor in a pulp and paper mill has burned out. By paying an extra \$100 for a more efficient model, it is possible to save about \$50 per year in lower electric bills. In purchasing the premium model, the first impact will be to pay the motor vendor an extra \$100 for a new motor. The vendor will in turn pay the manufacturer a premium, possibly through an intermediate distributor. The manufacturer, in turn, will pay his or her parts suppliers, and, perhaps, an extra bonus to the salesperson. Those effects represent economic gains from the efficiency improvement.

In the meantime, until the pulp and paper mill recoups its initial investment, it will have 100 dollars less money to spend on other goods or services. That may be translated as a delay in the purchase of a new copier for the office, for instance. That \$100 motor investment, while providing economic gains to the vendor and manufacturer, represents an interim economic loss to the paper mill.

But once the new motor is installed, the business will be able to spend about \$50 each year for other goods, equipment and services. That \$50 savings represents a second benefit to the local economy. At the same time, the local utility may lose \$50 in revenues which represents a loss to the overall economic activity. At this point, then, we have identified four separate changes in normal purchase patterns. Two were positive and two were negative.

But there are more effects than simply those directly created, for example, by the money paid to a motor vendor for a high efficiency unit. To determine the total economic outcome of the efficiency investment, three separate effects must be examined:

Direct Effect: These are the on-site jobs created by an expenditure. In the case of installing a more efficient electric motor, the direct effect would be the on-site jobs of the electrical contractor hired to carry out the work as well as the vendor who sold the new motor to the paper mill.

Indirect Effect: When a contractor or motor vendor receives payment for goods or services delivered, he or she is able to pay others who support their businesses. This is the indirect effect and includes such people as the banker who finances the contractor, the accountant who keeps the books for the vendor, and the wholesale suppliers who keep both well-stocked with material goods.

Induced Effect: As the people who are directly and indirectly employed by the efficiency upgrade spend their weekly paychecks, they are said to "induce" other activity. This refers to money received by the grocer, for instance, who hires people to work in his or her store.

The sum of these three effects yields a **Total Effect** that results from a single expenditure, in this case the extra \$100 spent to buy the more efficient motor. Even at this point the analysis is incomplete since it only deals with the direct, indirect and induced effects of the efficiency investment itself. To understand the full range of economic influences, a total of four impacts must also be examined for their direct, indirect and induced, or total effects. They are the:

Investment Impact: This is the efficiency investment, including both equipment and labor costs. In the case just described, it is the \$100 additional cost for the purchase of the high efficiency motor.

Revenue Impact: This refers to the transfer of funds from one place to another which must be recorded as a loss in the overall set of transactions. In the case of the motor purchase, while the motor vendor receives an extra \$100, the pulp and paper mill will initially have \$100 less to spend elsewhere.

Substitution Impact: With the premium motor now installed, the efficiency improvements are effectively "substituted" for some amount of the energy use. If that amount generates a net savings, the result is increased local spending equal to some portion of the energy savings. In the motor example, the paper mill owner may have extra funds to complete other upkeep or maintenance. He or she may buy another piece of office machinery, or provide a Christmas bonus to employees.

Displacement Impact: Any money saved by the efficiency improvements may create a loss of income for the local energy supplier. If it occurs, such displacement may create an economic loss to the community, which will also have

indirect and induced effects. Again, in the case of the motor efficiency improvements, a local utility may find revenues sufficiently reduced so that open jobs slots are unfilled, or that some employees are asked to retire early.

From a discussion of these terms, it can be seen that a complete multiplier analysis captures the direct, indirect and induced effects of each major change in local expenditure patterns. Thus, there are two major tasks in completing an employment and income analysis of this type. The first is to understand just how the expenditure patterns affect each of the sectors of the economy. The second is to identify and calibrate an appropriate economic model to reflect the total impacts of those four spending changes, both positive and negative.

There are many different analytical tools that can be used to estimate the full range of these spending impacts. One is the U.S. Department of Commerce's Regional Input-Output Modeling Systems (RIMS II), a 531-sector input-output model designed and used by the U.S. Bureau of Economic Analysis.²¹ A number of state energy offices, for instance, have adapted the RIMS model for use in their own policy analysis.

A second analytical tool often used is the 528-sector IMPLAN model originally developed for mainframe computers by the U.S. Forest Service. It is now available for use in personal computers and has recently been used for such things as estimating the economic impacts of oil and gas exploration and the conversion of midwestern farmland into a national forest.²²

Both models produce comparable results if the framework of analysis is properly established. However, the data provided by the RIMS model largely consists of just the multipliers themselves. IMPLAN, on the other hand, contains actual output, employment and income data as well as the input-output multipliers. This allows the user to more easily adapt it for use in a particular analysis. Therefore, the IMPLAN model was chosen for conducting this analysis.²³

21. For more information on the use of this database and model, see, Bureau of Economic Analysis, *Regional Multipliers: A User Handbook for the Regional Input-Output Modeling System (RIMS II)*, (Washington, DC: U.S. Department of Commerce, 1992).

22. IMPLAN is short for "IMPact Analysis for PLANning." Originally an analytical model used on the U.S. Forest Service's mainframe computers, it is now available for microcomputers from the University of Minnesota's Department of Agricultural and Applied Economics, 1994 Buford Avenue, St. Paul, MN 55108.

23. The I-O model used in this study is a "static model" because the multipliers are assumed to remain constant in the future (except for specific changes in multifactor productivity which the user can introduce at the time of analysis). Some of the limitations inherent with this type of model are discussed in section II-D. Dynamic I-O models have been developed and used to analyze issues such as how technological

With the baseline information downloaded from the IMPLAN model, the next step in the analysis was to make the information easier to manage. This was done by aggregating the 528 sectors down to a total of 25 sectors.

Since IMPLAN is benchmarked to a 1985 economic database, the second step in the analysis was to calibrate the model to fit within the 1990 framework referenced in Table II-3. This was done using 1990 employment and income information for each of the relevant economic sectors. With this step complete, a series of multipliers were generated for each of the 25 sectors (see Table II-5). While updated as much as possible to economic conditions in 1990, the multipliers shown in Table II-5 still represent underlying relationships within the U.S. economy as of 1985.²⁴

change has affected capital and labor markets in the United States. See, F. Duchin, "International Trade and the Use of Capital and Labor in the U.S. Economy," *Economic Systems Research*, 1(3), 1989, pages 345-350. Also, F. Duchin and G.M. Lange, "Technological Choices, Prices and Their Implications for the U.S. Economy, 1963-2000," *Economic Systems Research*, 4(1), 1992.

24. Technically, the 1985 IMPLAN model is updated from the 1977 benchmark tables developed by the U.S. Department of Commerce. The 1982 benchmark tables, the most recent available, were released in 1992 but have not yet been incorporated into IMPLAN. While the RIMS multipliers have been updated from 1977 using the 1982 tables, any results generated from the earlier tables will continue to provide useful insights at the level of U.S. policy analysis referenced in this study. As with any analytical tool like IMPLAN, however, a proper analysis must anticipate these shortcomings and make any needed adjustments. One example of such an adjustment is the annual increase in productivity. A variety of sources project a growth in productivity of between 1.0 and 1.5 percent for the next 20 years. Using an assumed productivity growth rate of 1.4 percent coupled with the projected 2.4 annual percent growth in GDP used in *America's Energy Choices*, the IMPLAN model forecasts a year 2000 employment level of 136.5 million jobs. BLS forecasts to 136.2 million jobs, which is reasonably close to the IMPLAN results.

Table II-5. Multipliers for the United States (1990)

Industry	Output (Total Sales Per Dollar Spent)	Jobs (Total Per Million \$ Expenditure)	Wages/Salaries (Total Earnings per Dollar Spent)
Agriculture	2.1198	26.86	0.3451
Other Mining	1.8170	13.51	0.5672
Coal Mining	1.8690	12.88	0.5431
Oil and Gas Extraction	1.3438	7.02	0.2546
Construction	1.9228	20.97	0.5674
Metal Durables	1.9390	17.28	0.6469
Food	2.4489	19.77	0.4650
Other Manufacturing	2.0310	20.75	0.5884
Paper	2.1011	14.29	0.5476
Chemicals	2.1282	13.06	0.5340
Refining	2.0209	7.14	0.2617
Stone, Glass, Clay	1.9051	17.25	0.5732
Primary Metals	2.0150	13.05	0.5489
Motor Vehicles	2.1871	13.70	0.5426
Transportation/Communication	1.5777	16.37	0.5487
Electric Utilities	1.7821	9.54	0.3341
Gas Utilities	1.9921	7.41	0.2442
Water/Sewer Utilities	1.5943	14.00	0.4163
Wholesale Trade	1.4668	20.43	0.6730
Retail Trade	1.5984	32.24	0.6590
Finance, Insurance, Real Estate	1.4220	10.10	0.2959
Hotels and Lodging Places	1.5815	36.13	0.6048
Other Services	1.3726	26.45	0.7048
Eating and Drinking Places	1.9766	37.78	0.5389
Health Services	1.5853	23.15	0.6740

Three types of multipliers are shown in Table II-5.²⁵ The first is referred to as **output multipliers**. This refers to the total change in economic activity generated for each dollar of final demand delivered to a given economic sector. In the case of electric utilities, for instance, each dollar of additional revenue collected by the utilities will generate, directly and indirectly, a total of \$1.78 in total sales activity throughout the U.S. economy. Economic output contributes directly to GDP; in other words, expenditures that result in higher net output contribute to economic growth.

The second set of ratios refers to **jobs multipliers**. Here, the reference is to the total change in employment for each one million dollars of final demand delivered to a given economic sector. Again referring to electric utilities, a one million dollar increase in revenues will support a total of 9.54 jobs, both directly and indirectly. Beginning with its 1985 data, IMPLAN defines a job as a person-year equivalent.

Finally, the third set of ratios refer to employee compensation in the form of **wage and salary multipliers**. The reference, in this case, is to the total change in income for each dollar of final demand delivered to a given economic sector. Continuing with the previous example, each dollar of revenue collected by the electric utilities will increase employee compensation by a total of \$0.33.

A quick review of the Table II-5 reveals an important point. When looking at the jobs column, the five energy-related sectors (coal mining, oil and gas extraction, refining, electric utilities and gas utilities) have some of the smallest employment multipliers. In other words, these traditional energy supply sectors are relatively capital intensive in contrast to more labor intensive businesses that might be found in the various service sectors. This insight offers an early hint of the likely results of the economic impact analysis to come — that is, by lowering energy bills in all sectors of the economy, the savings will likely be spent in a way that supports a stronger employment base for the country.

Changes in Final Demand

Two major steps in the input/output analysis have been completed — setting up the initial dollar amounts associated with the efficiency investments, and developing the initial set of multipliers. We can understand how these steps fit together within an analysis by setting up a simple problem to solve.

25. Strictly speaking, the multipliers on this page are what are known as Type I multipliers. That is, they include only the direct and indirect effects of a given expenditure. The induced effect is simulated by including changes in personal consumption expenditures as part of the final demand column rather than as part of the production process.

Let us again use the example of a purchase of a more efficient electric motor by a pulp and paper mill. In this case, the local planner wants to know what the net benefit would be to the economy — based upon the \$100 incremental cost of the premium motor, and the anticipated energy savings of \$50 per year.

The multipliers found in Table II-5 already reflect the direct and indirect effects of an expenditure made for each sector of the economy. At this point all we need to do is match the proper change in spending with the correct multiplier found in Table II-5. In this example there are four such calculations to be made and summed. The steps for the first year in which the efficient motor is purchased and operated are shown next:

$$(1) \text{ Investment Impact} = \$100_{\text{motor purchase}} * 2.0310_{\text{manufacturer}} = \$203.10_{\text{gain}}$$

$$(2) \text{ Revenue Impact} = -\$100_{\text{budget loss}} * 2.1011_{\text{paper mill}} = -\$210.11_{\text{loss}}$$

$$(3) \text{ Substitution Impact} = \$50_{\text{utility bill savings}} * 2.1011_{\text{paper mill}} = \$105.06_{\text{gain}}$$

$$(4) \text{ Displacement Impact} = -\$50_{\text{revenue loss}} * 1.7821_{\text{electric utility}} = -\$89.11_{\text{loss}}$$

$$\text{Net Impact} = \$8.99_{\text{net gain in year one}}$$

In this example, total economic activity will be strengthened by about \$8.99 compared to buying a less-expensive and less-efficient motor. This includes both the direct and indirect effects of all four sets of expenditures. Similar calculations would be done for both employment and wage and salary multipliers to generate estimates of job and income benefits.

By year two, because of the assumption that the motor is paid for with current earnings, the net gain to the economy will be even larger since equations (1) and (2) would be dropped from the analysis. In that case, the year two net benefit would be \$105.06 less \$89.11, or \$15.95. Thus, as energy savings begin to accumulate, the net gains to the economy also grow.

Each of the changes in spending shown in the calculations above represent changes in final consumer demand. Each change in the final demand, created by the efficiency upgrade, needs to be matched with its appropriate multiplier. The products are then summed to determine whether the upgrade produces net benefits or not.

As this point we move to the next step of the analysis — to determine the sector-by-sector changes in expenditures resulting from the efficiency investments summarized in

Table II-4. This becomes the basis on which to predict employment and income benefits in the U.S. using the modified IMPLAN model.

The assumption used here is that each sector that benefits from efficiency improvements will also carry the cost of paying for the improvements. In other words, there is no cross subsidy in utility bills or tax incentives. A further premise is that the savings enjoyed by each sector, proportionate to the level of investment made, will be respent in the same manner as other funds available to it.

For instance, if households dedicate five percent of their income to savings, then we assume five percent of the energy bill savings will be saved as well. Similarly, if a manufacturing sector spends about 25 percent of its revenues for employee compensation, then about 25 percent of the energy bill savings will end up as employee compensation. We do not assume that businesses would use energy bill savings to reduce overall price levels. If we did, there would be more indirect economic benefits in other sectors, which would still lead to substitution impacts.

C. RESULTS

Table II-6 presents the results for the High Efficiency scenario in 1995, 2000, 2005, and 2010. Compared to the Reference scenario, primary energy use is reduced by 7.5 Quads (8 percent) in 2000 and 20.8 Quads (20 percent) in 2010. Absolute energy consumption rises slightly during 1990-2000 but then declines during 2001-2010 in the High Efficiency scenario. Energy use per unit of GDP declines by 2.4 percent per year on average during the twenty-year period, nearly matching the rate of energy intensity reduction in the United States during 1973-86.²⁶

The IMPLAN model does not directly track consumption of different types of fuel on a primary basis. We can, however, estimate energy savings by fuel type and the corresponding reductions in pollutant emissions in the High Efficiency scenario by referring to the Market Case analysis in *America's Energy Choices*. Adjusting for the small difference in energy savings between the two analyses as well as the accelerated implementation of renewable energy sources in *America's Energy Choices*, we estimate that the 20.8 Quads of energy savings in our High Efficiency scenario in 2010 would be comprised of about 7.0 Quads of oil, 4.7 Quads of natural gas, and 9.1 Quads of coal. We also estimate about 1.7 billion tons of avoided carbon dioxide emissions in 2010 in the High Efficiency scenario, a 24 percent reduction relative to emissions in the Reference scenario. Likewise, NOx emissions would be reduced by about 14 percent and SO2 emissions by about 5 percent in 2010 in the High Efficiency scenario.

26. Projected energy use and energy intensity in 2010 are about three percent higher in the High Efficiency scenario as compared to the Market Case in *America's Energy Choices*.

TABLE II-6. SUMMARY OF INPUT-OUTPUT ANALYSIS

	1990	1995	2000	2005	2010
Reference Case Scenario					
GDP (Billion 1990\$)	\$5,514	\$6,205.6	\$6,993.0	\$7,889.7	\$8,911.1
Jobs (Thousands)	122,600	129,273	136,494	144,273	152,650
Income (Billion 1990\$)	\$3,290	\$3,712.4	\$4,192.9	\$4,741.0	\$5,366.3
Energy (Quads)	85.02	90.49	95.61	101.20	106.10
Btu/GDP (1990\$)	15,419	14,582	13,672	12,827	11,906
High Efficiency Scenario					
GDP (Billion 1990\$)	\$5,514	\$6,206.6	\$6,993.8	\$7,891.2	\$8,914.8
Jobs (Thousands)	122,600	129,566	136,965	145,049	153,737
Income (Billion 1990\$)	\$3,290	\$3,719.0	\$4,203.6	\$4,761.2	\$5,394.8
Energy (Quads)	85.02	87.14	88.07	87.06	85.35
Btu/GDP (1990\$)	15,419	14,040	12,593	11,033	9,574
Net Efficiency Gains					
GDP (Billion 1990\$)	n/a	1.0	0.8	1.5	3.7
Jobs (Thousands)	n/a	293.0	471.0	776.0	1,087.0
Income (Billion 1990\$)	n/a	6.6	10.7	20.2	28.5
Energy (Quads)	n/a	-3.4	-7.5	-14.1	-20.8
Btu/GDP (1990\$)	n/a	-542.0	-1,079.0	-1,794.0	-2,332.0

The High Efficiency scenario results in more jobs, higher personal income, and marginally higher GDP throughout the twenty year period. It is estimated that about 293,000 new jobs are created by 1995, 471,000 new jobs by 2000, and nearly 1.1 million new jobs by 2010 on a net basis. The net increase in jobs by 2010 represents about approximately a 0.7 percent rise in the projected employment level that year (see Figure II-1). Likewise, the rise in personal income during the twenty-year period reaches about 0.5 percent by 2010, while the increase in GDP is less than 0.1 percent that year.²⁷

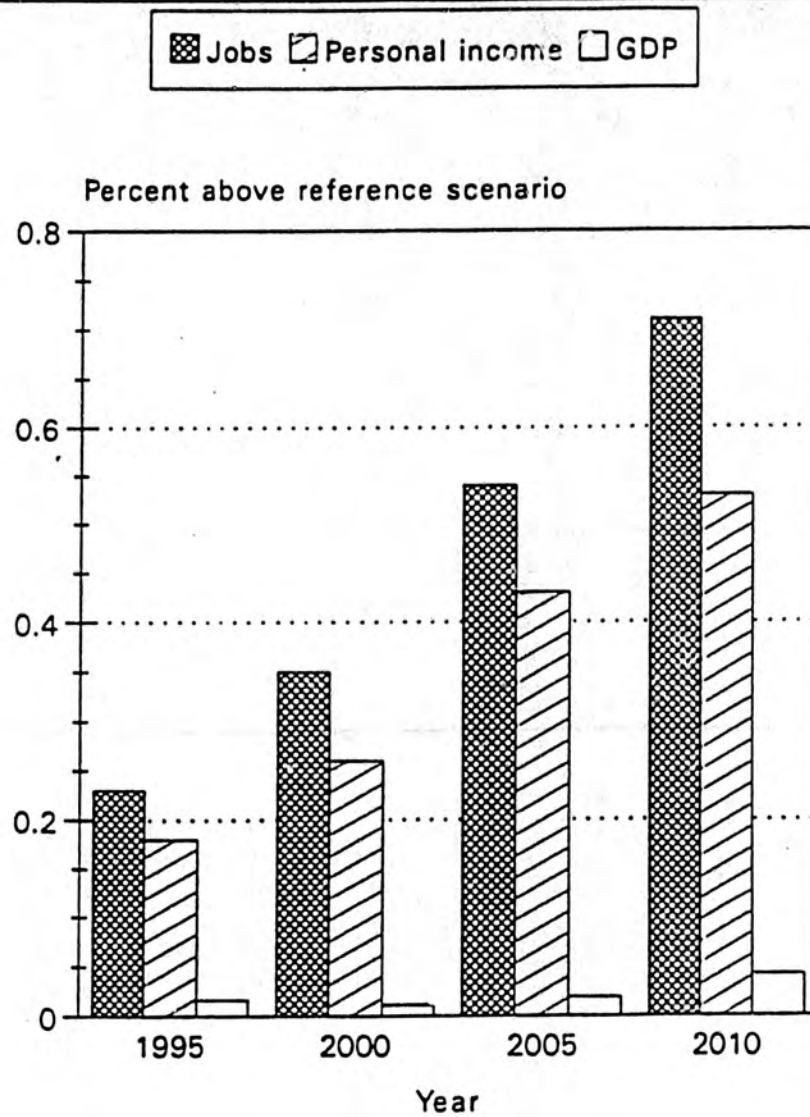
Table II-7 presents the sectoral changes in employment that are expected in 2010 in comparing the High Efficiency and Reference scenarios. The table shows both the anticipated job gains or losses as well as the percent change from the Reference Case scenario. Negative values are shown in parentheses. In the High Efficiency scenario, a total of 1.5 million new jobs are added in 2010 in the twenty "gaining" sectors, while about 0.4 million jobs are lost in the five "losing" sectors.

The construction, retail trade and service sectors gain the most new jobs in absolute terms in the High Efficiency scenario, while the motor vehicles and stone, clay, and glass industries also gain significantly in percentage terms. Energy efficiency technologies are installed by builders, vehicle manufacturers and electrical and special trade contractors. Building contractors will begin to use more architectural and engineering services and other technical skills in the construction of new homes and business, as well as in the renovation of the existing building stock. All of these activities will increase demand for manufactured goods such as energy efficient motors, lights and space conditioning systems. And as the energy bill savings begin to mount, consumers and businesses will have increased buying power that further adds to the job gains throughout the economy.

As might be expected from the drop in energy consumption, the energy sectors could face significant employment loss. It is important to recognize that the projected job losses in Table II-7 are based on comparison with the Reference scenario. Considering the projected change in the actual employment levels between 1990 and 2010, a total of about 200,000 jobs could be lost in the five energy sectors by 2010 in the High Efficiency scenario. This represents about a 12 percent drop in total employment in these industries between 1990 and 2010. These potential job losses are due primarily to expected productivity improvements, not to changes in absolute energy use during 1990-2010. In addition, individual companies may be able to reduce any adverse jobs

27. A study by the Energy Information Administration of the U.S. Department of Energy indicates that energy efficiency improvements on the scale envisioned in our High Efficiency scenario could have a somewhat greater impact on total economic output. By reducing primary energy consumption in 2010 by about 18 Quads compared to a base case, the "Very High Efficiency Scenario" developed by the EIA resulted in an 0.84 net increase in GNP by 2010. See, *Energy Consumption and Conservation Potential*, op. cit., pages 18-21.

Figure II-1
Net increase in jobs, personal income, and GDP
in the High Efficiency scenario



**Table II-7. Differences in Employment Levels in 2010:
High Efficiency vs. Reference Scenario**

Sector	Net Job Changes	Percent Change
<i>Subtotal Gains</i>	<i>1,503,088</i>	<i>n/a</i>
Construction	342,101	4.4%
Retail Trade	197,491	1.1%
Services	152,264	0.3%
Agriculture	118,569	3.6%
Restaurants	105,259	1.3%
Health Services	91,651	0.8%
Finance, Insurance, Real Estate	77,931	0.8%
Non-Durable Goods	73,589	0.8%
Other Manufacturing	72,824	1.1%
Motor Vehicles	53,587	6.2%
Wholesale Trade	44,644	0.5%
Hotels and Lodging	34,404	1.4%
Food Processing	27,270	1.8%
Stone, Glass, Clay	26,403	4.1%
Primary Metals	23,417	2.3%
Transportation/Communications	22,873	0.4%
Chemicals	22,018	1.8%
Pulp and Paper	10,958	1.5%
Miscellaneous Mining	3,943	2.1%
Water/Sewer Utilities	892	0.4%
<i>Subtotal Losses</i>	<i>(416,309)</i>	<i>n/a</i>
Refining	(8,095)	(5.4%)
Coal Mining	(20,300)	(11.9%)
Gas Utilities	(71,090)	(31.0%)
Oil and Gas Extraction	(139,080)	(30.4%)
Electric Utilities	(177,744)	(21.6%)
<i>Net Employment Gain</i>	<i>1,086,779</i>	<i>n/a</i>

Table II-8. Source of Employment Changes for Year 2010			
Effect	GDP (Billion 1990\$)	Jobs	Income (Billion 1990\$)
Investment Impact	\$64.62	1,093,000	\$40.20
Revenue Impact	(\$63.33)	(1,009,000)	(\$34.32)
Substitution Impact	\$153.84	2,471,000	\$82.61
Displacement Impact	(\$151.43)	(1,468,000)	(\$59.99)
Net Impacts	\$3.70	1,087,000	\$28.50

impacts by diversifying into the energy efficiency field (e.g., if utilities hire workers to implement energy conservation programs).

Table II-8 offers yet another view of the dynamics of job creation associated with energy efficiency improvements. The net increases found in the High Efficiency scenario in 2010 are reviewed according to the four separate impacts — the investment, revenue, substitution and displacement impacts. The investment and substitution impacts are positive influences while the revenue and displacement impacts are negative influences.

Table II-8 indicates that the net job and income benefits of the High Efficiency scenario result largely from the energy bill savings. We can observe this influence by examining the net outcomes of the efficiency investment versus the net impact of the energy bill savings.

Combining the (positive) efficiency investment impacts and the (negative) efficiency revenue impacts for the year 2010 shows only a modest gain in GDP, jobs, and wage and salary income. In the case of jobs, for instance, the investment impact shows a gain of 1,093,000 jobs in 2010. But subtracting the 1,009,000 jobs lost through the revenue impact — the diversion of funds from other normal purchases to pay for the efficiency improvements — yields only a small gain of 84,000 jobs in that year.

Turning to the two impacts associated with the energy savings, the substitution impact, which represents the respending of the money saved through lower energy bills, will lead to an estimated 2,471,000 new jobs in 2010. On the other hand, the displacement impact, which represents lost revenues to energy supply companies, reduces overall

employment by 1,468,000 jobs. The net jobs gain from the energy bill savings is, therefore, 1,003,000 jobs.

Adding the 84,000 job gains from the investment and revenue impacts to the 1,003,000 jobs supported by the energy bill savings leaves a total net increase of 1,087,000 jobs. In other words, the investments and revenue impacts yield about eight percent of the net employment creation, while the energy savings and responding impacts yield about 92 percent of the new jobs on a net basis. This result makes sense when we recall the earlier discussion about the large difference in job multipliers between the various energy sectors on one hand and all other sectors of the economy on the other. By diverting a large sum of money (\$167 billion in year 2010 as shown in Table II-4) from energy spending with its small job multipliers, a positive net employment impact results. These considerations explain, for example, why there is a positive job gain in 1995 even though efficiency expenditures are larger than energy bill savings that year. While the investment impact is largely offset by the revenue impact, the substitution impact produces the net positive jobs gain through the responding of the energy bill savings in 1995.

D. ISSUES AFFECTING THE RESULTS

The results of this analysis are not surprising given the cost effectiveness of energy efficiency improvements and the low labor intensity of energy production. Nevertheless, it is important to review the limitations of this type of input-output analysis in order to place the results in perspective. There are five areas that merit particular attention.

Static, Scale Independent Modeling

Input-output models such as the IMPLAN model are based upon an accounting of the nation's economic activity at a given point in time. These are termed *static* models of economic activity. This notion refers to the premise that the relationships among the many different businesses and industries in one year will remain unchanged over the time period analyzed. In the case of IMPLAN, the data is "benchmarked" to the 1977 national I-O tables available from the U.S. Department of Commerce. The tables are then adjusted to the 1985 economic profile for the U.S.²⁸

For this project, 1990 data was substituted in the IMPLAN model for the 1985 data. This includes actual sectoral data for output, GDP, jobs and employment compensation

28. For a discussion of how the adjustments are made to the "benchmark" tables, see, M. Planting, "The History and Development of the U.S. Annual Input-Output Accounts," Interindustry Economics Division, Bureau of Economic Analysis, U.S. Department of Commerce, Washington, DC, March 1988.

(i.e., wages and salaries and associated benefits). To establish a Reference scenario for 1990-2010, each of the sectors was grown or contracted according to the projected annual growth rates for GNP found in *America's Energy Choices*. The assumption in AEC was that through the year 2010 the economy would grow at about 2.4 percent annually. Implicit in this approach is the premise that the relationships among the sectors through the year 2010 would be adequately represented by the relationships that existed in 1990. This assumption appears to be reasonable given that the U.S. economy is relatively stable; i.e., relationships among sectors are not changing very rapidly.²⁹

Input-output models such as IMPLAN also assume that the average relationships among the industries are independent of the scale of investment. This means that the relationships apply equally to both very small and very large changes in spending. For example, let's assume that, on average, it takes \$250,000 worth of labor to produce \$1,000,000 worth of a specific type of manufactured good. A static input-output model assumes that the same labor ratio of 25 percent will apply to a \$1,000 purchase or to \$100,000,000 purchase throughout the time period analyzed.

A strict I-O model, such as IMPLAN, also does not analyze how the assumed pattern of investments and expenditures affect other macroeconomic parameters such as interest rates or inflation. There should be some interaction between these parameters and the effects that are estimated by IMPLAN (i.e., GDP, jobs, and employment compensation). However, the magnitude of the changes in GDP, employment and income due to greater energy efficiency in this study are moderate enough that significant changes in other variables are unlikely. For example, unemployment by the year 2010 is projected to run at about five or six percent of the labor force. That means about 8-10 million people will be unemployed in that year. It is unlikely that the introduction of about one million new jobs from efficiency improvements will significantly increase the average wages and thus raise the rate of inflation.

Nonetheless, for the reasons described above, static models cannot precisely forecast changes in future employment and income levels from particular actions over a long period of time. The strength of the input-output model as it is used here is that it provides useful insights about how different investment strategies can expand the nation's

29. One economist recently examined the differences between the two sets of benchmark tables and concluded that, at the level applied in this analysis, there was very little change between 1977 and 1982. Personal communication, Peter Blair, Energy and Materials Program, Office of Technology Assessment, Washington, DC, September 1992. Similarly, 1989 RIMS multipliers for the U.S. based either on the 1977 or the 1982 benchmark tables also showed little overall difference. Finally, an analysis done for the Electric Power Research Institute, comparing a 1972 benchmark table to a dynamically created table for the year 2000, concluded that only relatively small changes occurred in the resulting multipliers. See, Resources for the Future, Inc. *An Energy-Oriented Input-Output Model*, EPRI EA-3625, Electric Power Research Institute, Palo Alto, CA, August 1984, page 4-21.

overall employment and income opportunities, and which sectors of the economy will be affected either positively or negatively.

The conclusion that should be drawn from this analysis is not that the High Efficiency scenario will provide exactly 1.1 million jobs in the year 2010, but that energy efficiency can provide significantly greater employment opportunities while continuing to meet other critical economic and environmental needs. In fact, there are other positive impacts in the High Efficiency scenario which indicate that the resulting analysis may actually understate the employment and income benefits.

The multipliers used in this study are based upon the import levels in the 1985-1990 time period. Because of the static model and related assumptions, any oil savings due to energy efficiency improvements are assumed to reduce both domestic and imported oil consumption in proportion to their use in 1990. But in reality, oil savings at the margin primarily lead to less imports, rather than less domestic production. Thus, by investing in technologies that reduce the nation's dependence on petroleum, especially imported oil, the tendency will be to increase the average sectoral multipliers compared to those generated by the IMPLAN model for this analysis. In this sense, the results presented here tend to understate the economic gains of the High Efficiency scenario.

Energy Prices

This analysis primarily relies on the energy prices published in the *Annual Energy Outlook* to estimate the monetary values of anticipated energy savings. While these prices form a reasonable starting point, there are two issues which will significantly alter how those prices translate into energy bill savings.

The first issue is the problem of fixed costs. For all fuels, and especially for electricity, reduced consumption means that there are fewer units of energy over which to recover previous investments in power plants, transmission lines, pipelines, production wells, and the like. This leads to price increases, at least in the short run.

To correct for the problem of fixed capacity, the analysis assumes that electricity prices have a fixed cost component equal to about 40 percent of the published DOE prices.³⁰ Information on the fixed cost components for natural gas and petroleum, while less capital-intensive than electricity, is difficult to generate. The premise used here is that they have a fixed cost component of 20 and 10 percent, respectively. The implication

30. Information from the U.S. Department of Energy indicates a 1990 capital cost component of 44 percent of the average electricity price, dropping to 31 percent in 2010. The 40 percent figure was used throughout the analysis as a conservative estimate. See, *Annual Energy Outlook 1992: With Projections Through 2010*, DOE/EIA-0383(92), Energy Information Administration, U.S. Department of Energy, Washington, DC, January 1992.

of these assumptions is that energy bill savings will, in fact, be equal only to the non-capital costs of energy.

The second issue affecting energy prices is how reduced energy consumption in the High Efficiency scenario will affect the price of energy. DOE reports indicate that all energy prices are reasonably sensitive to significantly reduced demand. In other words, as demand falls, there will be a downward pressure on energy prices. There is not a consistent body of published literature that supports one response rate over another. For purpose of this analysis, therefore, it was assumed that the variable (non-capital) cost component of all energy prices would have an elasticity of 0.4 with respect to demand. More specifically, for every 10 percent drop in consumption, the premise was adopted that the variable energy costs would drop by four percent over their otherwise published values.³¹

Utility and Other Energy Investments

As the High Efficiency scenario begins to show significant energy savings, reduced energy use either postpones or eliminates the need for a variety of future energy supply investments. While there is a strong database on how electricity investments will be affected, notably through the work of Tellus Institute, there is little information on the investment patterns for the other major fuels.

Because of this uncertainty, it was decided to hold at zero the energy investment factor in the analysis presented here. In other words, the analysis assumes no savings from a lower investment in other energy resources such as new oil and gas wells or new power plants. However, a number simulations were run to test the influence of reduced energy investments on the overall employment picture.

It turns out the energy savings from lower energy investments did not appreciably affect the overall outcome. For example, in the year 2010, employment levels generated in scenarios which reflected the investment savings remained within three percent of those scenarios which did not include the investment savings. The reason appears to be that as the savings are reallocated back to the other sectors, their weighted labor intensities

31. In estimating the impacts of the Very High End-Use Conservation Excursion on energy prices and costs, the Department of Energy notes that in the year 2010 world oil prices will drop 7.2 percent (in real terms) compared to the reference scenario. Similarly, wellhead natural gas prices will drop 26.1 percent and average electricity prices will also drop 5.7 percent in real terms. This implies a long-run elasticity of 0.32 for petroleum, 1.25 for natural gas and 0.36 for electricity. See, *Energy Consumption and Conservation Potential*, op cit, pages 18-21. To maintain a consistency in the analysis, this study adopts an average elasticity of 0.4. Since this applies only to the non-capital portion of the energy costs, the effective elasticities are, therefore, 0.24 for electricity, 0.32 for natural gas, and 0.36 for petroleum.

were approximately equal to the construction multipliers. Nonetheless, this issue should be refined in future studies, particularly as it affects the non-electric investment patterns.

Consumer Decisions

An important question that needs to be explored is how businesses and consumers will respent any savings realized through their lower energy bills. In other words, how much of the savings will households use to buy more goods, how much will they add to savings, how much will be spent out of the country, and how much will they use to retire debt. The literature is not especially strong concerning this issue. For purposes of this study, it was assumed that households would spend their savings in the same pattern as their personal consumption expenditures. It was further assumed that businesses would spend their savings much as they would any additional revenues earned through their normal course of doing business. In other words, additional inputs would be purchased and investments made, thereby enabling output to grow.³² Absent better information, the premise was adopted that savings would be respent in an average rather than marginal fashion.

Making different assumptions about how consumers spend or use energy bill savings could lead to moderately different results from those reached in this study. While the implications of different assumptions should be examined, we are confident that our fundamental results will not be altered because: a) saving energy is more labor intensive than supplying energy; b) increasing energy efficiency will increase overall economic efficiency and raise multi-factor productivity; and c) the savings will be respent eventually in ways that tend to employ more people than supplying energy.

Expensing Versus Financing

The issue of expensing versus financing energy efficiency improvements is not addressed in this study. The assumption used is that the investment would be expensed (i.e., paid for immediately). However, financing all or part of the investment is possible. Making this assumption should yield similar if not more positive results because the banking and finance industries have reasonably high multipliers. By taking money from businesses and consumers in the form of interest payments, a similar level of employment would be created as leaving the money in the hands of the consumer. Nonetheless, since there are numerous ways to underwrite and finance the High Efficiency scenario, this issue should be explored in subsequent studies.

32. The energy bill savings computed in *America's Energy Choices* already reflect a so-called "rebound" effect — that is, the fraction of energy savings that is sacrificed for increased levels of comfort or service. An example of this effect is a household which previously kept its indoor temperature at 68 degrees during the winter but after adding insulation, decides to maintain a 72 degree indoor temperature.

III. VEHICLE EFFICIENCY SCENARIO

Light duty vehicle (car and light truck) efficiency improvements were identified as one of the major opportunities for cost-effective fossil fuel (namely, petroleum) energy savings in the *America's Energy Choices* study. Vehicle efficiency improvements account for 4.1 Quads (20 percent) of the overall 20.8 Quads reduction in primary energy use obtained in the High Efficiency scenario relative to the Reference scenario.

The issue of potential employment impacts has been frequently raised in the course of policy discussions regarding vehicle efficiency improvement, for example, through strengthened Corporate Average Fuel Economy (CAFE) standards. To directly address the issue, we developed a scenario including only vehicle efficiency improvements in order to isolate the employment impacts associated with these measures.

A. ECONOMIC PARAMETERS FOR THE VEHICLE EFFICIENCY SCENARIO

Light vehicles (including only cars and light duty trucks such as pickups and vans) now represent about 89 percent of motor vehicle sector output in the U.S. economy.³³ The average price increase for an automobile obtaining 40 miles per gallon instead of 28 miles per gallon is about \$600 relative to current new car prices. At this level of improvement, the average incremental cost of conserved energy is \$0.53 per gallon.³⁴ These estimates are based on a detailed analysis of the fuel economy improvements and costs of a wide range of available vehicle efficiency measures.³⁵ Fuel economy improvement cost estimates vary; the automotive industry in particular has cited much higher costs. Important determinants of cost include assumptions regarding the scale of production and whether efficiency improvements cause premature plant or equipment retirement (i.e., requirements for new retooling investments prior to the end of the useful

33. Total 1990 vehicle output is estimated at \$202 billion based on figures of truck and car sales published by the *Survey of Current Business*, Bureau of Economic Analysis, U.S. Department of Commerce, Washington, DC, August 1992. Cars have a 70 percent share and light trucks have a 30 percent share of the light vehicle market, based on R.M. Heavenrich, J.D. Murrell and R.K. Hellman, *Light-Duty Automotive Technology and Fuel Economy Trends through 1991*, EPA/AA/CTAB/91-02, U.S. Environmental Protection Agency, Ann Arbor, MI, May 1991. Assuming a light truck-to-car price ratio of 88 percent yields an 89 percent share estimate for light vehicles in the motor vehicle sector. Heavy trucks and buses account for the remaining 11 percent of motor vehicle output on a dollar basis.

34. *America's Energy Choices*, op. cit., Table C-8 of the technical appendixes.

35. M. Ross, M. Ledbetter, and F. An, *Options for reducing oil use by light vehicles: an analysis of technologies and policy*, American Council for an Energy-Efficient Economy, Washington, DC, December 1991.

life of older tooling investments). The \$600 estimate is adopted here under assumptions of a full scale of production and avoidance of premature plant retirements.

In order to increase fuel economy beyond 40 miles per gallon during 2001-2010, we assume the cost of automotive efficiency improvements will rise further. However, we do not assume static technology and so the additional price increase is modest, with the average incremental cost of \$700 per vehicle (1990\$) for an increase in fuel economy from 28 miles per gallon to 50 miles per gallon.³⁶ In effect, we assume that innovation will allow a rightward shift of the conservation supply curve, so that greater energy savings are achieved at a given level of avoided fuel costs. However, the efficiency investments made in vehicles in the beginning years of the scenario must be repeated in later years to account for vehicle replacement. Thus, the investment costs shown in Table III-1 rise sharply after 2000, but most of the rise is due to replacement costs, not higher incremental vehicle costs.

Table III-1. Summary of Annual Investments and Energy Savings of the Vehicle Efficiency Scenario (Billions of 1990 Dollars)				
Expenditure	1995	2000	2005	2010
Technology Investment	4.8	4.8	17.3	17.3
Fuel Savings	5.5	14.0	33.4	53.8

As with the main analysis described in Chapter II of this report, the Vehicle Efficiency scenario is based upon the projected annual efficiency investments and energy bill savings. These values for 1995, 2000, 2005 and 2010, are shown in Table III-1. By 1995, the fuel savings are comparable in magnitude to annual investments in fuel economy for new cars and light trucks. However, the annual savings grow as the improved vehicles come to dominate the on-road vehicle stock. Thus, by 2010, the fuel cost savings exceed annual investments by a factor of three.

The cumulative energy cost savings during the period 1992 through 2010 amount to \$415 billion while the cumulative vehicle efficiency investments are about \$204 billion.

36. Based on an average added cost of conserved energy of \$0.63/gallon, for increasing from 40 MPG to 50 MPG. See *America's Energy Choices*, *op. cit.*, pp.C-26,27 and J-2.

Consumers and businesses directly realize a net savings of \$211 billion.³⁷ This stream of investments and savings for light vehicle efficiency, then; provided the economic drivers to evaluate changes in GDP, jobs and personal income compared to the Reference scenario.

B. VEHICLE EFFICIENCY RESULTS

Table III-2 summarizes the results of the Vehicle Efficiency scenario for 1995, 2000, 2005 and 2010. As might be expected, the lower level of investment (29 percent of that in the complete High Efficiency scenario in 2010) yields a portion (32 percent) of the energy cost savings and therefore a smaller increase in GDP, jobs and income compared to the complete High Efficiency scenario. But because the investments are cost-effective and the savings still quite significant, and because there is a shift away from the petroleum supply sector with its very low labor intensity; there are net gains in employment in the Vehicle Efficiency scenario, rising steadily from 25,000 new jobs in 1995 to 244,000 new jobs in 2010 on a net basis.

Similar to Table II-7 in the main analysis, Table III-3 lists the net employment gains and losses by economic sector in 2010 for the Vehicle Efficiency scenario. Since vehicle efficiency improvement saves mainly petroleum, the petroleum extraction and refining industries face the largest percentage drops in employment. There is, however, one surprising result in Table III-3. Service sector job losses are the largest in absolute terms (although only 0.2 percent of the total sectoral employment). The reason is that government employees are aggregated within this sector. As oil consumption declines, so do the revenues associated with the various taxes on gasoline. Since our analysis incorporates no offset for the reduced tax revenue, the result is a projection of reduced employment within government agencies throughout the country.

All but three of the 25 sectors show job gains, primarily due to the redirection of expenditures away from the capital-intensive and import-dependent petroleum industry. The motor vehicle industry itself is projected to increase employment by as many as 47,000 jobs. The increase in employment is a function of the retooling needed to provide the more efficient vehicles, the increased costs and therefore larger sales revenues associated with light vehicles, and the significant responding effect resulting from the energy bill savings, which enables greater overall consumption of non-energy goods, including cars and light trucks.

37. As in the main analysis, all monetary values are expressed in 1990 dollars with the net present value established using a three percent real discount rate.

TABLE III-2. SUMMARY OF INPUT-OUTPUT ANALYSIS FOR THE VEHICLE EFFICIENCY SCENARIO

	1990	1995	2000	2005	2010
Reference Scenario					
GDP (Billion 1990\$)	\$5,514	\$6,205.6	\$6,993.0	\$7,889.7	\$8,911.1
Jobs (Thousands)	122,600	129,273	136,494	144,273	152,650
Income (Billion 1990\$)	\$3,290	\$3,712.4	\$4,192.9	\$4,741.0	\$5,366.3
Energy (Quads)	85.02	90.49	95.61	101.20	106.10
Btu/GDP (1990\$)	15,419	14,582	13,672	12,827	11,906
Vehicle Efficiency Scenario					
GDP (Billion 1990\$)	\$5,514	\$6,205.7	\$6,993.5	\$7,890.5	\$8,912.8
Jobs (Thousands)	122,600	129,298	136,566	144,424	152,893
Income (Billion 1990\$)	\$3,290	\$3,713.4	\$4,194.7	\$4,745.7	\$5,372.8
Energy (Quads)	85.02	89.96	94.43	98.57	102.03
Btu/GDP (1990\$)	15,419	14,496	13,502	12,492	11,448
Net Efficiency Gains					
GDP (Billion 1990\$)	n/a	0.1	0.5	0.8	1.7
Jobs (Thousands)	n/a	25.0	72.0	151.0	244.0
Income (Billion 1990\$)	n/a	1.0	1.8	4.7	6.5
Energy (Quads)	n/a	-0.5	-1.2	-2.6	-4.1
Btu/GDP (1990\$)	n/a	-86.0	-170.0	-335.0	-458.0

**Table III-3. Differences in Employment Levels in 2010:
Vehicle Efficiency vs. Reference Scenario**

Sector	Net Job Changes	Percent Change
<i>Subtotal Gains</i>	<i>410,645</i>	<i>n/a</i>
Retail Trade	80,372	0.5%
Agriculture	59,090	1.1%
Motor Vehicles	47,216	5.5%
Restaurants	34,373	0.4%
Health Services	31,921	0.3%
Metal Durable Goods	25,188	0.3%
Finance, Insurance, Real Estate	24,182	0.3%
Construction	23,240	0.3%
Other Manufacturing	19,994	0.3%
Hotels and Lodging	11,997	0.5%
Food Processing	10,168	0.7%
Transportation/Communications	8,634	0.1%
Chemicals	7,390	0.6%
Wholesale Trade	6,989	0.1%
Primary Metals	6,500	0.8%
Electric Utilities	3,790	0.5%
Stone, Glass, Clay	3,704	0.6%
Pulp and Paper	2,565	0.4%
Gas Utilities	1,210	0.5%
Coal Mining	851	0.5%
Water/Sewer Utilities	654	0.3%
Miscellaneous Mining	619	0.3%
<i>Subtotal Losses</i>	<i>(167,660)</i>	<i>n/a</i>
Refining	(6,275)	(4.0%)
Oil and Gas Extraction	(68,543)	(15.0%)
Services	(92,842)	(0.2%)
<i>Net Employment Gain</i>	<i>243,985</i>	<i>n/a</i>

C. SENSITIVITY TO VEHICLE IMPORTS

Automobile imports now account for about 30 percent of the total sales of new cars in the United States.³⁸ Projections by the Bureau of Labor Statistics indicate that this relationship is unlikely to change over the next decade.³⁹ A constant import share was assumed in the analysis presented in Tables III-2 and III-3. But what if the level of imports were to change, either positively or negatively, over the 20-year time frame of our analysis? This issue was examined through a series of sensitivity analyses. Table III-4 presents the net change in jobs in the economy as a whole in 2010 with imports increasing or decreasing by 15 and 30 percent from their current levels together with the vehicle efficiency improvements explained above.

We do not believe that measures to promote vehicle efficiency improvement are likely to affect the import market share one way or the other. The level of imports is primarily dependent on broader competitiveness considerations and is further complicated by the significant and growing inter-relationships among automakers. U.S. automakers are presently competitive in all vehicle classes. There are continuing negotiations and agreements regarding motor vehicle trade levels and supply arrangements, particularly for imports from and exports to Japan and within North America. These factors have far greater bearing on net vehicle imports than U.S. domestic energy and environmental policies. Because these competitiveness and trade factors could induce volatility in market shares, an import share sensitivity analysis is of interest.

Under the scenario of a 30 percent rise in imports (that is, automobile import market share rising from 30 percent to 39 percent) together with the assumed efficiency improvements, employment in the U.S. could drop by 6,000 jobs in 2010. On the other hand, reducing the level of imports from 30 percent to 21 percent could increase the employment gain from 244,000 jobs to 492,000 jobs by 2010. A similar beneficial impact might result if the improved efficiency of domestically produced cars enables an increase in U.S. automotive exports to regions (e.g., Latin America) where efficient vehicles are likely to be more competitive than the less efficient cars typical of the present U.S. market.

The results in Table III-4 indicate that unless there is a further large shift towards imported vehicles, there are net U.S. job gains because of the energy savings that accrue

38. L.S. Williams and P.S. Hu, *Highway Vehicle MPG and Market Shares Report: Model Year 1990*, ORNL-6672, Oak Ridge National Laboratory, Table 4, April 1991.

39. *Outlook 2000*, op. cit.

from vehicle efficiency improvements. Furthermore, if energy efficiency improvements occur throughout the economy as in our High Efficiency scenario, the employment and income benefits resulting from the even larger nationwide energy savings would more than offset any such job losses from a hypothetical shift towards imported vehicles.

Table III-4. Employment Impacts in 2010 Associated with Different Automobile Import Levels

Automobile Import Assumption	Import Market Share	Net Job Gain
30% rise over Baseline	39.0%	(6,000)
15% rise over Baseline	34.5%	118,000
Baseline Vehicle Efficiency Scenario	30.0%	244,000
15% drop from Baseline	25.5%	368,000
30% drop from Baseline	21.0%	492,000

D. SENSITIVITY TO VEHICLE SALES LEVELS

Motor vehicle manufacturers have expressed a concern that, if new car prices rise because of efficiency improvements, then sales will decline. This could, in turn, lead to reduced employment. This concern about lower automobile sales became the focus of a second sensitivity analysis conducted with the modified IMPLAN model.

There are two reasons why a price increase from technology improvement may not result in a proportionately-sized loss of jobs. First, the price rise reflects value added: jobs are involved in supplying the technology used to improve efficiency. Second, the price increase associated with efficiency improvement does represent a value to consumer, namely, that of lower operating costs.

There could, nevertheless, still be a drop in sales from consumers responding to the assumed price increase. A consensus estimate of the long-run light vehicle sales price elasticity is a value of -1.0; that is, for each percentage increase in the price of a car,

sales could decline by one percent.⁴⁰ A price elasticity of -1.0 generally implies that a supply-side price increase results in no change in the overall consumer expenditures on vehicles (that is, the marginal revenue for manufacturers is zero). With new automobiles prices averaging about \$16,000,⁴¹ the extra \$600 per vehicle needed to raise average fuel economy from 28 miles per gallon to 40 miles per gallon corresponds to a price increase of about four percent. This means, in turn, new car sales would decline by about four percent with a price elasticity of -1.0. A four percent sales decline forms the boundary for this sensitivity analysis.

A more moderate response also is examined because price increases associated with higher vehicle efficiency reflect real value to the consumer in the form of future energy savings. In other words, rational consumers would be willing to pay a certain amount more for an efficient car because of the future fuel savings. A review of econometric studies indicates that there is indeed some willingness to pay for efficiency improvement, although the apparent value to consumers is quite uncertain and the discounting of the future operating cost savings can be quite high.⁴² For example, the present value of fuel savings for a 40 mpg car versus a 28 mpg car, discounted at 30 percent, is \$336. This is just over one-half of the \$600 incremental cost for the car. Thus, the average consumer purchase decision would be based on a net incremental cost of only \$264, or about two percent of the initial price. Thus, a two percent decline in sales is also tested in this sensitivity analysis.

Table III-5 presents the results of this sensitivity analysis. While the added cost of technology-based vehicle efficiency improvements might result in lower vehicle sales, the effect on jobs is not large enough to negate the overall job gains associated with the investments in efficient vehicle technology and the resulting energy savings. Even if consumers have no willingness to pay more for a car to save fuel (as in the 4 percent sales decline case), there are still net job gains for the economy as a whole relative to the Reference scenario.

40. D.L. Greene and K.G. Duleep, *Costs and Benefits of Automotive Fuel Economy Improvement: A Partial Analysis*, Report ORNL-6702, Center for Transportation Analysis, Oak Ridge National Laboratory, Oak Ridge, TN, March 1992.

41. *MVMA Motor Vehicle Facts and Figures 1991*, Motor Vehicles Manufacturers Association, Washington, DC, 1991.

42. D.L. Greene, "A note on implicit consumer discounting of automobile fuel economy: reviewing the available evidence," *Transportation Research* 17B(6):491-499, 1983.

Table III-5. Employment Impacts in 2010 Associated with Different Sales Levels

Assumption	Net Job Gain
Baseline Vehicle Efficiency Scenario	244,000
Two Percent Decline in Sales Over Baseline	171,000
Four Percent Decline in Sales Over Baseline	98,000

IV. COMPARISONS TO OTHER STUDIES

There have been several regional or state analyses of the employment and income effects of energy efficiency programs. The models used for regional or state-based studies vary widely. But all of these studies point in the same direction — that improved energy and resource efficiency can strengthen local employment and income opportunities.

In part this conclusion is reached because most studies pertain to energy-importing regions where some of the job losses in the energy sectors occur outside the boundaries considered. Yet, these studies also illustrate some general points of interest, such as the relationship between direct, indirect and respending effects, or the relative impacts from specific energy efficiency and energy supply projects.

To better understand the results that have been obtained by this project, we reviewed the results of six regional or state studies.

A. BONNEVILLE POWER ADMINISTRATION

In 1984, the Bonneville Power Administration (BPA) wanted to evaluate the employment effects of residential weatherization programs compared to the construction of a major power plant in the Pacific Northwest. The study used an input-output model to simulate the employment effects of saving or supplying one million kWh through either

weatherization of electrically-heated homes or construction of new coal-fired or nuclear power plants.⁴³

The study found that conservation produces more direct jobs and much more favorable employment impacts when all effects are accounted for. Both coal-fired and nuclear power production results in a net loss of jobs because they lead to rate increases and, thus, less consumer spending for other goods and services. The resulting job losses more than offset the job creation in power plant construction and operation, including indirect and induced jobs. For example, the study found that for each million kWh provided over a 30-year period by nuclear power, 31 jobs would be lost.⁴⁴

Efficiency improvements as represented by residential weatherization also lead to rate increases according to this study, but the resulting job loss is less than the total job creation resulting from conservation activities. Therefore, the overall employment impacts from energy efficiency is slightly positive — 2 jobs created over a 30-year period per million kWh saved.

This example shows that "supplying power" through conservation has a more favorable impact on employment than supplying power through building power plants. The absolute job impact from conservation is not very significant, however, because conservation measures in this study are viewed as a cost to society, leaving less money for spending on other goods and services. If conservation were viewed as an alternative to capacity expansion, and thus a way to reduce total expenditures on energy services, the positive effect on employment would appear to be much larger.

B. BRITISH COLUMBIA

In a 1991 study, two Canadian economists reviewed the employment effects of energy efficiency and hydroelectric power in British Columbia.⁴⁵ A total of 17 residential, commercial and industrial conservation programs initiated by BC Hydro in 1988 were extrapolated over a 20-year period. The impacts of these programs were then compared

43. Charles River Associates, *Employment Effect of Electric Energy Conservation*, prepared for the Bonneville Power Administration, Portland, OR, May 1984.

44. It should be noted that this study assumed relatively low power production costs from coal-fired power plants (42 mills per kWh) and nuclear power plants (50 mills per kWh). Use of higher costs would lead to even greater net job losses from these options.

45. Mark Jaccard and David Sims, "Employment Effects of Electricity Conservation: The Case of British Columbia," *Energy Studies Review*, volume 3:1, 1991, pages 35-44.

to a proposed hydroelectric facility known as the Site C Dam using a static I-O model for British Columbia.

This study concludes that the efficiency programs would increase net employment over the next 20 years by about 11,000 job-years, or about 600 jobs a year for the next 20 years. The investments in conservation measures (direct, indirect, and induced) provide an estimated 6,400 job-years, the displacement impact from not building the hydro plant is an estimated loss of 3,600 job-years, while the substitution impact from responding energy bill savings is an estimated 9,100 job-years of additional employment in British Columbia.

In this example it was assumed that saving electricity cost society 1.9 cents per kWh on average while the cost of supplying electricity from the new hydro plant would be 5.0 cents per kWh. Even without considering the responding effect, electricity conservation would create nearly twice as many jobs as hydropower production for an equivalent amount of energy produced or saved.

C. LONG ISLAND, NY

In 1979, the Council on Economic Priorities (CEP) completed an analysis of the employment impacts for various energy options for Long Island, New York.⁴⁶ The study examined the effects of 32 residential energy conservation and solar energy measures implemented at a cost of \$4.0 billion over a 38-year period. It compared these options to the construction of a new nuclear power plant proposed for the region. It also compared the impacts from conservation and solar energy measures and the equivalent energy output from the use of oil, natural gas and conventional electricity sources. Employment impacts were estimated for both the region and the U.S. economy as a whole.

The CEP study used two different I-O models to evaluate the overall impacts of each scenario, the RIMS model and the national Economic Growth Model developed by the Bureau of Labor Statistics. The study found that the conservation and solar options would create up to 1.4 times as much national employment, and 2.2 times as much regional employment per unit of energy supplied or saved, compared to the proposed nuclear power plant. Moreover, the study indicated that conservation and solar technologies would create 2.4 to 2.7 times more employment nationally than would the equivalent use of oil, natural gas and electricity. The net effect would be the creation of 10,000 to 13,000 more jobs nationally with about 90 percent of the added employment occurring in the Long Island region.

46. S. Buchsbaum, et al., *Jobs and Energy*, Council on Economic Priorities, New York, NY, 1979.

D. CALIFORNIA ENERGY COMMISSION

The California Energy Commission (CEC) conducted a study to determine total state and national employment created by investments made in a variety of energy technologies.⁴⁷ These included the use of nuclear, coal and oil-fired power plants, as well as solar water heating systems and a conservation program involving building insulation. The study also contrasted the total statewide employment from these energy options with their resulting national impacts.

An I-O model was used for the analysis with the direct labor requirements derived from detailed cost estimates for each of the energy alternatives. The impacts were described in terms of both jobs per million dollars of expenditure and jobs per billion kilowatt-hours of energy produced or saved.

In comparing the labor requirements for the construction and operation of different energy facilities, the study found that fewer workers are employed in California for power production than for providing an equivalent amount of energy through building insulation or solar water heating. This result is due to the fact that California imports more of the goods and services associated with power plants than those associated with conservation and renewable energy technologies. At the national level, however, where differences in the import levels among the major energy options vary only slightly, all energy facilities produce a comparable level of employment per unit of energy saved or supplied according to the CEC study.

When the energy options were compared on the basis of expenditures rather than energy saved or produced, none of the technologies supported more employment than the "average dollar" spent for personal consumption, investment or government expenditures (see Table IV-1). The reason for this result, the study noted, was that much of the "average dollar" is spent in the service sectors which employ relatively large numbers of people per dollar.

Table IV-1 summarizes the jobs impacts from expenditures on the construction and operation of the energy facilities (i.e.; without considering substitution and displacement impacts). When looking at the responding effect, the study found that energy bill savings from building insulation would create five times as many jobs as would be created by power plant expenditures. This finding underscores the importance of pursuing least-cost energy strategies since, by definition, lower utility bills would facilitate responding.

47. California Energy Commission, *The Comparative Effects of Energy Technologies on Employment*, Sacramento, CA, 1979.

Table IV-1. Job-Years Per Million Dollars of Expenditure according to the California Energy Commission		
Energy Facility	California	United States
Power Plants	14-51	101-105
Insulation	56-60	99-102
Solar Water Heating	56-69	113-134
Average Consumer Expenditures	77	150

The CEC study reached the same conclusion as our study; namely that the responding of energy bill savings from energy efficiency improvements would be the dominant factor behind significant increases in local or national employment.

E. MISSOURI'S ECONOMIC MATRIX

In mid-1992, the Missouri Environmental Improvement and Energy Resources Authority completed a seven volume report on the links between energy production and consumption and the Missouri environment and economy. As part of this in-depth review, Economic Research Associates evaluated the cost, employment and environmental impacts associated with more than 140 different energy technologies, including energy efficiency technologies in all end-use sectors, renewable energy options, as well as more traditional supply-side alternatives such as coal-fired power plants.⁴⁸ Input-output analysis was performed as part of this study.

Using only conservation resources that are cost-effective, the analysis indicated that Missouri has the potential to reduce its energy consumption by 100 trillion Btus in the year 2000. This represents an eight percent reduction over the projected energy demand for that year, or about a two percent reduction compared to energy use in 1990. The total investment in energy efficiency measures would be on the order of \$5 billion, but

48. See S. Laitner, "The Missouri Energy Matrix Model: A User's Guide," Economic Research Associates, Eugene, OR, March 1992.

this would be less than the fuel and capital costs that would be needed if the conservation measures are not adopted.⁴⁹

The analysis also concluded that the conservation measures would actually strengthen the state's employment base, providing between 8,000 and 13,000 new jobs for the state, if the conservation target is reached. Wage and salary earnings were projected to rise by as much as \$300 million annually. The study also found that the quicker the payback, the stronger the economic benefits to the state. Conversely, the study also indicated that new conventional energy supply technologies would result in a net reduction in employment statewide.

F. MAINE DSM PROGRAMS VERSUS A COAL-FIRED POWER PLANT

In 1991, the Conservation Law Foundation and the Natural Resources Council of Maine sponsored a study to compare the employment impacts of a proposed coal-fired power plant with demand-side management (DSM) programs.⁵⁰ The plant was to provide 1,183 gigawatt-hours of electricity annually. The study concluded that for an equivalent amount of electricity supplied or saved, the DSM programs would support substantially more employment than the power plant.

Based upon a survey of DSM programs and other data, the Maine study estimated that DSM programs would result in two to five times more jobs than the proposed power plant. Over the life of the DSM programs, the energy efficiency measures would create about 227 jobs in Maine, compared to the power plant which would provide an average of only 75 jobs over its 30-year lifetime.

G. MACROECONOMIC STUDIES USING OTHER MODELING TECHNIQUES

Some recent energy-economic studies examine the overall macroeconomic impacts from widespread energy efficiency improvements in the United States. One study that is underway is analyzing the employment and income impacts from electricity conservation measures using a combined input-output and general equilibrium model.⁵¹ This study

49. S. Laitner, "Missouri's Two-Percent Solution: Energy Efficiency for Economic Development and the Environment," Summary Report, Economic Research Associates, Eugene, OR, November 1991.

50. See, The Goodman Group, "A Comparison of the Employment Creation Effects of the AES-Harriman Cove Coal-Fired Generating State and Maine Demand-Side Management," Boston, MA, May 1992.

51. For further information, contact Eric Heitz, The Energy Foundation, San Francisco, CA.

also uses the data on energy efficiency measures developed for the *America's Energy Choices* report.

Other studies have examined the implications of greater energy taxes and/or lower greenhouse gas emissions on GDP. These studies employ general equilibrium models or macroeconomic forecasting models.⁵² Such studies usually find that higher energy taxes lead to energy efficiency improvements as well as a net reduction in GDP. For example, one model estimates that a carbon tax of \$17 per ton would reduce fossil fuel use significantly and lower carbon emissions in 2020 by 20 percent, but would also lower GDP that year by 0.5 percent.⁵³ Some macroeconomic studies consider much larger taxes and conclude that there would be even a greater drop in GNP if such taxes are adopted.⁵⁴ However, studies that assume the carbon tax revenue is used to offset other taxes (e.g., payroll or income taxes) conclude that there is a negligible or even positive impact on GDP.⁵⁵

The macroeconomic studies discussed above have certain critical flaws, namely that they do not account for the net economic savings that result from energy efficiency improvements. They usually do not explicitly consider technological change in energy efficiency options or other areas; and they do not quantify the environmental and social benefits associated with reducing energy consumption.⁵⁶ The first point is a fundamental difference with our study. Although we do not look explicitly at carbon or other energy taxes, we do recognize the net economic savings that result from energy efficiency improvements. In fact, this aspect of the analysis is essential for realizing positive employment, personal income, and GDP impacts.

52. For a discussion of the different types of models, see M.B. Zimmerman, "Assessing the Costs of Reducing Greenhouse Gas Emissions: Comparing Modelling Approaches," Alliance to Save Energy, Washington, D.C., July 1992.

53. Dale W. Jorgenson and Peter Wilcoxon, "Reducing U.S. Carbon Emissions: The Cost of Different Goals," Center for Science and International Affairs, Harvard University, Cambridge, MA, October 1991.

54. Alan S. Manne and Richard G. Richels, "CO2 Emissions Limits: An Economic Cost Analysis for the USA," *The Energy Journal* 11 (2), April 1990. Also, Richard A. Bradley, Edward C. Watts, and Edward R. Williams, "Limiting Net Greenhouse Gas Emissions in the United States," U.S. Department of Energy, Washington, D.C., December 1991.

55. Roger C. Dower and Mary Beth Zimmerman, "The Right Climate for Carbon Taxes: Creating Economic Incentives to Protect the Atmosphere," World Resources Institute, Washington, D.C., August 1992.

56. Ibid.

V. CONCLUSION

The United States now uses about 85 Quads of primary energy annually which translates to a national energy bill of over \$500 billion per year. The U.S. Department of Energy projects that with "business-as-usual" trends and policies, primary energy use will increase to about 106 Quads per year by 2010. With rising energy consumption and energy prices, our national energy bill in 2010 is projected to reach about \$950 billion.⁵⁷ Increasing energy use presents a host of other problems besides higher energy bills, including greater oil imports (DOE forecasts a 68 percent increase between 1990 and 2010) and greater pollutant emissions (DOE forecasts a 23 percent increase in carbon dioxide emissions between 1990 and 2010).

Vigorous energy efficiency improvements would lower consumers' energy bills and reduce the cost of energy services, cut oil imports, reduce pollutant emissions, and provide other benefits. Studies such as *America's Energy Choices* document the specific energy conserving technologies that are available and the favorable direct impacts they could have.

This study adds a new dimension to the case for improving energy efficiency. By shifting economic activity away from energy supply and by saving consumers and businesses money that will be respent throughout the economy, energy efficiency improvements will result in a net increase in jobs and personal income. We estimate that efficiency improvements consistent with a 2.4 percent annual reduction in national energy intensity could create nearly 500,000 new jobs 2000 and nearly 1.1 million new jobs by 2010 on a net basis.

A rate of energy intensity reduction similar to that in our High Efficiency scenario was achieved in the United States during 1973-86. This rate of energy intensity reduction can be achieved again. However, it is not occurring now and it will not occur without new policies aimed at increasing energy efficiency in all regions and end use sectors. The policies needed to reduce national energy intensity by nearly 40 percent during the next eighteen years are beyond the scope of this study, but such policies have been described elsewhere.⁵⁸

Substantial improvements in the efficiency of cars and light trucks, without considering other efficiency improvements, also could result in a net increase in jobs and personal

57. See *Annual Energy Outlook 1992*, op. cit.

58. *America's Energy Choices*, op. cit., pp. 97-122; "Getting America Back on the Energy-Efficiency Track: No-Regrets Policies for Slowing Climate Change", op. cit.

income. In this case, we estimate that 70,000 new jobs could be created by 2000 and about 240,000 new jobs by 2010, all on a net basis. By incorporating energy efficiency measures into their products, vehicle manufacturers could employ nearly 50,000 additional workers by 2010 and could realize the largest percentage increase in employment among sectors of the economy. These gains in employment could be moderated somewhat if increasing efficiency is accompanied by either a shift towards imported vehicles or a reduction in vehicle sales, although we do not believe that increasing vehicle efficiency need raise import levels.

Before concluding, a few caveats are necessary. In particular, this study deals with complex economic relationships, it is based on many data and modeling assumptions, and it looks eighteen years into the future. For these reasons, our results should be viewed as indicative rather than precise estimates of future impacts. But despite these caveats, all indicators point towards positive results. Energy efficiency improvements save consumers money, reduce pollutant emissions associated with energy production, and result in a net increase in jobs. Given the economic, energy, and environmental challenges facing our nation, can we afford not to act?

Good evening. My name is Anne Marie Holen and I am project manager for a statewide tobacco control program at the Alaska Native Health Board. I am here to express my strong support, and the support of the Alaska Native Health Board, for a significant increase in state tobacco tax rates. I want to mention that ANHB also supports an increase in alcohol taxes, but I will confine my testimony tonight to tobacco taxation.

I know you have already heard how tobacco taxes in the United States are lower than in almost any other developed country, and how current taxes in Alaska are below than the national average—even though we have one of the highest rates of tobacco use in the country. You have also received information on both the revenue benefits and public health benefits of tobacco tax increases. I realize this commission is not looking at public health issues per se, but given the amount of state dollars spent on health care in Alaska, it certainly would make sense to try to reduce preventable causes of disease. Tobacco use is the leading cause of preventable death and disease in the nation. And in case anyone is thinking, "smokers die younger and therefore save the state money," it's not true. Even though smokers die younger—an average of 15 years younger—than non-smokers, their lifetime medical expenditures are still significantly higher than those of non-smokers.

There are just two additional points I want to make. One is that dramatic price increases will produce the most revenue, obviously, and also the most dramatic reductions in tobacco use. I know the Commission has looked at the benefits of a tax increase of \$1 per pack, which would be fantastic. Even better would be an increase of \$2 per pack. Keep in mind that even at that rate, cigarettes in Alaska would still be less expensive than in the Yukon Territory or British Columbia. Alaska is in an enviable position in that the potential for cross-border smuggling simply isn't an issue.

The second recommendation I want to make is not to forget other forms of tobacco besides cigarettes. Loose tobacco, chew, and snuff are very appealing to youngsters, thanks to the efforts of the tobacco companies, and taxes on those products should be comparable to taxes on cigarettes. Obviously this will lead to even more revenue for the state while also discouraging behavior that leads to drug addiction and high health care costs.

In closing I want to point out that tobacco taxation enjoys strong bipartisan support around the country. (I know the Commission is trying to keep politics out of your discussions, and I commend you for that, but in case anyone was wondering—) A survey done in Anchorage last spring, prior to the public vote on a 12-cent increase in tobacco tax there, found that 68% of Republicans and 72% of Democrats supported the tax increase. The fact is that a tobacco tax increase is one of the few measures the Legislature can enact that will have strong public support. It's a win-win solution.

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**Testimony of Kym Swift - Executive Director for Common Sense for Alaska
On Alaska's Growing Fiscal Gap
Before the Long-Range Financial Planning Commission
September 13, 1995**

Hello, my name is Kym Swift. I am the Executive Director for Common Sense for Alaska, and on behalf of its more than 500 members want to thank the Committee for the opportunity to provide comments on the Committee's preliminary report on Alaska's Growing Fiscal Gap.

Common Sense for Alaska was formed in 1976 as a nonpartisan, non profit organization. Our mission is to inform and educate the public on state fiscal matters. We believe in the need for prudent state spending and that private sector growth can be achieved best when investment capital is left in the hands of Alaska's private sector, not when it is recycled through state government.

Common Sense applauds the Committee's efforts to address the state's fiscal problems. We recognize that your preliminary report is the product of many hours of hard work and that its creation was not an easy task. However, we at Common Sense feel the report does not focus enough on the state's basic problem - over spending.

Closing the ever widening fiscal gap should be the primary concern of the Committee and of every Alaskan. Yet the majority of the Committee's report focuses on the need for the state to increase revenues. The State of Alaska does not have a revenue problem - it has a spending problem. The focus of the Committee should be on closing the fiscal gap, not merely trying to fill it.

History shows that the spending habits of the State of Alaska have no apparent correlation to Alaska's population growth. From fiscal year 1976 to fiscal year 1996, Alaska's operating budget, unadjusted for inflation, has increased by 322 percent while the population of the state has only increased by approximately 50 percent.

Each aspect of the state's budget and in particular the way it is administered should be scrutinized as the fiscal gap grows. For example, the state has spent over \$400 million building new schools in rural Alaska, even when in some cases the number of pupils which would use a new school would be less than ten. The state must stop spending its dwindling resources on items which are more elaborate than are necessary.

In addition, community, business, and individual subsidies are other examples of state spending that should be considered excessive in light of Alaska's fiscal woes. Many of the subsidies, including the longevity bonus, are administered on the basis of entitlement and not need.

In other states, increases in state government costs are required by the expansion of the private sector. Yet the Alaska state government spending policy seems to be rooted in the notion that an expansion of state government will induce the growth of the private sector. Alaska's government not only feeds on itself, but has created private sector addiction as well.

As with any addiction, the artificial stimulant needs to be removed so that a healthy long-term solution can be found. The increase of taxes or user fees, the creation of dedicated funding, or the spending of Alaska's reserves will only serve to feed spending without accountability.

We at Common Sense urge the Committee to focus its attention on the state's fiscal problem - over spending - and not merely on its symptoms. The Committee was created by Governor Knowles. We suggest you adhere to his words, "Until we put our house in order, I will not introduce new taxes."

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Education and the Economy

Foreword

This study, prepared for the National Education Association by the Corporation for Enterprise Development, examines the linkage between state education spending and economic development. What follows is an exploration--using economic development "lenses." It examines new research frontiers, which we as an Association may not have touched upon and which may, in some cases, run counter to our traditional way of thinking.

In examining the linkage between education spending and economic development, the research may also link education finance and education performance. Consider for a moment what is taking place in this area:

-->State legislatures are mandating education performance.

-->The public approves of required standards of education performance.

-->Experts see improved education performance as a way to increase education funding.

-->Private companies are guaranteeing education performance for a fee.

-->Goals 2000 sets standards for student learning and evaluation.

The purpose of this research report is to stimulate thinking and explore new ways to enhance education funding and the work of our members.

Ron Henderson
Director, NEA Research

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What Is Economic Development?

Is Education Important to Economic Development?

Does Education Spending Affect Economic Development?

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How Can States Best Use Education Investments to Promote Economic Development

Conclusion

INTRODUCTION

Legislators have long struggled with the allocation of limited resources. The classic formulation of this dilemma is the "guns vs. butter" trade-off. In our era, the challenge of resolving these trade-offs persists and is made all the more complicated by tight budgets and a growing anti-tax sentiment that was, in part, responsible for the Republican Party's stunning victory in the 1994 mid-term elections. Yet, what happens when, faced with these pressures, states

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cut taxes and curtail spending on essential services, such as education, human services, and infrastructure? California provides a good example:

California is at a crossroads. Over the past 20 to 30 years, there has been a profound state disinvestment in such areas such as education and infrastructure, where sufficient public investment is a necessary underpinning for a strong private sector. California has slid from its post World War II position as a leader among the states in human resource and infrastructure investment to its current status as a state whose public investments are distinctly sub-par. . . . The average amount California spends to educate each student fell from 21 percent above the average in all other states in the school year 1959-60 to three percent points below the average in 1989-90. The recent fiscal crisis accelerated this trend, lowering per-pupil spending in California in 1992-93 to 14 percent below the average spent in other states. . . . By 1990, the average California class was the second largest in the nation and nearly one-third larger than the national average. . . . Indicators of the quality of education in California raise concerns. The state has the ninth lowest high school graduation rate in the country, and California students in the fourth and eighth grades rank below the national average on math achievement tests.(1)

Yet, resource shortfalls such as these come at a time when our knowledge-based economy demands a different and higher set of skills than those traditionally provided by public education and when increasing numbers of our public school students are minorities or new immigrants. While simple justice has always demanded that race or family background not serve as a predictor of educational achievement--that each student attain what his or her individual potential permits--the demand for skilled workers in a successful America of the coming decade now makes this objective an economic necessity. Unless more economically disadvantaged youngsters enter the work force with skills in proportion to their more affluent peers, we will not be able to achieve the level of work force skills required to be a high-wage, Information Age economy.

The purpose of this paper is to examine more closely the connection between education spending and economic development. In doing this, we will explore the issue from a variety of angles and draw some conclusions that will be helpful to an audience not necessarily versed in the intricacies of economic development. In other words, this is an "issue brief" that provides educators, policy makers, legislators, and citizens with a better understanding of the relationship between education spending and economic development. In the end, we hope to show that a state's or region's economic health is best served by a common sense view that seeks out a "middle way" between two extremes--one a simplistic interpretation that money does not matter, the other a naive conclusion that money is everything.

The Corporation for Enterprise Development's (CFED) interest in education stems from education's standing as one of the primary building blocks of economic health. The analytical framework of our annual Development Report Card for the States, one of the most widely used benchmarking tools for measuring state economic performance, is based on the assumption that investment for the long term in technology, physical infrastructure, appropriate financial resources, and education are the building blocks for sustained economic health. Thus, what follows is an exploration--using economic development "lenses"--of the connection between education spending and economic development.

Yet, the connection between the two is not a direct one, but rather one which involves a series of complex interrelationships. Therefore, this issue brief explores the link between education spending and economic development from a number of different angles. We begin with a discussion of economic development--what it is and what some of the principles of successful economic development are. Then we examine in what way education (described in terms of human capital) is important to economic development and how we know this. We examine the link between education spending and economic development and describe how education spending has been shown to have a positive impact on a variety of economic development outcomes, including jobs and earnings. Following this, we explore the important relationship between education spending and student achievement by looking at both sides of the debate over whether "money matters." Then we return to the relationship between education spending and economic development and examine the economic development consequences of acting as if money does not matter. Finally, we present our conclusion that increased spending on education can have a significant impact on a city's, region's or state's economy, if done properly, and suggest ways that communities can make education investments to achieve this impact.

~~HOW CAN STATES BEST USE EDUCATION INVESTMENTS TO PROMOTE ECONOMIC DEVELOPMENT~~

Foreword

This study, prepared for the National Education Association by the Corporation for Enterprise Development, examines the linkage between state education spending and economic development. What follows is an exploration--using economic development "lenses." It examines new research frontiers, which we as an Association may not have touched upon and which may, in some cases, run counter to our traditional way of thinking.

In examining the linkage between education spending and economic development, the research may also link education finance and education performance. Consider for a moment what is taking place in this area:

-->State legislatures are mandating education performance.

-->The public approves of required standards of education performance.

-->Experts see improved education performance as a way to increase education funding.

-->Private companies are guaranteeing education performance for a fee.

-->Goals 2000 sets standards for student learning and evaluation.

The purpose of this research report is to stimulate thinking and explore new ways to enhance education funding and the work of our members.

Ron Henderson
Director, NEA Research

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INTRODUCTION

Legislators have long struggled with the allocation of limited resources. The classic formulation of this dilemma is the "guns vs. butter" trade-off. In our era, the challenge of resolving these trade-offs persists and is made all the more complicated by tight budgets and a growing anti-tax sentiment that was, in part, responsible for the Republican Party's stunning victory in the 1994 mid-term elections. Yet, what happens when, faced with these pressures, states

cut taxes and curtail spending on essential services, such as education, human services, and infrastructure? California provides a good example:

California is at a crossroads. Over the past 20 to 30 years, there has been a profound state disinvestment in such areas such as education and infrastructure, where sufficient public investment is a necessary underpinning for a strong private sector. California has slid from its post World War II position as a leader among the states in human resource and infrastructure investment to its current status as a state whose public investments are distinctly sub-par. . . . The average amount California spends to educate each student fell from 21 percent above the average in all other states in the school year 1959-60 to three percent points below the average in 1989-90. The recent fiscal crisis accelerated this trend, lowering per-pupil spending in California in 1992-93 to 14 percent below the average spent in other states. . . . By 1990, the average California class was the second largest in the nation and nearly one-third larger than the national average. . . . Indicators of the quality of education in California raise concerns. The state has the ninth lowest high school graduation rate in the country, and California students in the fourth and eighth grades rank below the national average on math achievement tests.(1)

Yet, resource shortfalls such as these come at a time when our knowledge-based economy demands a different and higher set of skills than those traditionally provided by public education and when increasing numbers of our public school students are minorities or new immigrants. While simple justice has always demanded that race or family background not serve as a predictor of educational achievement--that each student attain what his or her individual potential permits--the demand for skilled workers in a successful America of the coming decade now makes this objective an economic necessity. Unless more economically disadvantaged youngsters enter the work force with skills in proportion to their more affluent peers, we will not be able to achieve the level of work force skills required to be a high-wage, Information Age economy.

The purpose of this paper is to examine more closely the connection between education spending and economic development. In doing this, we will explore the issue from a variety of angles and draw some conclusions that will be helpful to an audience not necessarily versed in the intricacies of economic development. In other words, this is an "issue brief" that provides educators, policy makers, legislators, and citizens with a better understanding of the relationship between education spending and economic development. In the end, we hope to show that a state's or region's economic health is best served by a common sense view that seeks out a "middle way" between two extremes--one a simplistic interpretation that money does not matter, the other a naive conclusion that money is everything.

The Corporation for Enterprise Development's (CFED) interest in education stems from education's standing as one of the primary building blocks of economic health. The analytical framework of our annual Development Report Card for the States, one of the most widely used benchmarking tools for measuring state economic performance, is based on the assumption that investment for the long term in technology, physical infrastructure, appropriate financial resources, and education are the building blocks for sustained economic health. Thus, what follows is an exploration--using economic development "lenses"--of the connection between education spending and economic development.

Yet, the connection between the two is not a direct one, but rather one which involves a series of complex interrelationships. Therefore, this issue brief explores the link between education spending and economic development from a number of different angles. We begin with a discussion of economic development--what it is and what some of the principles of successful economic development are. Then we examine in what way education (described in terms of human capital) is important to economic development and how we know this. We examine the link between education spending and economic development and describe how education spending has been shown to have a positive impact on a variety of economic development outcomes, including jobs and earnings. Following this, we explore the important relationship between education spending and student achievement by looking at both sides of the debate over whether "money matters." Then we return to the relationship between education spending and economic development and examine the economic development consequences of acting as if money does not matter. Finally, we present our conclusion that increased spending on education can have a significant impact on a city's, region's or state's economy, if done properly, and suggest ways that communities can make education investments to achieve this impact.

WHAT IS ECONOMIC DEVELOPMENT?

At its most basic, economic development is the process by which wealth is created--or how a society increases its level of material and social well-being over time. In a developing economy, employment increases, incomes rise, innovation occurs, and the rate of economic growth rises.

Yet economic development is more than just growth; it also implies changes in technology and in the institutions controlling production. This includes a rise in entrepreneurship, the development of skilled labor, the building of roads and transportation facilities, the creation of financial institutions, and the channeling and accumulation of savings. Together, these advances allow an economy to increase productivity, thereby enabling the production of more outputs with fewer inputs over the long haul.

Moreover, in today's new economy, the real agenda for development is to achieve a widely shared and sustainable quality of life. "Shared growth" means that there is broad distribution of opportunities for meaningful participation in the economy and enjoyment of the benefits of an increased standard of living. This also ensures that no one group in our society will act as a drag on growth. "Sustainable growth" means that the above goals are achieved in a manner that does not detract from--but rather enhances--the economy's ability to accomplish the same goals in the future.

By looking at the challenge in this way, there is no inherent conflict between business, social, and environmental goals. After all, standard of living comprises a number of dimensions--both material and nonmaterial, quantitative as well qualitative. Thus, economic development has to do with the flow of money and goods to individuals over time. But it also includes improvements in the quantity and quality of public goods, that is, in our ability to obtain goods that cannot be purchased directly, but are necessary to most people's sense of well-being. These "goods" include clean air and water, freedom from fear of crime, and a sense of community.

Unfortunately, much of what goes on in the name of development is not driven by such a framework. Faced with economic dislocation caused by continued corporate downsizing, stubbornly high unemployment, and fear of job security even on the part of those in the work force, many political leaders have taken unwise actions that equate economic development solely with lowering taxes and rolling back government. This traditional approach to economic development often ends up being "penny wise and pound foolish." A more effective economic development approach is guided by the following principles:

>Strong economies compete on the basis of high value, not low cost.

While at one time developing countries based their development on low wage rates, quality and other non-cost factors are the new turf for business competition. According to author Peter Drucker, "the main competition for American manufacturing industry--for instance, in automobiles, in steel and in machine tools--has come from countries such as Japan and Germany, where wage costs have long been equal to, if not higher than, those in the United States. The comparative advantage that now counts is in the application of knowledge.(2)

This is not to say that business costs--such as wages, taxes, energy rates, and social insurance premiums--do not matter at all to investors

selecting a plant or office location. It is to say that what matters to investors is not how low those rates are, but rather how much they buy in the benefits--such as a skilled labor force, nearness to markets, infrastructure capacity, and good quality of life--central to a firm's success.

In short, the relevant context to use when comparing business costs is value, not cheapness.(3) Cheaper is only better when the benefits offered by competing locations are the same. Indeed, companies desire the most profitable location, not the least expensive one.

>Government is an essential partner in the development process.

It is commonly held that the private marketplace is the best producer of the resources our people and companies require to be internationally competitive. But the private marketplace, however efficient, needs some resources and institutional relationships that can best be produced and organized with public involvement.

In some cases the private sector does not provide a needed service or product because, despite the need for it, the private sector cannot claim all the value from providing the good. Roads are one such example--the private sector needs roads to ship its goods to consumers, yet private firms are not in a position to provide a network of roads themselves. In other cases, private businesses may be focusing on narrow interests or specialties and thus miss new product or institutional alliance opportunities. In both of these instances, government, because of its larger perspective, is in a unique position to organize the production of "public goods" or to bring interested parties to the table to help forge new alliances.

>There is no inevitable conflict between equity and efficiency.

Although some would argue that, when it comes to development, cities and states must choose between economic growth and equity, the two are not mutually exclusive. Other world-class economies achieve high Gross National Product growth rates with much less income inequality than the United States, and with more social benefits--such as more available and less expensive health care, child care, and education. For example, when compared to the six largest Organization for Economic and Cooperative Development (OECD) countries and Sweden, the United States ranked second lowest in social welfare spending in 1990 and also ranked second lowest in annual per capita growth between 1979 and 1989. The two countries that ranked highest in social welfare spending in 1990 (France and Sweden) grew as fast as or faster than the United States during the same period.(4)

In a recently published book entitled *Growth with Equity*, Brookings Institution economists Martin Baily, Gary Burtless, and Robert Litan maintain, "There are good reasons to believe that appropriate policies for raising economic growth and improving the distribution of economic rewards are inextricably intertwined." (5) For example, Baily, Burtless, and Litan point out that the economy can grow faster if workers with the least skills--often those with the lowest incomes--receive training to improve their skills. In addition, devoting resources to serious social problems that put a drag on the economy, such as drug abuse, crime, and lack of access to medical care, will also help the economy to grow faster. In other words, economic competitiveness is enhanced by creating greater opportunity for all members of society to participate in the economy.

>Investments in development "capacity" (human, technological, financial, and infrastructure resources) provide the basis for future economic health.

Every year, CFED's Development Report Card for the States compares the economies of the 50 states and examines to what extent each state provides its citizens with economic benefits and opportunities. One of the key findings from CFED's 1994 Development Report Card for the States was that a state's economic performance is highly correlated to its past investments in "development capacity" (investments in human, financial, technological, and infrastructure resources). Of the eleven states with the highest grades in development capacity (6) from the 1990 report card, all but three (73%) received an A or B in economic performance (7) in the 1994 report card and none received a D or F. The reverse is true for the ten states that received the worst grades in development capacity in the 1990 report card--all but three states received a D or F on economic performance in the 1994 report card and none attained either an A or B. (8)

In addition to the evidence from CFED's Development Report Card, more scholarly research on the economic impact of investments in public services and infrastructure has come to similar conclusions. For example, a recent study by researcher Alicia Munnell of the Federal Reserve Bank of Boston found that states that have invested more in public infrastructure (including education) tend to have greater output, more private investment, and more employment growth. Specifically, Munnell's research finds that "\$1000 more of public infrastructure per capita in the initial period contributes roughly 0.2 percent to the average annual rate of employment growth." (9)

Moreover, in a review of 30 business location studies conducted since 1979 that include some measure of investment in public services, researcher Timothy Bartik found that 60 percent of the studies had at least one public service variable that demonstrated a positive and statistically significant effect on business growth. (10) What's more, while most studies of public services and economic development provide little information to indicate what would happen if taxes were increased to pay for an expansion in public services, Bartik addresses this question as well. He notes that three particular studies (including Munnell's study cited above) provide evidence that "state and local business tax increases, if used for particular public services, will encourage more business activity." (11)

IS EDUCATION IMPORTANT TO ECONOMIC DEVELOPMENT?

As noted above, there seems to be a strong relationship between investments in human resources and economic growth. Yet, if education is important to development, in what way is it important and how do we know this? In this section, we will explore these two questions by examining the role of education as a key component in the development process.

Human Capital Theory

According to classical economic theorists, land, labor and capital were the three factors of production that determined economic growth and output. People used machines and tools to transform raw materials (such as cotton) into finished goods (such as clothing). Yet, in this classic model, all labor was viewed as identical; increasing the amount of labor in production was one strategy for increasing output and helping the economy to grow.

Beginning in the 1960s, however, economists (led by Nobel laureate Theodore W. Schultz) began to reassess the role of labor in the economy and assigned much greater significance to the skills and knowledge of the labor force. "Human capital theory," the name for this new outlook, argues that people can be viewed as an economic asset in which increased investment in health, skills, and knowledge provide future returns to the economy through increases in labor productivity.

While human capital theory helped focus attention on the role labor skills play in economic growth, more recent theories of economic development take an even more comprehensive view of the impact of human inputs on economic growth. For example, based on evidence that the birth of new firms and the growth of existing firms have a significant impact on economic development, economic development theorists have increasingly recognized the role that entrepreneurial activity plays in economic growth.(12) Other development theorists have explored the importance of knowledge and technology in regional economic development.(13)

Together, these development theories suggest four ways that human resources influence economic development:

>Labor force skills. The skills of a region's work force are the most basic component of its human capital resources. One important aspect of labor force skills is diversity -- a diversified industrial and service economy requires a labor force with a broad array of skills, such as computational and manual skills, construction trade skills, industrial trade skills, engineering expertise, computer expertise, and management skills. Another aspect of labor force skills is the attitudes and work habits that affect productivity and innovation. Increasingly, the attitudes and habits required in today's economy include an ability to work on teams and a willingness to participate in quality circles. A final aspect of labor skills is adaptive and allocation skills. These skills relate to a worker's ability to learn new technologies, to adjust to changes in the production process and to identify and change misallocations of resources in the workplace.

>The development and application of knowledge. As noted above, considerable attention has been devoted to the role of technology in economic development. However, most discussion of this issue overlooks that progress in research and technology is fundamentally based on

human capacities. Increasing society's knowledge relies on research, teaching, and thinking by scientists. It is both a process of accumulation and a conceptual breakthrough based on human intelligence, skills, and creativity. Moreover, applying knowledge to particular economic purposes, i.e., technology, is also a human activity in which the training, skills, intelligence, and creativity of a larger segment of the work force, including engineers, professionals, and skilled workers, is the driving force. Knowledge may differ from skills in that it is not embodied in a person. However, since the production, dissemination, and application of knowledge is largely through investments in human capital, it is appropriate to consider the contribution of knowledge and technology to economic development as an extension of human resources.

>Entrepreneurial talent. A significant part of the human resources that enhance a state's capacity for economic development is the presence of people to initiate, organize, and manage businesses. Entrepreneurs are a particularly important subset of human capital because they are a major driving force behind innovation and new business formation. Entrepreneurs do this by uncovering and creating new sources of wealth and new economic activities that add to the productivity and income-generating capacity of a region. Since entrepreneurs must also manage the enterprises they undertake, their human capital contribution includes bringing management skills to ventures.

>Agglomeration of human resources. Labor force skills, knowledge and technology, and entrepreneurial talent are not only essential human resources for economic development, but concentrations of such human capital in a state or region can attract or stimulate a high level of economic development. The effects of such agglomeration include the following:

- Attracting firms that seek access to the resources and the lower costs that improved access will bring
- Attracting immigration of workers who add to the human capital base (and preventing out-migration)
- Stimulating development through new business creation, productivity increases, and applications of new technologies

With the advent of the Information Age, two additional aspects of human capital have become critically important to a state's or region's economic success. First, an educated work force is now more vital than ever. In the America of the 1950s, for example, many jobs required few or no skills. In fact, 73 percent of all manufacturing jobs in 1950 were classified as unskilled. Skill requirements in the workplace are rising, however, and by the year 2000, the percentage of unskilled jobs is expected to drop to as low as 15 percent.(14) Thus, in order to attain a high wage/high skill economy, more young people will have to enter the work force with skills than ever before.

Second, the kind of knowledge required by the Information Age will be different from what has been required in the past. A recently completed study by New York State of the skills needed for entry level employment revealed significant shifts in the kind of learning required.(15) For example, in the area of mathematics, employers reported much greater needs for skills in logic, probability, measurement, and statistics than for the traditional training in algebra, geometry, and trigonometry. Similarly, the study found greater demand for the ability to read for information and for critical analysis and evaluation than was provided by the current New York

reading curriculum.

Of course, a more highly educated work force alone will not ensure success in the competitive global economy of the Information Age. Indeed, critics of the notion that education and training are the key to higher standards of living argue that, at present, there are a limited number of jobs that require high skills. Faced with competitive pressure, firms are just as likely to cut costs, substitute de-skilling forms of capital, and contract out as they are to make the kinds of productivity investments that can lead to more output, better work environments, and more pay. In other words, education alone simply leads to a reshuffling of the job queue. Thus, while increased skill levels are critical to success in the global economy, their impact will be limited without corresponding investments by the private sector in the kinds of technology and production processes that will enable workers to make the best use of their skills.(16)

How Do We Know That Human Capital Is Important to Development?

Empirical Evidence

From a macroeconomic perspective, several studies have attempted to account for the contribution of education to total economic growth. In reviewing these, Roland Sturm of the Rand Corporation concludes that "regardless of the particular calculation, education and its effect through labor quality are generally found to be among the most important contributors to economic growth." (17) One such study by Brookings Institution scholar Edward Denison attributes 14 percent of our nation's economic growth between 1929 and 1982 to improvements in education and 27 percent to higher levels of education among those employed.(18)

From a microeconomic perspective, other researchers (beginning with the first human capital theorists) have attempted to measure the economic returns to the individual from education and training. While not a direct measurement of the contribution of education to total economic growth, measuring returns to individuals from education gives an indication of how people are valued in the development process. In a review of literature on returns to education across 44 countries, World Bank economist George Psacharopoulos estimates internal rates of return to education of 14 percent and 12 percent for secondary and higher education, respectively, in developed countries. In developing countries, the rates of return are even higher, particularly for primary education (32% in Asia, for example).(19)

Moreover, as education increases in importance in the workplace, there is a clear trend of increasing returns to education.(20) A recent report by the National Commission for Employment Policy finds that "the new skill and technical requirements characteristic of the new economy are driving a wedge in the earnings distribution between those with access to skill and technology and those without access. . . . In the 1970s, college-educated men earned 56 percent more on average than those with just a high school diploma. In the 1980s, this premium increased to 74 percent."(21)

Evidence from Business Location Studies

Another way to measure the importance of human capital to economic development is to examine the relative value placed on education by businesses making location decisions. Fortunately, the issue of factors in industrial location has been explored in great depth in the economic development literature. In one review of the literature on industrial location, researchers John Blair and Robert Premus found

that "the traditional economic factors of location [labor, markets, transportation] are becoming, as a group, quantitatively less significant. For example, unlike studies written in the 1940s and 1950s, most of the recent location studies we reviewed found noneconomic factors to have at least some influence on location. Education, unionization, personal reasons, business climate, energy, and familiarity with local conditions have been added to the 'must-and-want' list." (22)

Yet, evidence of the overall importance of human capital in business location decisions should not mask the fact that different industries may place differing values on the importance of education. For example, a recent study by the U.S. Department of Agriculture of the factors associated with the growth of local and regional economies found "limited, and sometimes contradictory, evidence for the effects of educational attainment on economic growth." (23) These findings likely reflect that, while many industries seek to locate in areas of high educational attainment, certain industries may still be attracted to areas with lower education levels. Among such firms and sectors are the following:

- The most likely to relocate to lower cost sites abroad
- As currently structured, those incapable of providing better employment opportunities for their workers
- Those likely to continue to operate in the United States by demanding wage and benefit concessions from their employees, speeding up production lines, and moving to less affluent areas.

Nonetheless, most companies value a more highly trained work force.

Indeed, recent research indicates that, more than just on the must-and-want list, an educated work force has become one of the primary location factors for growing companies. A 1994 survey of the nation's leading corporate real estate professionals by the accounting firm of Ernst & Young found that an educated labor force was the second highest ranking selection factor, behind only low lease rates. (24) In one of the more recent studies, *Entrepreneurial Hot Spots: The Best Places in American to Start and Grow a Company*, economist David Birch et al. conclude that the most attractive locations for entrepreneurs are not those that offer cheap wages and low taxes, but rather those that offer world-class universities, good roads, and access to airports. (25) Further, economist Bennett Harrison argues that, although multinational corporations are demonstrating less and less loyalty to particular countries or communities as a result of the "global economy," newer thinking indicates that a "home base of mutually supportive institutions" is now more important than ever to a company's competitiveness. These mutually supportive institutions include those that insure access to capital and trained workers, as well as those that insure the provision of appropriate infrastructure. (26)

In addition to the general industrial location literature, one recent study by Ronald Swager of the University of Southern Mississippi examines the particular relationship between education and business location. Based on a survey of location consultants and real estate executives, Swager found that, for half of all respondents, education was judged to have been very important or critical in site selection decisions over the past ten years. What's more, almost 75 percent predicted that education would be a very important or critical location factor in the next ten years. (27)

Further evidence of the importance of a well-trained work force to businesses making location decisions comes from more popular literature. A November 1994 article in Money magazine on the top 20 locations for small businesses found an educated work force to be one of the chief characteristics that contribute to the entrepreneurial vitality of an area.(28) The Money study was based on data provided by CFED, which ranked the 779 "commuting zones"(29) in the United States based on a variety of indicators important to small businesses, including overall job growth, growth in proprietorships, per capita income, and proprietors' average earnings. After identifying the top locations, Money staff interviewed more than 50 experts, from economists to local business leaders in the top ranking areas, to identify what makes an economy attractive to small firms. Based on these interviews, the Money study identified an educated work force as one of the top five characteristics common to "winning cities."

DOES EDUCATION SPENDING AFFECT ECONOMIC DEVELOPMENT?

The case is clear--human capital is critically important to economic development. Moreover, with the advent of the Information Age, the role of human capital will continue to increase in importance for our economy. This implies that if, as many predict, acquiring and applying knowledge will become the key competitive factor in the future economy, the primary strategy for enhancing economic growth will be through increases in human capital that increase labor productivity.

Thus, investments in education should have a beneficial effect on long-term economic health. Indeed, several studies confirm this relationship. What follows is a review of some of the more convincing studies. The first takes a microeconomic perspective and examines the relationship between education spending and future earnings. The second two are studies of the factors that influence aggregate economic growth and are notable in that each includes an education spending variable. In addition, a review of additional statistical work conducted by CFED examines the relationship between education spending and performance on CFED's annual Development Report Card for the States.

Microeconomic Literature

Given their preference for tangible, market-based outcomes measures, as well as the limitations of measuring human capital on the basis of standardized achievement tests, several economists have examined the value of schooling inputs by studying the relationship between school quality (measured on the basis of expenditures per student or the pupil-teacher ratio) and student outcomes (measured in terms of future earnings). This approach assumes that, since workers with higher skills tend to earn more, school quality can increase future earning potential (holding parental education, race, and IQ constant) either by helping students to learn more per year of schooling or by increasing the number of years students stay in school.

In a review of this literature on school quality and earnings, David Card and Alan Krueger of Princeton University summarize the findings from 13 different studies based on eight different data sets on earnings. Based on their review, Card and Krueger find "a high degree of consistency across studies regarding the effect of school quality on students' subsequent earnings. The studies typically find that a 10 percent increase in school expenditures is associated with a 1 to 2 percent increase in annual earnings for the students later in life." (30) In most cases, these studies control for level of education, meaning that the estimated income increase represents an increase for a given level of schooling. In addition, Card and Krueger also find that increases in school resources are positively associated with significantly higher education attainment. As noted above, both of these avenues (staying in school longer and learning more in a given year of schooling) increase students' skills and, thus, tend to increase future earning potential.

MACROECONOMIC LITERATURE

Public Services and Economic Development

In a forthcoming Economic Policy Institute report, (31) Timothy Bartik of the W.E. Upjohn Institute for Employment Research concludes that spending on state and local public services, including primary,

secondary, and higher education spending, can have a positive impact on private sector productivity and output.

Bartik uses a model that estimates the effects of increases in public services that are financed by an increase in taxes and finds, for example, that "a property tax financed increase in higher education spending of one percent of a state's personal income would increase state manufacturing output in the long-run by 8.3%." (32) Yet, most of the findings from this study show rather modest effects of public services expenditures on economic growth. As a result, Bartik concludes that "the most important policy implication of these results is that, in most cases, increased taxes and increased public services spending will not cause [a] jurisdiction to suffer an economic disaster. In most cases, the negative effects of taxes on manufacturing output, and the positive effects of public services spending on manufacturing output, will be offsetting." (33)

Business Climate and Employment Growth

In a report on the effect of a series of business climate variables on employment growth in the 48 contiguous states between 1973 and 1980, Michael Wasylenko found a significantly positive relationship between education spending and total employment growth. (34) Wasylenko's research indicated that a 1 percent increase in spending on education relative to income was associated with a 0.72 percent increase in total employment over the period. Based on these findings, Wasylenko concluded that "higher expenditure on education relative to income has positive effects on overall employment growth, and budget-cutters should not reduce education expenditures very much, if at all." (35)

New Statistical Analysis Using CFED's Development Report Card

Given CFED's findings from the 1994 Development Report Card for the States showing a relationship between investments in development capacity (human resources, technology resources, financial resources, infrastructure, and amenity resources) and economic performance discussed above, CFED compared the 50 states' rankings on the Development Report Card's Economic Performance Index over the past ten years with state per pupil spending on education in prior years. (36)

In conducting this study, CFED performed two sets of analysis--one with a lag of five years between spending figures and economic performance grades, and one with a lag of ten years, all over an eleven-year period ending in 1993. In using this lag between education spending and economic performance grades, our assumption was that the returns from investments in education will not appear immediately, but rather will emerge in the long run as students complete school and enter the work force. Indeed, it is possible that even a ten-year lag is still too short of a period in which to capture the full benefits from investments in education. Yet, in the case of both the five-year and the ten-year lag, we found a statistically significant relationship between per pupil spending and economic performance grades.

In addition, we attempted to capture the impact of additional spending over and above the average level on a state's chances of receiving an honor grade (A or B) in economic performance. (37) The results indicate that those states spending the average amount per pupil (\$4,510 in 1990-1991 dollars) (38) increase their chances of receiving an A or B five years later by 1.0 percent with an additional \$100 in spending per pupil (2.2% increase in per pupil spending).

While not guaranteeing improved grades, this finding indicates that a spending increase of this level slightly improves a state's chances of receiving an honor grade.

The results with a ten-year difference between spending and economic performance grades indicate that, at the spending mean (\$3827 in 1990-91 dollars), states can increase the probability of receiving an A or B grade by 1.3 percent with an additional \$100 in spending per pupil (2.6% increase in per pupil spending). Again, these results, while not large, show a statistically significant positive relationship between education spending and economic performance grades on CFED's Development Report Card.

We also found that, for those states below the spending mean, the same \$100 per pupil spending increase leads to a slightly larger increase in the probability of receiving an honor grade. This increased probability levels off at a per pupil spending level of between \$4,000 and \$5,000. In other words, a state spending below the national average is likely to experience increasing returns to scale, on average, for additional per pupil spending; a state spending above the national average is likely to experience quickly decreasing returns to scale, on average, for additional per pupil spending.

In addition, CFED sought to evaluate the relationship between education spending and the three subindexes of the Economic Performance Index. Two subindexes demonstrated a statistically significant relationship:

--The Earnings and Job Quality Subindex, which measures pay and benefits. This subindex had a positive and statistically significant relationship to education spending -- increasing per capita spending on education by \$100 at the mean increases the probability of a state's receiving an A or B on this subindex by 1.4 percent.

--The Equity Subindex, which measures the poverty rate and income distribution. This subindex also had a positive and statistically significant relationship to education spending--increasing per capita spending on education by \$100 at the mean increases the probability of a state's receiving an A or B on this subindex by 1.8 percent.

These results confirm what one might expect, given the earlier discussion about the importance of education for economic development. First, due to high and increasing returns to education, education's greatest economic impact is in decreasing poverty and in generating a more equitable distribution of income. Second, due to these same factors, education also has a positive impact on earnings. Third, because educated workers are a critical factor in high-skill, high-performance companies, but not necessarily in all companies, it is understandable that we did not find a statistically significant relationship between education spending and the Employment Subindex (the third subindex of the Economic Performance Index). In other words, the impact of education on employment tends to vary from state to state, depending in part on each state's mix of employers.

It should also be noted that, given our earlier discussion about the nature of economic development and how it encompasses more than just jobs and wages, these findings concerning the relationship between education spending and grades on the Development Report Card for the States may understate the overall impact of education spending on economic development. In the following section, we will explore further the relationship between education spending and other non-market measures of economic development.

QUESTIONS ABOUT THE IMPACT OF EDUCATION SPENDING ON STUDENT ACHIEVEMENT

Given the evidence discussed above, one might be led to conclude unambiguously that in order to improve economic performance cities and states should increase education spending across the board. Yet, while human capital plays a critical role in economic development and while research indicates that spending on education has a positive effect on economic development, those who support increased education spending must account for a vexing problem--doubt remains about whether there is any relationship between education spending and educational performance.

Therefore, in the section that follows, we present a review of the "Does Money Matter?" debate, examining the arguments on both sides of the question. Since education, when viewed through economic development lenses, is both the primary input in efforts to create a high skill/high wage economy as well as one of many investments seeking scarce public funds, we hope to show that a state's or region's economic health is best served by a common sense view that seeks out a middle way between a simplistic interpretation that money does not matter and a naive conclusion that money is everything.

THE DEBATE: DOES MONEY MATTER?

The Hanushek Argument

As with most questions of social science, measuring the relationship between education spending and educational performance is difficult and complicated by a range of factors, both inside and outside the school house, that influence student performance. Perhaps the most commonly used technique for examining this relationship, adapted from the world of economics, is the "production function." For years, economists have used production functions to study the relationship between inputs (land, labor, capital) and products or outputs produced by industry.

A 1966 report entitled Equality of Educational Opportunity (more commonly referred to as the Coleman Report) was the first to employ an "educational production function" to examine the relationship between the inputs to the educational process (such as class size, length of school day, teacher experience, teacher pay) and outcomes. The Coleman Report found that differences in student achievement (measured in terms of standardized test scores) had little to do with differences in schools. Rather, family background and the characteristics of other students in the school were found to be much more important.

More recently, in a seminal article entitled "The Economics of Schooling: Production and Efficiency in the Public Schools," Eric Hanushek of the University of Rochester examined the findings from 147 separate studies of educational production functions and confirmed the findings of the Coleman Report. Hanushek concluded:

"The results are startlingly consistent in finding no strong evidence that teacher-student ratios, teacher education, or teacher experience have an expected positive effect on student achievement. According to the available evidence, one cannot be confident that hiring more educated teachers or having smaller classes will improve student performance. Teacher experience appears only marginally strong in its relationship. . . . There appears to be no strong or systematic relationship between school expenditures and student performance." (39)

Hanushek's work has been cited widely, not only in educational circles, but in the political arena, as well. In fact, in order to support the Reagan administration's position that the problems of America's schools were not the result of insufficient funds, former Secretary of Education William Bennett made frequent reference to Hanushek's conclusions.

Since many have attempted to politicize Hanushek's conclusions and to assert simply that "money doesn't matter," it is important to clarify Hanushek's position. In a more recent article, Hanushek writes: "most economists, including myself, would readily accept that differences in spending would be directly related to the education provided if schools were operating efficiently. The previously presented evidence [Hanushek's review of past education production function studies] indicates clearly, however, that assuming efficiency in spending is entirely inappropriate. . . . In other words, equity and efficiency are inextricably linked. It is not possible to ignore efficiency issues under the guise of being concerned solely with equity." (40)

Thus, Hanushek is not claiming that more money does not ever matter, rather that money is not everything. Moreover, more money spent wisely could make a difference.

The Response--New Thinking and Research

Partly in response to Hanushek's findings and partly as a result of improvements in education production function research (including new statistical techniques that can account for some of the problems with the data used by Hanushek), a number of different studies have been undertaken in recent years that challenge Hanushek's conclusions. In certain cases, these studies question Hanushek's finding of no relationship between education spending and student performance. In other cases, the studies seem to demonstrate that spending does have an effect on student achievement. Yet, in none of these studies do the findings suggest more education spending across the board. Some of the more interesting of these studies are discussed below.

Research Using "Meta Analysis"

In a re-analysis of the data used by Hanushek, researchers Larry Hedges, Richard Laine, and Rob Greenwald suggest that the data from these previous education production function studies do not support Hanushek's conclusions. (41) To start with, Hedges et al. question Hanushek's use of "vote counting" (42) as a procedure for analyzing the results of past studies. Because it may fail to detect statistically significant relationships, vote counting lacks statistical power. Moreover, vote counting is unable to give an indication of the magnitude of relationships that may exist.

To overcome these problems, Hedges et al. undertook a re-analysis of the data used by Hanushek, using a more sophisticated synthesis method known as "meta-analysis." (43) Using meta-analysis and starting with the 187 education production function equations used by Hanushek in his work, Hedges et al. produced the following conclusions:

--With the exception of teacher/pupil ratio and facilities, there are "at least some positive relations between each of the types of educational resource inputs studied and student outcome." (44) Those

inputs showing a positive relationship to student outcomes included per pupil expenditures, teacher experience, teacher education, teacher salary, and administrative inputs.

--In terms of the magnitude of the impact of various resources, per pupil expenditures and teacher experience demonstrate the greatest effect on student outcomes. The impact of other inputs (teacher salary, administrative inputs, facilities, class size, etc.) is more mixed.

Although it may seem contradictory that overall per pupil expenditure has such a clearly positive impact, while the effect of the inputs that make up overall spending (teacher salary, class size, etc.) is more mixed, Hedges et al. explain this. They argue that "this pattern of results is consistent with the idea that resources matter, but allocation of resources to a specific area (such as reducing class size or improving facilities) may not be helpful in all situations. That is, local circumstances may determine which resource inputs are most effective." (45)

In summary, Hedges et al. assert that "the question of whether more resources are needed to produce real improvement in our nation's schools can no longer be ignored. Relying on the data most often used to deny that resources are related to achievement, we find that money does matter after all." (46)

Research on Class Size

In a large scale, four-year study conducted during the late 1980s, researchers with Tennessee's Project STAR (Student/Teacher Achievement Ratio) (47) tested the effect of class size reductions on student achievement. By making use of a controlled experiment (rather than existing data), Project STAR was able to avoid some of the limitations of previous education production function research. (48)

Initially, students in 328 kindergarten classes across 79 schools were randomly assigned to either classes whose size had been reduced by approximately one-third (small classes) (49) or to a control group (regular classes). For four years (kindergarten through grade 3), Project STAR followed this large cohort of students and tested their achievement levels. Students remained in the same treatment group (class size) through the duration of the study; teachers were randomly assigned to classes each year. Project STAR's researchers found the following:

--Each of the four years, small class students scored significantly higher than students in regular classes in reading and math.

--The small class achievement advantage is found in all kinds of schools: inner city, suburban, rural, and urban. However, the small class advantage is largest, on the average, in inner-city schools as compared with other types of schools.

--The effect of a small class increases from kindergarten to first grade, but beyond first grade there is no cumulative effect.

Because reducing class size is a relatively costly intervention, John Folger and Carolyn Breda of Vanderbilt University have concluded that "even the greater class size effects gained in Project STAR do not make across-the-board class size reduction an attractive or cost-effective strategy for improving student achievement." (50) They recommend

instead targeted class size reductions combined with other proven instructional techniques for improving student achievement.

Research on Teacher "Characteristics"

Using a comprehensive education database from Texas, Ron Ferguson of Harvard's Kennedy School of Government has provided new insights into the relationship between skilled teaching and student achievement.

Ferguson's research makes use of a database from Texas that includes not only achievement test scores for all students in odd-numbered grades (Texas Educational Assessment of Minimum Skills--TEAMS), but also literacy skills scores for all teachers and administrators (Texas Examination of Current Administrators and Teachers--TECAT). This large and unique data set enables Ferguson to overcome some of the methodological deficiencies in previous education production function studies.

Based on his research, (51) Ferguson finds the following:

--Better literacy skills (i.e., higher TECAT scores) among teachers, fewer large classes, and more teachers with five or more years of experience all predict better TEAMS scores.

--Teachers' test scores are by far the most powerful of the school quality measures--TECAT scores explain roughly 25 percent of the variation among Texas school districts in students' average TEAMS scores for reading and math.

--Higher salaries attract better teachers.

In addition, Ferguson finds that, for districts in Texas, a threshold exists at a districtwide ratio of 18 students per teacher. Adding teachers to achieve a teacher/pupil ratio below this level does not typically raise test scores; adding teachers to achieve a ratio closer to the threshold typically does raise test scores.

Ferguson concludes that "since more and better teachers can help to improve students' test scores and higher salaries attract more and better teachers, money matters for raising test scores." (52) However, recognizing that increasing salaries across-the-board while holding teaching methods constant is unlikely to increase teacher performance in the short run, Ferguson notes: "To insure that salary enhancements foster improvements in teaching, salary increases need to be supplemented by efforts to assist existing teachers in upgrading their skills; measures to persuade talented and experienced teachers to stay in the profession; and campaigns to attract academically stronger candidates of all races into primary and secondary school teaching." (53)

The results of this newer research into the relation between education spending and student performance can best be summarized in the words of Johns Hopkins education researcher Robert Slavin: "It is clear (and obvious) that increased dollars do not magically transform themselves into greater learning. But it is just as clear (and just as obvious) that money can make a difference if spent on specific programs or other investments known to be effective." (54)

Legal Arguments

One final way to look at the debate about whether education spending has an effect on student performance is to examine the legal challenges to state systems for funding public education. In fact, while the question of whether money matters has attracted a great deal of interest in scholarly journals, it has become the focus of even greater attention in the courtroom.

In states across the country, courts have been asked to rule whether the method of funding public education (typically a reliance on local property taxes) fails to provide equal educational opportunity for all children. At the center of this question lies the debate about whether money matters. If money does matter, and if equal opportunity to education is constitutionally guaranteed, then states with spending disparities between districts are not meeting their constitutional requirements. If money doesn't matter, then spending differences are also of little consequence.

Of course, the courts have not been asked to rule directly on the question of whether money matters. Yet, their decisions represent, from a legal perspective, an evaluation of the arguments on both sides of the issue. The landmark ruling in this type of case comes from *Serrano v. Priest*, in which the California State Supreme Court ruled that equal access to education required equal funding: "Although an equal expenditure level per pupil in every district is not educationally sound or desirable because of differing educational needs, equality of educational opportunity requires that all school districts possess an equal ability in terms of revenue to provide students with substantially equal opportunities for learning." (*Serrano v. Priest*, 1977)

Since *Serrano*, 23 states have faced legal challenges to their systems of education finance.⁽⁵⁵⁾ While each challenge involves complex legal issues, three important trends emerge. First, courts are increasingly likely to overturn state school finance systems because of funding disparities between districts. As education finance expert Allan Odden has noted: "in the 1990's almost all the courts, when these decisions come before them, are overturning State school finance systems. The batting record in the 1970's and 1980's was about .330. In the 1990's it is about .900, so it looks like if you get a court case filed, it is very likely that the system will be overturned."⁽⁵⁶⁾ In other words, the courts are increasingly likely to imply that money does matter.

Second, in the 12 states in which the system was found to be constitutional, the courts typically based their decisions not on a finding that education spending disparities are unimportant, but rather on a finding that education was not a fundamental right in that particular state or on arguments for local control of education. In other words, in none of those 12 states (whose education finance systems were found to be constitutional) did the courts imply that "money doesn't matter."

Third, recent court decisions in states such as Kentucky, Alabama, and New Jersey have moved beyond mere spending adequacy to require states to provide equality in the depth, breadth, and quality of educational opportunities. Typically, these cases have referred to the need to teach students the kind of problem-solving and critical-thinking skills that will be demanded increasingly in the job market of the future. Summarizing this, Allan Odden notes that "the court trend seems to be towards more equal spending per pupil and at a level that would allow all districts and schools to educate students to

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a high level of academic achievement." (57)

WHAT ARE THE CONSEQUENCES OF UNDERSPENDING ON EDUCATION?

If increased spending on education can produce positive economic development outcomes, is the opposite also true? In other words, are there economic development consequences for under-investing in human capital? The economic development literature, as well as evidence of gross under-investment in public schools, provides insight on this question as well.

To begin with, advocates for more equitable funding of schools (58) have argued for years that extreme underfunding of education for certain populations of children can have drastic consequences on their ability to achieve success, both socially and economically, later as adults. In *Shortchanging Children: The Impact of Fiscal Inequity on the Education of Students at Risk*, William Taylor and Dianne Piche note that some of the programs that have been shown to make a difference in the life chances of children are too frequently denied to children in the poorest school districts: (59)

--Preschool. A number of the poorest districts in Texas could not participate in a state-funded preschool program because they lacked facilities and matching funds. In Maryland, the vast majority of children in affluent Montgomery County had the opportunity to attend either public or privately sponsored preschool programs, while in Baltimore City, at least half the children did not attend preschool.

--Class Size. In Montana, teacher student ratios in wealthy districts were as low as 1:13, while in poorer districts they were in the 20s or low 30s.

--Curriculum. In the wealthy Princeton, New Jersey, school district, there was one computer for 8 children, while the city of Camden's schools had one computer for 58. In Texas, many poor districts offered no foreign language, chemistry, calculus, college preparatory, or honors programs.

--Prevention of Early Reading Failure. In Maryland in 1979, 70 percent of the third-grade children in the property-poor district of Baltimore City had below-level reading scores while only 7 percent of the children in the wealthy district of Montgomery County fell below grade level in reading. Yet the wealthier district was able to provide a special reading teacher for those few students having reading difficulties, while the property-poor districts could not afford an additional teacher.

Clearly, these stark contrasts argue against a simplistic conclusion that money doesn't matter. In cases such as these and in Texas, where in 1990 the court found the average per pupil expenditure in the 100 wealthiest districts was \$7,233 compared with \$2,978 in the 100 poorest (60) (a difference of around \$4,250, which for a class of 30 translates into a difference of \$127,500 annually), money could buy a lot.

While it seems obvious that such extreme underfunding will have a significant impact on the labor market chances of children in resource-poor districts, it is also becoming clear that such limited opportunity affects economic opportunity for all. For example, preliminary research conducted by Larry Ledebur and William Barnes for the National League of Cities shows that, among metropolitan areas, those areas with greater city-suburban income disparities tend to have lower rates of employment growth. (61)

This would seem to indicate that the converse of the education spending-economic development link is also true. Namely, that a lack of adequate spending in inner cities on education (through the relationship between school quality and earnings--see Card and Krueger) leads to lower overall economic growth. (62)

Moreover, as noted above, economic development is more than just income or employment growth. In addition to these measures, successful economic development includes measures of overall quality of life, such as the health of the natural environment, the availability of quality living environments, personal health, and personal security. Thus, another way to look at the issue of the impact on economic development of lack of investment in human capital is to examine what happens to the quality of life in communities that underinvest in human capital. According to the Committee for Economic Development:

--About 82 percent of all Americans in prison are high school dropouts, and it costs an average of \$20,000 annually to maintain each prisoner.

--Investing \$4,800 per child in preschool education can reduce teenage arrests by 40 percent.

In addition, according to researchers Gordon Berlin and Andrew Sum, (63) there is a strong relationship between low basic skills and welfare dependency--60 percent of out-of-wedlock births among women 19 to 23 years old are to those who score in the lowest 20 percent in basic skills tests. Further, as compared with young people with above average basic skills, those with low basic skills are nine times more likely to drop out of school, eight times more likely to become mothers out of wedlock, and four times more likely to become welfare dependent.

Berlin and Sum estimate that raising the mean of the basic skills tests of 19- to 23-year-olds by the equivalent of one grade would increase lifetime earnings by 3.6 percent, reduce the likelihood of births out of wedlock by 6.5 percent, welfare dependency by 5.3 percent, and arrests by 6.2 percent.

HOW CAN STATES BEST USE EDUCATION INVESTMENTS TO PROMOTE ECONOMIC DEVELOPMENT?

There are no easy answers to the question of the relationship between education spending and economic development. On the one hand, it is clear that money does make a difference, particularly for students in schools with woefully inadequate resources. On the other hand, there is enough concern about how education monies are spent to warn against simply allocating more money to schools. In other words, common sense seems to indicate that economic health is best served by an understanding that lies somewhere between a simplistic interpretation that money does not matter and a naive conclusion that money is everything.

In many ways, this finding should come as no surprise. In the United States, where we spend almost 6 percent of our Gross National Product and roughly 18 percent of total tax collections on primary, secondary, and higher education, (64) there seems to be some consensus already that money does matter.

Given this, the real issue is whether spending more on education will improve economic development. From an economic development perspective, the answer is a qualified "yes." On the one hand, it seems clear that many students need more help to meet standards; that standards are changing; that competition for qualified teaching professionals is hot (i.e., teachers' salaries will have to go up some just to keep up); and that it will be politically difficult to meet the needs of at-risk youth via redistribution alone. All of this suggests the need for additional education spending. On the other hand, given both the growing anti-tax feelings across the country and the legitimate concerns about how efficiently schools are operating, new funds for education should be spent on what works and should be allocated with stronger accountability.

Thus, we would argue that increased spending on education can have a significant impact on a city's, region's, or state's economy, if done properly. Cities and states can do this by looking at education spending as one of the most critical investments in long-term economic health and by applying the following design principles that define overall best practice for state economic development policy: (65)

Impact: Increased investments in education should seek to identify the most pressing needs and support programs with the potential to meet the full scale of those needs.

After 20 years of equity litigation, students in resource-poor school districts across the country, many of them "at-risk" of leaving the education system unprepared for further education or work, still do not have access to some of the basic educational resources that children in wealthier districts take for granted. Moreover, according to this year's Department of Education back-to-school forecast, of the roughly 50 million children expected to attend elementary and secondary schools this year, almost 32 percent will be from minority backgrounds. This is an increase of more than five percentage points in just one decade (in 1984, 26.7 percent of elementary and secondary students came from minority families). Failing to invest properly in these students, many of whom come from backgrounds that leave them less prepared to do well in school, will have dire consequences for our competitiveness in an Information Age economy that demands increasing levels of skilled workers.

Thus, one obvious strategy for achieving significant economic impact with increased education investments would be to invest in proven techniques as well as promising reform approaches that will help to improve the performance of low achievers. These might include the following: (66)

- Preschool and other early childhood development programs
- Targeted class-size reductions, particularly for children in the early grades and children from low-income families
- School-based reform approaches (such as Accelerated Schools, the Comer School Development Program, and the "Success for All" model) that combine consistently high expectations for at-risk children with school-wide support systems to help students meet these expectations
- Experienced teachers assigned to teach subjects in which they have been well-trained
- Investments in staff development to help teachers (a) learn the most up-to-date information on curriculum and instruction and (b) incorporate these learnings into their daily lessons.

Accountability: Increased investments in education should be made based on the extent to which they can help solve the problem they were created to address.

In return for more resources, schools must be held accountable for improving student performance. Long a rallying cry of those critical of the performance of America's schools, this notion is gaining increasing acceptance within the education establishment. For example, in calling for a fundamental change in the federal Chapter 1 program, (67) an independent Commission on Chapter 1 made up of a diverse group of educators, child advocates, researchers, and concerned citizens concluded that, among other things, "rather than accounting for dollars, schools should be held accountable for results." (68)

One promising model for increasing accountability is the series of initiatives unleashed by the Kentucky Education Reform Act of 1990 (KERA). KERA was initiated after Kentucky's whole educational system and financing mechanisms were found unconstitutional. Thus, KERA addresses both gross spending inequities and restructuring.

Specifically, along with a 20 percent increase in the overall funding base for schools and a plan to have every school under school-based decision-making by 1996, KERA includes a variety of measures to enhance the accountability of individual schools, such as the following:

- An Office of Education Accountability, which verifies school performance, exercises sanctions against officials guilty of misconduct, and specifies school funding recommendations.
- Impact Evaluations--beginning in 1992, students in grades 4, 8, and 12 are tested every two years under a new performance-based assessment system that is keyed to 75 performance outcomes. These and other performance measures are used to determine whether individual schools are successfully making progress toward achieving a set of six overarching goals.

While it is still early to assess fully such a massive restructuring effort, it appears that the KERA effort, which involves increased funding, combined with reform and greater accountability, is on track. For instance, the Kentucky Institute for Education Research conducted three statewide surveys that polled the opinions of 954 school administrators and teachers and 535 parents and the general public regarding Kentucky's four-year-old reform initiative. Polling results

showed that four of five school leaders and two of three teachers believe that schools have improved during this period. In addition, school professionals, as a whole, and school administrators, in particular, do not want to return to the way schools were before KERA.

New test data suggest that KERA has had a positive effect on learning as well. Kentucky's 4th, 8th, and 12th grade students demonstrated dramatic improvement on the 1993-94 version of the annual statewide educational tests. In these grades, the percentage of students performing at or above the proficient level in mathematics, reading, science, and social studies has increased.

In the end, this massive restructuring and increased investment in Kentucky's education system will not guarantee improved economic performance in the future. Yet, the evidence from both CFED's Development Report Card for the States and other scholarly work on the relation between investment in public services and economic development would indicate that Kentucky is on the right track. The state's enhanced investments in human capital, guided by KERA, improve the state's chances for future growth.

Responsiveness to Customer Needs: Increased investments in education should be focused on improving program quality by placing greater emphasis on the needs of customers.

Over the next decade, the United States must organize its education resources to prepare its young people of all races with the learning and social skills required for economic and civic success in an increasingly knowledge-based society. Furthermore, the skills demanded by today's and tomorrow's economy are increasingly different from the skills provided by the public education system of the past 30 years. Both what young people learn and the way they learn it will have to undergo substantial change if investments in education are to help young people meet the requirements of the new economy.

To succeed in accomplishing this lofty mission will not be easy. Additional experimentation in a host of areas will be needed:

- Introducing learning technology into schools necessary to enable K-12 pupils to pursue a substantial part of their learning on an individualized and customized basis

- Creating learning environments that treat the student as an active participant or worker and the teacher as coach, so that the students will be better prepared for today's work and civic settings

- Encouraging teachers, parents, administrators, and the private sector to establish new options such as "schools-within-schools" (and other approaches) that allow parents and teachers to choose the learning setting that best meets their and their children's needs

- Making progress on critical challenges, such as lowering the dropout rate, smoothing the transition between school and work, and enhancing literacy, science, and mathematics skills

Performance-Based Management: Increased investment allocations in education should be based on performance.

Educational practices must be profoundly rethought if they are to work in the United States in the rest of this century and the beginning of the next. The old methods provide no solution. As Robert Woodson of the National Center for Neighborhood Enterprise, talking about another policy arena, put the matter: "If we keep on doing what we're doing, we're gonna keep on getting what we've got." (69)

Yet, in our increasingly anti-tax and anti-government America, additional resources will not likely be forthcoming unless they are tied to performance in improving the quality of education. This is another aspect of accountability and involves clarifying what children should learn, designing assessments that accurately measure how well students are learning, improving information sharing about what works and does not, providing adequate resources so that teachers are able to help students meet expectations, and developing appropriate rewards and sanctions for schools for their performance.

Of course, determining how to measure performance is a difficult issue. Schools help students develop many different skills, and not all of them are easily measured. In order to insure the development of performance standards that are appropriate and that do not encourage teachers simply to help students "beat the test," school districts should consider developing performance measures in collaboration with teachers and school administrators. (70)

One example of developing this kind of collaborative, performance-based management system can be found in the San Diego City Schools. Based on the recommendations of a Student Achievement Accountability Committee, the San Diego City Schools began implementing an accountability system in early 1993. This system consists of four primary elements: establishing standards, assessing performance, recognizing superior performance/intervening in the case of poor performance, and creating a public reporting process. As part of the standard-setting procedure, each school (including teachers, administrators, and other stakeholders) is involved in a process of identifying the particular standards against which it will be assessed.

In return for high achievement, current plans call for outstanding schools to be "recognized" with an in-kind bonus of up to 30 days of staff development time. (71)

CONCLUSION

The relationship between education spending and economic development is not a simple one, but rather one which involves a series of complex interrelationships. In exploring the connection between the two, we have come to the conclusion that there are no easy answers to the question of the impact of education spending on economic development.

On the one hand, it is clear that investments in education can have a significant impact on long-term economic health. Scholarly research has demonstrated a significant relationship between education spending and both future earnings (at the individual level) and overall economic growth (at the aggregate level). In addition, studies of business location decisions indicate that an educated work force is one of the most important site selection factors, especially for growing companies. Moreover, in an Information Age economy that increasingly places a premium on skilled workers, gross underfunding of education in certain districts has serious consequences for both the life chances of disadvantaged students and the overall quality of life in the larger community.

On the other hand, the on-going debate about the link between education spending and student achievement raises the issue of how efficiently education dollars are spent currently and whether education spending really "matters." While recent research cautions against a simplistic conclusion that "money doesn't matter," this research is equally clear in noting that simply investing more in education--without changes in the way education dollars are spent--will not alone lead to greater student outcomes.

Therefore, we conclude that a state's or region's economic health is best served by a common sense view that seeks out a "middle way" between these two extremes. In other words, education spending must be increased, especially in poorer districts, if we are to provide all students with an equal opportunity to learn the skills required for success in the New Economy. Yet, to gain the maximum impact from increased education investments, whether the goal is to educate gifted students with world-class mathematics skills or to help disadvantaged students to finish school, these investments must be made wisely. Cities and states can make wise choices by looking at education spending as one of the most critical investments in long-term economic health.



September 15, 1995

The State of Alaska Long-Range
Financial Planning Commission
716 W. Fourth Avenue, Suite 470
Anchorage, Alaska 99501

Dear Commission Members:

Thank you for the opportunity to submit written testimony regarding the Commission's preliminary report on Alaska's fiscal gap. I know each of you has spent many long hours studying the State's financial condition and proposing various scenarios for public and legislative consideration. On behalf of the Alaska State Council on the Arts and as an Alaskan resident, I want to say thank you for your hard work. It is a difficult task at best and one that may never receive the amount of appreciation it well deserves.

Certainly, one of the most difficult and controversial questions the Commission faces is what services should be funded, and which should not? As Chair of the State Arts Council, I noted in your report that several of the scenarios show privatization of the council. As you might anticipate, I have serious concerns about that option.

As indicated in the attached "testimony," continued state funding is necessary for two reasons: 1) it is unrealistic to believe the private sector can sustain the arts without public assistance; and 2) without state support, it is difficult to leverage funding from other sources.

Please know that the Council understands the seriousness of the gap and is itself examining other funding options. In fact, we are planning a Governor's Conference on the Arts on December 1 and 2 for the purpose of developing and setting a direction for the future of the arts in this state. I invite any and all of the Long-Range Planning Commission members to attend and participate in this conference.

If you have any questions regarding my testimony, please feel free to contact me at 561-4488. Again, thank you for your many long hours of service and your commitment to the state.

Sincerely,


Bonnie L. Bernholz

Chair, Alaska State Council on the Arts

Alaska State Council on the Arts

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Testimony from Bonnie Bernholz, Chair, Alaska State Council on the Arts
before the State of Alaska Long-Range Financial Planning Commission

September 13, 1995

Thank you, Commission members. Based on your report, I have divided my written testimony into four parts:

- 1). A brief background on the history and mission of the Alaska State Council on the Arts;
- 2). Potential Federal Budget Impact on the Council;
- 3). Principles for State Expenditures on the Arts; and,
- 4). Long Range Revenue Options for the Council.

Background

The Alaska State Council on the Arts (ASCA) was established in 1966 by Governor Bill Egan, long in advance of the first oil discovery in Prudhoe Bay. In the Council's first budget year, it received \$18,835 in state appropriations and \$35,943 in federal appropriations, for a total budget of \$54,778.

Since that time, the Council has received a maximum state appropriation of \$4,975,800 in FY83 with a federal match of \$839,300. These state and federal funds continue to be used by the state to provide programs, services and grants to artists and arts organizations throughout the state. Each federal dollar is matched by the state, and each granted state dollar is in turn matched by local government and/or private dollars.

ASCA's mission is to encourage all aspects of the arts statewide by securing and dispersing state and federal funds. We do this in a way that fosters excellence, respects diverse cultural artistic expression and enriches the human spirit. It is the purpose of the council to integrate the arts into the lives of all Alaskans by administering grants and providing arts education and technical assistance.

During the past several years, ASCA's budget has been drastically reduced. Its FY95 budget was cut 21 percent (compared to the State's overall operating budget, which was cut 4.5 percent). Its FY96 budget was cut another 32 percent.

Alaska State Council on the Arts

411 West 4th Avenue, Suite 1E, Anchorage, Alaska 99501-2343 (907) 269-6610 Fax: (907) 269-6601

Based on the most recent national comparisons compiled by the National Association of State Arts Agencies (NASAA), in FY94 ASCA received 0.0330 percent of the state's general fund. This compares to a national average of 0.0719 percent. In FY95, Alaska was one of 16 states to receive decreased state funding with only the District of Columbia receiving a larger decrease. According to NASAA, updated 1995 appropriations figures for state arts agencies confirm a 5 percent increase over last year. This is the second consecutive year that aggregate appropriations to state arts agencies have increased. With the abovementioned 16 exceptions, states are demonstrating widespread support for the arts by maintaining their commitment through the tough economic times and slow recovery of recent years.

Potential Federal Budget Impact on the Council

As you aware, there has been a great deal of controversy surrounding the reauthorization of the National Endowment of the Arts (NEA) and its budget. While the long-term future of this agency is in grave danger, even its short-term future presents a significant difficulty for Alaska. Although a final budget number has not yet been reached through a House-Senate conference committee, it is expected that even if the Senate's budget number is adopted, the NEA still suffers a 30 percent budget cut. What does that mean to Alaska? For every \$ 1 million cut from the NEA's budget, it means approximately \$5,000 less to ASCA.

These budget cuts become even more critical in light of the state's contribution. Between FY89 and FY94, NEA grants through ASCA grew from \$486,908 to \$661,900 – an increase of 36 percent. During that same period, the Council's contribution from the state fell 38 percent.

Concurrent to the NEA's budget cuts, however, is increased Congressional focus on giving more financial authority to the individual state arts agencies. This means that while the total overall dollars allocated to the NEA may be less, a higher percentage of the funding will go directly to ASCA. Elimination of ASCA would result in this state's inability to receive these federal funds.

Principles for State Expenditures on the Arts

All too frequently, "the arts" are perceived as takers, but not necessarily givers. Yet, the arts represent a substantial industry within the state, and are rapidly becoming an area of continuing economic growth, especially with the advent of cultural tourism. According to the state's Division of Tourism, the number of visitors to Alaska between 1992 and 1994 who sought out a cultural experience increased by at least 27 percent. Without question, increased emphasis and marketing of cultural experiences and events in Alaska could increase visitors and, thus, revenue to the state.

It is imperative for this state to find ways to diversify the economy and to continue to support those industries with a proven economic track record. The following, based on a McDowell Group study, are some of the quantifiable economic impacts of the arts.

- Nonprofit arts directly and indirectly supports approximately 1,300 jobs in Alaska with a total payroll of \$8.3 million.
- Nonprofit arts organizations receive \$12.6 million in grants, revenue and donations. As a return on this investment, arts organizations held 3,000 events, generating more than \$23.5 million of spending in Alaska.
- A conservative estimate shows that there were \$1.5 million admissions to arts events in Alaska in FY94.
- The thousands of volunteers, who donate time and labor on behalf of nonprofit arts organizations, provide a measure of just how valued these institutions are in our communities.

One area not explored within the Commission's report that deserves further examination is that of intra-state agency partnerships. In many states facing similar budgetary restrictions, successful new programs have been forged within various agencies. For instance, the Kansas Arts Commission's Arts in Education Program serves an increasing number of identified groups of at-risk children. Some projects include a dance company that works with children of substance-abusing mothers in halfway house; classes given at the Wichita Center for the Arts for kids who have gotten in trouble for bringing weapons to school and a partnership with Social and Rehabilitation Services to support artists in residence at four Youth Centers, which are state juvenile detention facilities.

Another example is the Wind River Health Promotion Program, which has received funding from the Wyoming Arts Council, HUD, Fremont Counseling and the state Division of Behavioral Health for a multifaceted prevention program targeting young people under the age of 21 and their families. This program provides cultural activities using tribal elders as teachers, role models, and mentors.

As you might imagine, there are many, many more examples of interdepartmental programs that reduce spending without compromising or losing valuable programs.

Long-Range Options for the Arts in Alaska

As I indicated earlier, although I understand the Commission's suggestion to privatize the Council, I don't believe it is a realistic scenario.

Catharine Stimpson, director of the MacArthur Foundation's fellowship program, says it is "dangerous wishful thinking" to believe that private funds can replace government grants. She says, "The assumptions are that the foundations are these endless wells. Can the foundations do it? No."

Informal polling of some of the key private sector contributors in Alaska indicates that it would be difficult, if not impossible, to completely replace government funds. Most of those involved in the arts believe that an attempt to privatize would collapse without joint support from both the public and private sectors.

Having said that, this Council recognizes the need to find creative, alternative funding for the arts. Currently we are exploring what other states have done and/or may be considering to help offset their own budgetary declines. Some of these ideas include:

- A statewide cultural endowment fund (San Francisco, CA)
- An admissions tax to events dedicated to the arts (Santa Cruz, CA)
- Developers Fee (Los Angeles, CA)
- One Dollar per Capita Arts program (Redmond, WA)
- Real Estate Transfer Tax (Aspen, CO)
- Income Tax on non-Resident Performers & Athletes (Missouri)

Please know these are only examples of funding alternatives rather than any specific suggestions for Alaska. The Council is exploring these and other collaborative funding mechanisms for their appropriateness and feasibility.

But examining and implementing other funding means is not an overnight process, and will require continuing support, both legislatively and financially from the state. I would ask that the Commission proceed cautiously in its recommendations and continue to seek, as it is doing now, input from organizations such as the Council. We are willing and desirous of working with you, the Governor and the Legislature in finding ways to close the gap without closing an important element of the quality of life in this state – the arts.

JAMES A. ELSON
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September 13, 1995

State of Alaska
Long Range Financial Planning Commission
716 West Fourth Avenue
Anchorage, Alaska 99501

Dear Commissioners:

Subject: Fiscal Gap Testimony

Last night, I testified during the teleconference conducted from the Kenai Legislative Information Office. Since I am not sure I was comprehensible, I am providing this written comment.

I have been on the board of directors of the Kenai Peninsula Borough Economic Development District since 1988 and chairman for the past four years. During that time I have attended and participated in several forums on the subject of the fiscal gap facing the state. In fact, the KPBEDD facilitated forums within our borough in partnership with the Governor's office and the University.

In response to the remarks made last night, regarding the low turnout for the teleconferences being held, I suspect the reason is that the decision makers in our communities have participated in the past, have not seen results, and have established higher priorities for their time.

It is my belief that all the tools identified by the commission will be needed in the long run. However, the question is where to begin. I have a concept that I would like you to consider regarding the area of taxation. The premise is the protection and creation of private sector jobs.

Most states derive their revenues from established commerce and industry. Because the State of Alaska derives nearly all its revenue from the sale of natural resources, it has a unique opportunity.

Long Range Planning Commission
September 13, 1995
Page 2

As taxes are imposed, particularly, royalties or severance taxes, the state will have the opportunity to provide rewards for performance that add value, protect the environment, provide worker safety, and create jobs.

Under our present system of worker and environmental protection, we have a punitive system to insure minimum compliance. Under my proposal this would not change, however, if a business excelled they could be rewarded through a credit on their tax or possibly additional availability of the resource.

The same theory could apply to companies interested in producing a value added product. Prior to start up, a plan would have to be agreed upon with the State which established certain bench marks they would have to reach before earning tax credits or resource availability. Certainly job creation would be one of those bench marks.

This concept is not an incentive, as there is no up front risk for the state. It is a reward for past performance.

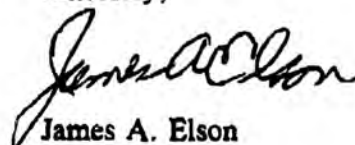
An example of benefit to the State budget could be education. Presently, the state funds the majority of education costs. As value added production expands, the local tax base would grow, and the demand for state assistance could be decreased.

I believe the State of Alaska has the opportunity to make the state an attractive place to do business and offset some of the barriers we now face.

It has been a long established psychology, whether it's child or labor relations, you get more by rewarding than by threatening. Alaska has the opportunity to use that psychology in the market place and create jobs, diversify its economy and expand its markets, while maintaining a quality of life that is unique in its richness.

Thank you for your consideration.

Sincerely,



James A. Elson

cc: Senator Judy Salo
Senator John Torgeson
Representative Mike Navarre
Representative Gail Phillips
Representative Gary Davis

TONY KNOWLES, GOVERNOR

REPLY TO:

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DEPARTMENT OF ADMINISTRATION

ALASKA PUBLIC OFFICES COMMISSION

Sept 13, 1995

Brian Rogers, Chairman
State of Alaska
Long Range
Financial Planning Commission
716 West Fourth Avenue
Anchorage, AK 99501

Dear Mr. Rogers:

I have recently reviewed the preliminary report of The Long Range Financial Planning Commission, "Alaska's Growing Fiscal Gap." As the Executive Director of the Alaska Public Offices Commission (APOC), I have some concerns. As you probably know, the APOC administers four disclosure laws: AS 15.13, the Campaign Disclosure Law; AS 39.50, the Conflict of Interest Law; AS 24.60, The Legislative Financial Disclosure Law; and AS 24.45, the Lobbying Law. These laws require public officials, politically active groups, and lobbyists and their employers to disclose campaign contributions and expenditures, personal financial interests and funds expended to influence the administrative or legislative branches of state government. All of this "disclosed" information is available to the public.

I recognize that it is difficult in a short report to make all your assumptions clear. It is not clear to me with regard to the APOC what your Commission envisions. Scenarios one and two include the APOC in a category named "consolidate/eliminate". Since the APOC and the Alcohol Beverage Control (ABC) Board are the only two programs in that category with funds remaining after FY 2000, it would appear that these two programs would be consolidated. The ABC Board controls the manufacture, possession and sale of alcoholic beverages in the state, a very different function from APOC. It is unclear to me how the two programs could be functionally consolidated.

With regard to the estimated savings column by FY 2000, the amount remaining represents a 75% reduction of APOC's budget including program receipt revenues. Over the last several years, the APOC has received significant cuts in its budget and as a result, is minimally funded at its current level. It is not possible to run a credible program that meets the expectations of the public and carries out the basic mandates of the four disclosure statutes with anything less. Further, Article II, Section 12 of the Alaska Constitution requires lobbying to be regulated.

As I understand from talking to Melissa Fouse, staff to your commission, part of the intention of scenarios one and two is to demonstrate the drastic cuts that would be necessary to reduce the general fund by \$500 million dollars. These are only examples, not recommendations. Although, I appreciate this distinction, all too often ideas committed to paper have a life of their own and a validity that may not have been intended. A credible and effective Alaska Public Offices Commission can not be supported with the funds remaining after a 75% reduction.

Sincerely,



Karen Boorman
Executive Director
Alaska Public Offices Commission

cc: Alaska Public Offices Commission Members

STATE OF ALASKA

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

OFFICE OF THE COMMISSIONER

TONY KNOWLES, GOVERNOR

3132 CHANNEL DRIVE
JUNEAU, ALASKA 99801-7898

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PHONE: (907) 465-3900

August 25, 1995

Long Range Financial Planning Commission
716 West 4th Street, Suite 470
Anchorage, AK 99501

Dear Members of the Commission:

During my testimony to the Commission on August 11, 1995 several questions were asked concerning subjects which I could not provide answers. I would like to provide the following information concerning those unanswered questions:

Question: What taxes are charged by other states for Gasohol?

Answer: Forty-five states tax Gasohol at the same rate as they tax Gasoline. Four states provide an exemption of between 3% and 11% for Gasohol. Alaska provides an exemption of 100%. The national average is 19.62 cents.

Question: How does Alaska compare with other States on license and registration fees?

Answer: For Automobiles only, the average of Registration fees only is \$35.10. Alaska charges \$35.00. For a typical 5-axle truck, the nationwide average is approximately \$2,500, Alaska charges approximately \$240.

Question: What percent of the roads maintained by the Department can be considered "local" roads?

Answer: 30% of the system consists of Class III roads, these roads are basically "local roads."

Question: Can the Department charge tolls on our highways?

Answer: The State has limited authority to assess tolls on the state's highways. The Department, several years ago, looked at the possibility of assessing a toll on the Dalton Highway but determined the costs to the users would have been unreasonably high. We do have an option of assessing tolls for facilities such as bridges or tunnels in order to pay for the particular facility.

August 25, 1995

Question: How does Alaska's water craft fuel tax rate compared with other States?

Answer: Other state do not have a water craft fuel tax. Some states such as Washington offer an exemption of the normal fuel tax for water craft users. However, other methods are used to provide a port and harbors programs. Some of these methods include boat licensing fees, excise taxes for recreational equipment and moorage fees for vessels. Crossing the border however, British Columbia assesses a provincial tax on marine diesel of \$0.12(US) and Canadian National tax of \$0.34(US) for a total retail cost of \$1.35(US). Retail costs in Alaska vary from around \$0.90 to \$1.02.

The subject of Passenger Facility Charges (PFC) came up during my testimony and I probably did not cover it adequately. Enclosed is a fact sheet on PFC's for your information.

I enjoyed testifying before the Commission and if the Commission requires any other information concerning the Department, please contact me at 465-3901.

Sincerely,

A handwritten signature in cursive script, reading "Joseph L. Perkins".

Joseph L. Perkins, P.E.
Commissioner

Enclosure

FACT SHEET

Passenger Facilities Charges (PFC's)

In 1990, the United States Congress passed legislation (49 U.S.C. App. 1513(e) implemented by 14 CFR Part 158) permitting airports to raise funds for capital improvements by imposing Passenger Facility Charges (PFC's) at commercial service airports which provide regularly scheduled service and enplane 2,500 or more passengers per year. The PFC program was authorized in recognition that airports required a reliable source of funding for capital improvement and development. Since receiving authority to implement PFC's, over 200 airports across the country have implemented the change. A current list of airports charging PFC's is attached. The State of Alaska operates 70 airports that qualify to implement the charges. Carriers collecting PFC's are normally airlines which maintain regular schedules and have enplanement in excess of one percent of the total airport enplaned passengers.

In order to implement a PFC, each individual airport must submit an application to the Federal Aviation Administration (FAA) detailing the specific capital project (or list of projects), and the amount of the PFC's to be collected. PFC's (which can only be imposed in increments of \$1, \$2, or \$3) are added to the price of the airline ticket, collected by the air carrier, and returned to the airport after an 8¢/PFC administrative fee is deducted. The \$3 rate has been used by nearly all the airports which have implemented PFC's.

The program was structured by Congress so that there is a limit of two times that an individual air passenger pays the PFC on each one-way trip. The fee only applies at the first two and last two airports that have approval to collect them at which the passenger enplanes. PFC's may not be charged to customers flying on an Essential Air Service (EAS) subsidized carrier to or from airports that are receiving funding through the EAS program. Twenty-nine rural airports in Alaska are in the EAS program including Wrangell, Petersburg, Seward, Yakutat and Cordova.

PFC's are currently collected from almost all passengers who are traveling to or from Alaska. The collected PFC's are retained by the participating airport systems in the lower 48 states. It is estimated that the net yearly revenue that would be collected at Anchorage and Fairbanks International Airports (ANC and FAI) from a \$3 PFC would be between \$4.5 million and \$5.0 million for FY 96.

With the exception of the International Airport Revenue Fund at the ANC and FAI, the entire capital program for the State's aviation system is funded through the federal Airport Improvement Program (AIP). The federal appropriation levels for the AIP has diminished over the past several years. AIP appropriations nationwide in federal FY 92 were \$1.9 billion; in FY 95 they had dropped to \$1.45 billion; and the Administration has proposed a

funding level of \$1.3 billion for FY 96. Anchorage AIP funds were \$6.4 million in FY 92, \$9.2 million in FY 93 and \$7.4 million in FY 94. Fairbanks AIP funds were \$1.3 million in FY 92, \$1.1 million in FY 93 and \$1.5 million in FY 94. FAA is encouraging airports to shift to PFC's as an alternate funding source for capital projects. Legislation under consideration in the U.S. Senate severely cuts the AIP but contains a provision to raise the PFC charge to a maximum of \$5 to allow airports to make up the loss. Future FAA discretionary funding may be reduced for airports or states which have not implemented PFC's. Alaska received approximately \$25 million in FAA discretionary funding in FY 96.

Revenue from PFC's could be used for projects at the State's discretion at any airport under its control. In addition, revenue derived from PFC's is not required to be part of the funding formula used to calculate rates and fees charged to airport users. Most other revenue sources are not affected by implementing the PFC option. However, passenger enplanement entitlement paid through the AIP at ANC would be reduced by 50%. For 1994 this entitlement was \$2.7 million.

Airports, air carriers, and residents would be impacted by the collection of PFC's. Air carriers will be impacted minimally if they already collect PFC's elsewhere but more significantly if they do not collect PFC's for other airports. The impact on the departing intrastate passenger will be nominal, in that much of the PFC is already being collected. The interstate passenger, however, would pay a \$3, potentially \$6, fee on their ticket for trips within Alaska to and from airports not participating in the essential air service program.

If it was decided to implement PFC's in Alaska, the implementation could be approached in several ways. A phased approach is possible, starting with the ANC. ANC is the airport most threatened should the federal government adopt a plan to remove large and medium hubs airports from AIP participation. Additionally, ANC has a number of important terminal, airfield, and road projects which require considerable capital funding.

PFC's could be implemented at both the Anchorage and Fairbanks International Airports first, and phase the rural system into the program later. This approach would be highly favored by the large air carriers and the International Airport System due to the existing financial tie between ANC and FAI and the fact that the FAI also has substantial capital funding needs to accommodate growth. However, some of the small intrastate carriers operating out of ANC and FAI would be required to implement the charge.

Implementation of PFC's at the rural airports is questionable. While most large air carriers operating out of the two international airports are already collecting PFC's on behalf of airports outside Alaska, the commuter/air taxi class of air carriers operating out of the rural airports are not.

Transportation Taxes

Passenger Facility Charges

A passenger facility charge (PFC) will be levied on all tickets, PTA's, and X's for passengers departing at an airport authorized to collect this fee. The PFC will be collected at the time a ticket is issued. A maximum of two PFC's can be charged on a one-way ticket. If more than two airports have PFC's, the charges will be assessed for the first two PFC approved airports. A maximum of four PFC's can be charged on a round trip. If more than four airports have PFC's, the charges will be assessed for the first two PFC approved airports on the outbound leg and the last two PFC approved airports on the return legs.

Exemptions:

- 1.) Non revenue tickets.
- 2.) Passengers departing on a flight to an eligible point on an airline that receives subsidy as part of the Essential Air Service (EAS) compensation under section 419 of the Federal Aviation Act.
- 3.) Infants

Authorized PFC Airport	Discontinue Date	PFC Amount	Authorized PFC Airport	Discontinue Date	PFC Amount	Authorized PFC Airport	Discontinue Date	PFC Amount
AGUADILLA, PUERTO RICO (BQN)	January 1, 1999	\$3.00	ANCOCK, MICHIGAN (CMX)	March 1, 1996	\$3.00	PENSACOLA, FLORIDA (PNS)	April 1, 1996	\$3.00
AKRON, OHIO (CAK)	August 1, 1996	\$3.00	HARTFORD, CT. (BDL)	November 1, 1995	\$3.00	PEORIA, ILLINOIS (PIA)	July 1, 2001	\$3.00
ALBANY, NEW YORK (ALB)	April 1, 2005	\$3.00	HAYDEN, COLORADO (HDN)	April 1, 1997	\$3.00	PHILADELPHIA, PA. (PHL)	July 1, 1995	\$3.00
ALLENTOWN, PA. (ABE)	April 1, 1995	\$3.00	HELENA, MONTANA (HLN)	December 1, 1999	\$3.00	PLATTSBURGH, NEW YORK (PLB)	January 1, 1998	\$3.00
ALTOONA, PENNSYLVANIA (AOO)	February 1, 1996	\$3.00	HILTON HEAD, S.C. (HHH)	March 1, 1999	\$3.00	POCATELLO, IDAHO (PIH)	March 1, 2002	\$3.00
APPLETON, WISCONSIN (ATW)	September 1, 2000	\$3.00	HUNTSVILLE, ALABAMA (HSV)	November 1, 2008	\$3.00	PONCE, PUERTO RICO (PSE)	January 1, 1999	\$3.00
ARCATA, CALIFORNIA (ACV)	November 1, 1998	\$3.00	IDAHO FALLS, IDAHO (IDA)	January 1, 1998	\$3.00	PORT ANGELES, WASH. (CLM)	April 1, 1995	\$3.00
ASHEVILLE, N.C. (AVL)	September 1, 2000	\$3.00	INDIANAPOLIS, INDIANA (IND)	July 1, 2005	\$3.00	PORTLAND, MAINE (PWM)	May 1, 2001	\$3.00
AUSTIN, TEXAS (AUS)	March 1, 1995	\$3.00	INTERNATIONAL FALLS, MN (INF)	December 1, 1998	\$3.00	PORTLAND, OREGON (PDX)	September 1, 1999	\$3.00
BALTIMORE, MARYLAND (BWI)	April 1, 2009	\$3.00	IRVING, CALIFORNIA (IRV)	September 1, 1995	\$3.00	PROVIDENCE, R.I. (PVD)	August 1, 2013	\$3.00
BATON ROUGE, LA. (BTR)	December 1, 1998	\$3.00	IRVING, MICHIGAN (IRV)	October 1, 1998	\$3.00	PUEBLO, COLORADO (PUB)	August 1, 2010	\$3.00
BEAUMONT, TEXAS (BPT)	November 1, 1998	\$3.00	ISLIP, NEW YORK (ISP)	August 1, 2005	\$3.00	PULLMAN, WASHINGTON (PUW)	January 1, 1998	\$3.00
BELLINGHAM, WASH. (BLI)	January 1, 1997	\$3.00	JACKSON, NEW YORK (JFK)	January 1, 2004	\$3.00	QUINCY, ILLINOIS (UIN)	July 1, 1997	\$3.00
BILLINGS, MONTANA (BIL)	June 1, 2002	\$3.00	J.F.K. AIRPT., N.Y. (JFK)	August 1, 1995	\$3.00	READING, PENNSYLVANIA (RDG)	August 1, 1998	\$3.00
BINGHAMTON, NEW YORK (BGM)	September 1, 2008	\$3.00	JACKSON, MISSISSIPPI (JAN)	April 1, 1995	\$3.00	REDMOND, OREGON (RDM)	March 1, 2000	\$3.00
BLOOMINGTON, ILLINOIS (BMI)	May 1, 2010	\$3.00	JACKSON, WYOMING (JAC)	March 31, 1995	\$3.00	RENO, NEVADA (RNO)	May 1, 1999	\$3.00
BOISE, IDAHO (BOI)	October 1, 1998	\$3.00	JACKSONVILLE, FLA. (JAX)	July 1, 1997	\$3.00	RHINELANDER, WI. (RHI)	April 1, 1996	\$3.00
BOSTON, MASS. (BOS)	October 1, 2011	\$3.00	JAMESTOWN, NEW YORK (JHW)	June 1, 1996	\$3.00	RICHMOND, VIRGINIA (RIC)	August 1, 2005	\$3.00
BOZEMAN, MONTANA (BZN)	June 1, 2005	\$3.00	JOHNSTON, PA. (JST)	February 1, 1998	\$3.00	ROCKFORD, ILLINOIS (RFD)	October 1, 1996	\$3.00
BRAINERD, MINNESOTA (BRD)	November 30, 1994	\$3.00	KALISPELL, MONTANA (FCA)	November 1, 1999	\$3.00	SACRAMENTO, CA. (SMF)	September 1, 1996	\$3.00
BUFFALO, NEW YORK (BUF)	July 31, 2025	\$3.00	KEY WEST, FLORIDA (EYW)	March 1, 1997	\$3.00	SALT LAKE CITY, UTAH (SLC)	May 1, 1998	\$3.00
BURBANK, CALIFORNIA (BUR)	October 1, 2001	\$3.00	KNOXVILLE, TENNESSEE (TYS)	January 1, 1997	\$3.00	SAN ANGELO, TEXAS (SJT)	November 1, 1998	\$3.00
BUTTE, MONTANA (BTM)	May 1, 2000	\$3.00	LA CROSSE, WISCONSIN (LSE)	August 1, 1997	\$3.00	SAN JOSE, CALIFORNIA (SJC)	May 1, 1997	\$3.00
CASPER, WYOMING (CPR)	October 1, 1996	\$3.00	LA GUARDIA AIRPT., N.Y. (LGA)	August 1, 1995	\$3.00	SAN JUAN, PUERTO RICO (SJU)	February 1, 1997	\$3.00
CEDAR RAPIDS, IOWA (CID)	February 1, 2001	\$3.00	LAKE TAHOE, CA. (TVL)	March 1, 1997	\$3.00	SAN LUIS OBISPO, CA. (SBO)	February 1, 1995	\$3.00
CHARLESTON, WV. (CRW)	April 1, 1998	\$3.00	LANCASTER, PA. (LNS)	February 1, 2015	\$3.00	SANTA ROSA, CA. (STS)	July 1, 1997	\$3.00
CHATTANOOGA, TN. (CHA)	October 1, 2002	\$3.00	LANSING, MICHIGAN (LAI)	March 1, 2002	\$3.00	SARANAC LAKE, N.Y. (SLK)	January 1, 2003	\$3.00
CHEYENNE, WYOMING (CYS)	August 1, 2000	\$3.00	LAREDO, TEXAS (LRD)	September 1, 2013	\$3.00	SARASOTA, FLORIDA (SRQ)	September 1, 2005	\$3.00
CHICO, CALIFORNIA (CIC)	June 1, 1997	\$3.00	LAS VEGAS, NEVADA (LAS)	September 1, 2014	\$3.00	SAVANNAH, GEORGIA (SAV)	March 1, 2004	\$3.00
CINCINNATI, OHIO (CVG)	September 1, 1995	\$3.00	LAUREL, MISSISSIPPI (PIB)	January 1, 1998	\$3.00	SCRANTON, PA. (AVP)	June 1, 1997	\$3.00
CLARKSBURG, WV. (CKB)	April 1, 1996	\$3.00	LAWTON, OKLAHOMA (LAW)	March 31, 1996	\$3.00	SEATTLE, WASHINGTON (SEA)	January 1, 1996	\$3.00
CLEVELAND, OHIO (CLE)	November 1, 1995	\$3.00	LEWISTON, IDAHO (LWS)	March 1, 1997	\$3.00	SHREVEPORT, LOUISIANA (SHV)	February 1, 2019	\$3.00
COLORADO SPRINGS, CO. (COS)	February 1, 1996	\$3.00	LEXINGTON, KENTUCKY (LEX)	May 1, 2005	\$3.00	SIoux CITY, IOWA (SUX)	June 1, 2008	\$3.00
COLUMBIA, S.C. (CAE)	September 1, 2008	\$3.00	LOS ANGELES, CA. (LAX)	July 1, 1998	\$3.00	SOUTH BEND, INDIANA (SBN)	March 1, 2003	\$3.00
COLUMBUS, GEORGIA (CSG)	June 1, 1995	\$3.00	LUBBOCK, TEXAS (LBB)	February 1, 2000	\$3.00	SPOKANE, WASHINGTON (GEG)	March 31, 1998	\$3.00
COLUMBUS, MISS. (GTR)	September 1, 2008	\$3.00	MADISON, WISCONSIN (MSN)	March 1, 1998	\$3.00	SPRINGFIELD, ILL. (SPI)	February 1, 2008	\$3.00
COLUMBUS, OHIO (CMH)	September 1, 1996	\$3.00	MANCHESTER, NH. (MHT)	March 1, 1997	\$3.00	SPRINGFIELD, MISSOURI (SGF)	October 1, 1996	\$3.00
CORPUS CHRISTI, TEXAS (CRP)	January 1, 1998	\$3.00	MARATHON, FLORIDA (MTH)	June 1, 1995	\$3.00	ST. CROIX, VIRGIN ISL. (STX)	May 1, 1995	\$3.00
CUMBERLAND, MARYLAND (CBE)	July 1, 1999	\$3.00	MARQUETTE, MICHIGAN (MQT)	April 1, 1996	\$3.00	ST. LOUIS, MISSOURI (STL)	December 1, 1997	\$3.00
DALLAS/FT. WORTH, TX. (DFW)	March 1, 1996	\$3.00	MEDFORD, OREGON (MFR)	November 1, 1995	\$3.00	ST. THOMAS, VIRGIN ISL. (STT)	February 1, 1995	\$3.00
DAYTON, OHIO (DAY)	October 1, 2001	\$3.00	MEMPHIS, TENNESSEE (MEM)	October 1, 1999	\$3.00	STATE COLLEGE, PA. (SCE)	July 1, 1997	\$3.00
DAYTONA BEACH, FLA. (DAB)	February 28, 2004	\$3.00	MERIDIAN, MISSISSIPPI (MEI)	August 1, 1996	\$3.00	STEAMBOAT SPRINGS, CO. (SES)	April 1, 2012	\$3.00
DENVER, COLORADO (DEN)	January 1, 2026	\$3.00	MIAMI, FLORIDA (MIA)	August 1, 1996	\$3.00	SUN VALLEY, IDAHO (SUN)	January 1, 1996	\$3.00
DES MOINES, IOWA (DSM)	April 1, 1997	\$3.00	MIDLAND, TEXAS (MAF)	January 1, 2010	\$3.00	TALLAHASSEE, FLORIDA (TLH)	November 1, 1998	\$3.00
DETROIT, MICHIGAN (DTW)	June 1, 2009	\$3.00	MIDWAY, CHICAGO, ILL. (MDW)	August 1, 2001	\$3.00	TAMPA, FLORIDA (TPA)	September 1, 1999	\$3.00
DUBOIS, PENNSYLVANIA (DUJ)	September 1, 1997	\$3.00	MINNEAPOLIS, MINN. (MSP)	June 1, 1998	\$3.00	TELLURIDE, COLORADO (TEX)	November 1, 2007	\$3.00
DUBUQUE, IOWA (DBQ)	February 1, 1996	\$3.00	MINOT, NORTH DAKOTA (MOT)	March 1, 1999	\$3.00	TEXARKANA, ARKANSAS (TXK)	January 1, 1999	\$3.00
DULLES INTL. D.C. (IAD)	November 1, 2003	\$3.00	MISSOULA, MONTANA (MSO)	August 1, 1997	\$3.00	TOLEDO, OHIO (TOL)	September 1, 1996	\$3.00
DULUTH, MINNESOTA (DLH)	April 1, 1998	\$3.00	MODESTO, CALIFORNIA (MOD)	August 1, 2000	\$3.00	TULSA, OKLAHOMA (TUL)	August 1, 1995	\$3.00
DURANGO, COLORADO (DRO)	February 1, 1997	\$3.00	MOLINE, ILL. (MLI)	November 1, 2008	\$3.00	TUPELO, MISSISSIPPI (TUP)	January 1, 2000	\$3.00
EAGLE, COLORADO (EGE)	April 1, 1998	\$3.00	MONTREY, CALIFORNIA (MRY)	June 1, 2000	\$3.00	TWIN FALLS, IDAHO (TWF)	May 1, 1998	\$3.00
ERIE, PENNSYLVANIA (ERI)	June 1, 1997	\$3.00	MONTROSE, COLORADO (MTJ)	February 1, 2009	\$3.00	TYLER, TEXAS (TYR)	July 1, 1998	\$3.00
ESCANABA, MICHIGAN (ESC)	August 1, 1996	\$3.00	MORGANTOWN, WV. (MGW)	June 1, 1999	\$2.00	VALDOSTA, GEORGIA (VLD)	October 1, 1997	\$3.00
EUGENE, OREGON (EUG)	November 1, 1998	\$3.00	MUSCLE SHOALS, ALA. (MSL)	February 1, 1997	\$3.00	VICTORIA, TEXAS (VCT)	December 1, 1997	\$3.00
FLAGSTAFF, ARIZONA (FLG)	January 1, 2015	\$3.00	MUSKEGON, MICHIGAN (MKG)	May 1, 2019	\$3.00	WALLA WALLA, WASH. (ALW)	November 1, 2014	\$3.00
FLINT, MICHIGAN (FNT)	September 1, 2030	\$3.00	NAPLES, FLORIDA (APF)	February 1, 1995	\$3.00	WASHINGTON NATL. D.C. (DCA)	January 21, 2001	\$3.00
FORT COLLINS, CO. (FNL)	June 1, 1996	\$3.00	NASHVILLE, TENNESSEE (BNA)	February 1, 2004	\$3.00	WATERLOO, IOWA (ALO)	June 1, 1996	\$3.00
FORT LAUDERDALE, FLA. (FLL)	August 1, 1999	\$3.00	NEWARK, NEW JERSEY (EWR)	August 1, 1995	\$3.00	WAUSAU, WISCONSIN (CWA)	November 1, 2012	\$3.00
FORT MYERS, FLORIDA (RSW)	August 1, 2018	\$3.00	NEW HAVEN, CONN. (HVN)	June 1, 1999	\$3.00	WENATCHEE, WASHINGTON (EAT)	October 1, 1995	\$3.00
FORT SMITH, ARKANSAS (FSM)	April 1, 2007	\$3.00	NEW ORLEANS, LA. (MSY)	January 1, 2014	\$3.00	WEST PALM BEACH, FLA. (PBI)	April 1, 1999	\$3.00
FORT WAYNE, INDIANA (FWA)	March 1, 2015	\$3.00	NORTH BEND, OREGON (OTH)	January 1, 1998	\$3.00	WHITE PLAINS, N.Y. (HPN)	June 1, 2022	\$3.00
GILLETTE, WYOMING (GCC)	September 1, 1999	\$3.00	OAKLAND, CALIFORNIA (OAK)	April 1, 1995	\$3.00	WICHITA, KANSAS (ICT)	November 1, 1997	\$3.00
GRAND FORKS, ND. (GFK)	February 1, 1997	\$3.00	CHARE, CHICAGO, ILL. (ORD)	October 1, 1999	\$3.00	WILMINGTON, N.C. (ILM)	August 1, 1997	\$3.00
GRAND JUNCTION, CO. (GJT)	March 1, 1998	\$3.00	CANTARIO, CALIFORNIA (ONT)	July 1, 1998	\$3.00	WORCESTER, MASS. (ORH)	October 1, 1997	\$3.00
GRAND RAPIDS, MICH. (GRR)	May 1, 1998	\$3.00	ORLANDO, FLORIDA (MCO)	February 1, 1998	\$3.00	YAKIMA, WASHINGTON (YKM)	June 1, 1995	\$3.00
GREAT FALLS, MONTANA (GTF)	July 1, 2002	\$3.00	PADUCAH, KENTUCKY (PAH)	December 1, 1998	\$3.00	YOUNGSTOWN, OHIO (YNG)	July 1, 1996	\$3.00
GREEN BAY, WISCONSIN (GRB)	March 1, 2003	\$3.00	PALM SPRINGS, CA. (PSP)	October 30, 2032	\$3.00	YUMA, ARIZONA (YUM)	June 1, 2003	\$3.00
GUAM, MARIANA ISLANDS (GUM)	July 1, 2021	\$3.00	PANAMA CITY, FLA. (PCF)	October 1, 2007	\$3.00			
GULFPORT, MISS. (GPT)	January 1, 1996	\$3.00	PASCO, WASHINGTON (PSC)	November 1, 1996	\$3.00			
GUNNISON, COLORADO (GUC)	March 1, 1998	\$3.00	PELLSTON, MICHIGAN (PLN)	June 1, 1998	\$3.00			

SEPT. 13, 1995

Wasilla, AK
376-5802
659-4408

**COMMENTS TO THE
LONG RANGE FINANCIAL PLANNING COMMISSION
C/O L.I.O WASILLA**

No new taxes until State spending is in control!

How will we know when we have cut enough?

Here are three possible criteria:

- 1) When the total **per capita** spend of the State (excluding Federal Funding) is no more than it was in 1973 (adjusted for inflation).
- 2) When the total **per capita** spend of the State (excluding Federal Funding) is no more than that of other comparable States of large area and small population such as Idaho or Montana.
- 3) When total State spend does not exceed current revenues. Cut as necessary.

Revise the State spending policies to mandate elimination of political favoritism.

Since each individual owns an equal share of State revenues, **State funded programs should distribute their spending to each area of the state proportionate to the number of residents in each area.** This would eliminate **political favoritism** and competition between politicians to bring back the most pork for their districts. It would also help all to focus more clearly on the larger picture of total spending instead of the narrow interest in how much can we get. In this type of distribution the same percentage of cuts and downsizing would be felt in each area and the cuts would not be the subject of the political games we now suffer.

Thank you for your time,



Pat Marley

TOTAL P.01

Long Range Financial Planning Commission
716 West 4th Ave.
Anchorage, Alaska 99501

Dear Members of the Commission,

As a long term resident of the State of Alaska I am very concerned with what our State is doing. Especially with regards to the budget and the growing fiscal gap. I would like to share my feeling about both the spending that the State does and also how it collects revenues.

First, I think the spending is way out of line. I realize there is a lot of pressure from a myriad of sources all with heart wrenching stories about what a wonderful program they need funding for and how millions will suffer if the funding is cut back. I have lived in Alaska all but the first couple years of my life. I am 43 years old this year so I have seen the State go through a lot of changes in its growth. I have seen people come to Alaska for the taste of adventure and the beauty of the land. Since the 80's these numbers have grown tremendously. I saw when these people moved into Anchorage in the 50's and 60's. As they settled in to their life in the last frontier everything was new and quaint. A frontier town with many dirt roads, your own well and septic system, a small neighborhood school and etc. As time went on these people started wanting somebody to grade and water those dirt roads and plow the snow in the winter. They didn't want to have to worry about wells and backed up sewers in the winter. They wanted busses for their kids to ride to school in, big gyms, ball fields, sports programs, school lunch programs, natural gas, etc. They wanted someone to take care of them. Along comes some smooth talking politician who promises them the great society if he gets into office. Forty years later we have Anchorage what it is today. Looks to me like a mini Seattle. Meanwhile someone has to pay for all this and it seem like the only solution is taxes and State grants.

Ten years later, these people who came looking for adventure and the beauty of the land are tired of the traffic, dirt, falling apart pavement, property taxes, crowded schools, teacher strikes, noisy garbage trucks early in the morning, all that road and snow removal equipment, etc. They are thinking about moving a little farther out of town where you can live on a rural road and have your own well and septic system, a small community school, a quieter lifestyle and the cycle repeats itself. Eventually these people keep moving or leave the State. The problem is all the people who have lived there since the beginning end up having to pay for all the stuff they never wanted in the first place. I have lived in the Valley since the early 60's and this is what is happening here now.

My earliest years growing up were in a small village. My dad dug a well and we used an out house. Eventually my dad put in a septic system and we had a toilet. We used a hand pump to pump water into a tank in the attic so we could flush the toilet. We had a generator that we used occasionally when it was needed. The point is we provided for our own needs. We didn't depend on government to do everything for us. That is what is happening all over this State today. That is why the gap is so wide. Sure people need sanitary systems but

why does the State have to provide it? Electricity is something we all depend on anymore, but why does the State have to subsidize electricity bills for people in the bush? What people think are necessities maybe are only conveniences.

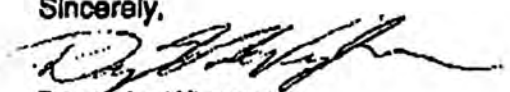
My answer to all of this is if you want the conveniences of electricity, gas, TV, etc. move to the city. If you want paved streets, fancy shopping centers, somebody to take care of everything for you, move the city, pay for what you use through taxes or whatever and don't expect the State to pay for it.

Secondly, we have a great many people who come to Alaska to work. They don't even live here. They have some of the best and highest paying jobs in the State and don't help the economy one bit. They come up and work for a week or more and take their fat paychecks home to the lower 48 with them. The most they spend in the state is maybe \$1.00 at the airport for a cup of coffee. (I guess the airport is trying to make up for what they don't spend in this state.) There are also a lot of commercial fishermen who come up, make their boat load of money and leave the State.

I think that maybe we should have a State income tax ^{with} ~~and also~~ some kind of a dividend or some way to give it back to people who live in Alaska. Use the same criteria the Alaska Permanent Fund Dividend program does for residents. I hate to see another tax. I don't believe taxes are the answer to anything. It usually reflects poor management and lack of back bone to say no to what we can't afford. But I don't feel its right for people to be able to come to this State and reap its benefits and not have to share its expenses.

To summarize what I am trying to say is the State must do what I have to do. There maybe some really important things that I would like to do but I just don't have the money to do it. We have to say NO to everything except what is absolutely necessary. I think we should prioritize everything the State spends money on. Start with the most important and absolutely necessary to run the State and work down till everthing is listed. Then decide how much revenue we have to spend without getting ourselves into a bind later on. Also consider a safety margin into that amount. Then start funding according to the list, when the money is gone, thats it, period. That is what every contributing member to society has to do. The State must do it too. I also think people who share the gain from the State should share the pain. Maybe tax is a way to do that. Leave the PFD alone.

Sincerely,



Doug VanWingerden
P.O. Box 872785
Wasilla, Alaska 99687

cc:Mail for: Melissa Fouse

Subject: LRP Preliminary Report

From: Kettering#m#_Phillip_E@msmail.aai.Arco.COM ("Kettering, Phillip E") at CC2M... 9/12/95 1:24 PM

To: LRFPC at LAA_ANC

To: Planning Commission

Bob,

I picked up both of your phone messages and appreciate you following up on the technical problems. The error message I received for the undelivered e-mail gave a code but no description. Again, thanks for letting me know things are cleared up.

I picked up a copy of your preliminary report yesterday and read it last night. I appreciate the chance to comment but would like to know if you can give me a little more information. Do you have, or know where I can get, a copy of our states financial statement in a format similar to the base case projection noted on page 7 of your report but documenting the last ten years?

I believe that controlling cost is a must but recognize that there is no single budget item that can be cut which will solve our problems. I would support a balance of various actions which may include capping the PFD checks but would emphasize the need for reducing some of the operating/capital costs. I don't believe that any further taxation is necessary (sales or income/personal or business) and hope these alternatives are noted and then dismissed.

I appreciate your assistance in getting me the information requested above. Should you need any clarification or have any questions of me please feel free to contact me via E-Mail at PKettering@aai.arco.com.

Thanks,
Phil Kettering

①

WRPFC Rec. 9/12/95
11:30 AM

701 Dogwood Street
Anchorage, Alaska 99501
September 11, 1995

Long Term Fiscal Planning Commission
c/o Legislative Information Office
716 4th Avenue
Anchorage, Alaska 99501

Since I will be unable to participate in the Anchorage teleconference September 13 regarding the fiscal gap in state finances, I am taking this avenue to correspond with you.

The magnitude of the problem is overwhelming and the consequences of not making considerable changes could be catastrophic. I am therefore offering my personal views on where some cuts could possibly be made, where cuts should not be made, and the options I personally would favor on raising revenue.

Cuts in the \$31 million budget for the Legislature could be made in out-of-state travel. It should be severely curtailed and in-state travel should be limited to what is absolutely essential.

There are many areas of the budget that I know nothing about as far as how overblown it is. For example, what comprises the Health and Human Services budget. I doubt that the Corrections budget can be cut in view of escalating crime rates. It might be possible to effect some savings by privatization.

I am willing to give up my Longevity Bonus but believe it should be cut for everyone if anything is done. It is not fair for some to receive it and not others. This will create a hardship for many low income seniors but it should have been left at the original \$50 and was raised only because we had money to burn in the 80's. It will be greatly missed by me, but my husband had to forego his when he moved to the Pioneer Home nursing wing and we are managing without it.

The entire welfare system needs to be drastically overhauled and cut. There is too much dependence on welfare checks such as teenagers knowing that when they have a baby or multiple babies out of wedlock the government will take care of them. I have even heard some of them make statements to that effect on TV. There is too much fraud in the areas of welfare and food stamps.

Senior tax relief should be eliminated although it will put a large hole in my budget. I have had the benefit of it for only two years and have appreciated it, but I managed to live without it before.

Tourism Marketing can probably stand some cutting as most people want to come to Alaska without being bombarded with ads. Although I watch Channel 7 almost exclusively, it may be possible to cut public television a bit more. To eliminate it entirely would be tragic, especially for children.

The one area that should not be cut is the nursing program of the Pioneer Homes. To eliminate this wonderful and desperately needed service to Alaskans will cause untold heartache among families of stroke victims, Parkinsonians, and those afflicted with Alzheimers as well as other health problems that require skilled nursing care around the clock. Privatizing or selling the Homes will result in placing an impossible financial burden on the families. It will result in danger and abbreviated lives for many patients. Families will be forced to try to care for loved ones at home where that care presents such physical and emotional stresses that often the caregiver goes before the patient. My husband has been in the nursing wing for over a year. He is a victim of Parkinson's Disease so I know whereof I speak. I implore you to maintain compassion for the patients and their families by continuing to fund fully the Pioneer Homes throughout the state. One recommendation I would make that could result in less expense would be to phase out the residential care. Many of these residents are able bodied and could well care for themselves at home. Entrance to the Homes should be based on a doctor's verification that the service is sorely needed.

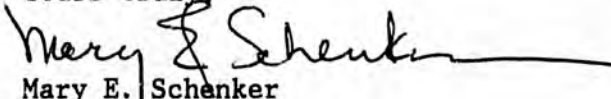
I am also willing to forego my Permanent Fund Dividend but it should be one of the last things cut as it does provide a great stimulus to the economy as well as helping individual Alaskans. It should not be cut until all non-essentials and waste are eliminated.

I also believe a stringent energy saving policy (e.g., turn off the lights) should be instituted and enforced in all state offices and buildings. It should be patterned after the one President Carter put into effect during the oil shortage.

As for raising revenue, I personally am willing to pay a statewide personal income tax or a statewide sales tax although it would be a considerable burden. I prefer whichever would cost me the least although I favor the sales tax in principal so that the many who benefit from state services but don't live here year around could contribute. I doubt that a lottery would raise much money with our small population. I am willing to pay a higher motor fuel tax. Alcohol and tobacco taxes should be raised to the maximum possible.

I would appreciate your consideration and would implore you once more to urge the Legislature to save the Pioneer Homes' nursing program and continue to fund at the present level.

Yours truly,



Mary E. Schenker

c: Governor Tony Knowles

HC60 Box 305T
Copper Center, AK 99573
September 7, 1995

received
9/11/95
LRFPc

State of Alaska
Long-Range Financial Planning Commission
716 West Fourth Avenue
Anchorage, AK 99501

Dear Commission Members:

Thank you for producing the "Fiscal Gap" report and encouraging public comment on it. Following are my comments:

CUTTING SPENDING:

--Don't cut rural and bush areas disproportionately. Please remember that most state revenues come from those areas.

--Corrections spending has increased alarmingly. I do not believe that more jails are the answer to crime; they're costly and aren't working. Because there seems to be a strong link between crime and the problems of divorce, single-parenting and poor parenting, the state should be innovating ways to reduce teen pregnancies, encourage higher education, encourage parents to stay home with their children, and encourage families to stay intact. (For instance, counselling might be required before a couple could file for divorce.)

--Also regarding Corrections, emphasis should be shifted from jail time to restitution. Permanent Fund Dividends should be routinely taken for restitution and fines, for as many years as is necessary to make adequate restitution. In the case of juvenile offenders, the parents' PFD's should also be taken. Drunk drivers should lose their vehicles upon a first offence.

--Don't make further cuts to Fish and Game and Natural Resources. As the graph on page 8 of your report shows, those departments have already taken more than their share of cuts. Since our state has a natural resource-based economy, our future depends upon knowing what natural resources we have and how they function. Thus, a greater share of funding should go to field work.

--Involve the University to a greater degree in solving problems and doing research for the state. Using degree candidates could be cost-effective.

--Cut travel budgets in all departments. Eliminate first class travel at state expense. Reduce travel allowances so that they are closer to actual costs. Encourage conference calls as an alternative to travel.

INCREASING REVENUES:

--Higher tobacco and alcoholic beverage taxes: Yes!

--Statewide sales tax or individual income tax: It's time for one of these. I slightly favor the sales tax because it would allow us to collect revenue from non-resident travellers as well as non-resident workers, and because individuals

wouldn't have to file returns. Its down side is that it is regressive. That could be partially remedied by exempting food, rent, and medical payments, while not exempting high-ticket items. To capture more tax from nonresidents, the tax rate should be higher in summer; also, summer is when many residents are better able to afford a tax. If the individual income tax is reinstated, it should be as simple as possible, but it should be progressive.

--Natural resource taxes and royalties: The revenue structure for all natural resources should be reviewed to be sure that they strike a balance between being fair to the resource extractor and providing a reasonable return to the owner (us), both now and in the future when demand might soar for, say, timber or minerals.

--Lottery: No. I suspect that lotteries are regressive--that the poorest and most poorly-educated people have the highest participation rate.

PERMANENT FUND:

--Retain the dividend, if only because it gives the people a vested interest in the fund.

--Cap the dividend.

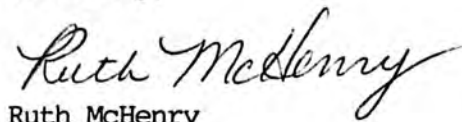
--Invest all natural resource revenues in the fund (the Cremo Plan or a variation of it).

OTHER:

--It should be a state policy to avoid encouraging population growth. Because we are a resource-revenue state, a higher population just increases the fiscal gap. Both the public and private sectors should use all federally-permitted means to give preferential hire to Alaska residents. Whenever possible, we should alter state policies and programs that have the side-effect of encouraging people to move to the state. The state should work hard at lowering its high teen pregnancy rate, and it should help women of all ages avoid unwanted pregnancies.

Again, thank you for the work you are doing on the state's fiscal problems.

Sincerely,



Ruth McHenry

**Response to the Questions of the Long
Range Financial Planning Commission
and the
“Alaska’s Growing Fiscal Gap” Report**

**From the
Alaska Municipal League
and the
Alaska Conference of Mayors**

**Taken from the AML Policy Statement
and testimony of the
Alaska Conference of Mayors and the Alaska Municipal
League Board of Directors
Barrow, Alaska
August 25-26, 1995**

RESOLUTION
of the
Alaska Conference of Mayors
and
Alaska Municipal League Board of Directors

WHEREAS, the Long Range Financial Planning Commission (LRFPC) has prepared a preliminary report on addressing the state fiscal gap and submitted it for comment;

WHEREAS, after a very brief review of the preliminary draft, the Alaska Municipal League Board of Directors and the Alaska Conference of Mayors wish to present several points regarding the draft;

NOW, THEREFORE BE IT RESOLVED THAT:

1. Appreciation is expressed for the Commission's efforts to date in addressing the issue.
2. The Alaska Municipal League (AML) and Alaska Conference of Mayors (ACoM) recognize that a gap exists between the state's current expenditures and expected revenues.
3. Some of the options presented for revenue sources appear viable, but care must be taken that using some identified alternatives not disrupt the sources of municipal tax established under existing statutes that are critical to the continuation of municipal government.
4. AML and ACoM express a willingness to work toward a reasonable balance in spending including programs that share state funds with local governments; however, the gap should not be filled by disproportionately shifting burdens to municipalities for services such as education, roads, and public safety.
5. There must be a recognition that priorities in spending do exist, but we are unable to determine from the draft what priorities have been used in determining future expenditure requirements. These priorities should recognize the state's obligation to fully provide for education, public safety, and corrections, as set forth in the Alaska Constitution, as well as programs providing basic survival assistance, such as power cost equalization.
6. We are unable to determine if other options of closing the gap have been addressed. These include cooperative transfer of administration of programs and funding, or consolidation to reduce expenditures. Elimination of further programs has not been identified as an option. These options should continue to be explored during the process of closing the gap.

7. The LRFPC should analyze the impact on local governments of the various recommended options as provided in the resolution establishing the Commission. Without this analysis, we find it difficult to adequately respond to the draft report and we are willing to work with the Commission to perform that analysis as the Commission prepares its recommendations to the Legislature.

UNANIMOUSLY APPROVED BY THE MEMBERS OF THE ALASKA MUNICIPAL LEAGUE BOARD OF DIRECTORS AND ALASKA CONFERENCE OF MAYORS ON AUGUST 26, 1995 IN BARROW, ALASKA.

Alaska's Need for a Long Range Financial Plan

The Alaska Municipal League and the Alaska Conference of Mayors wholeheartedly support the efforts of the state in developing a Long Range Financial Plan for Alaska. The development of a Long Range Financial Plan, with supporting policies and implementation schedule, is absolutely critical to ensuring the best future for Alaska, its municipalities, and its people.

The Relationship Between the State and Its Political Subdivisions

Municipal governments currently provide approximately half of all public services in Alaska. (Total government service expenditures in Alaska are about \$4.7 billion, of which \$2.4 billion are provided by municipalities, and \$2.3 billion by state government).

Because both the state and local governments provide public services to the same people, and because both the state and local governments have taxing powers over the same people, it is not possible to create an effective Long Range Financial Plan for Alaska without the active involvement of both local and state governments.

Alaska Needs a Comprehensive Solution to its Fiscal Gap

Since 1986, almost every municipality in the state has developed and implemented a long range financial plan. The experience of Alaska's political subdivisions over the past ten years indicates that a Long Range Financial Plan should not depend on one solution alone, but a comprehensive array of solutions including all of the fiscal tools available including: spending cuts; consolidation; privatization; transfers of responsibility; wise use of reserves and savings; increased fees to direct users of state services and enterprise operations; user taxes to meet needs created by users (e.g. increase fuel taxes to maintain and improve roads, harbors, airports); new general taxes that increase revenue as population increases; and economic development.

Observations that may help the Long Range Financial Planning Commission follow:

- To avoid severe economic downturns, budget balancing actions must be taken early and gradually.
- There are currently strong budget and policy disincentives to state departments to act entrepreneurially to set market rate fees to direct users of state services. Municipalities found that user fees both help balance the budget and increase accountability to the public. In fact, direct services should not be provided by government free or at below market cost in most cases. Many municipalities were able to generate 5% to 15% more of their budget through user fees. A 5% increase for the state would be over \$100 million per year.
- Budget cuts that are taken without long term structural changes in services and service delivery systems are likely to have severe long term negative economic and social impacts on the state.
- Citizens more easily accept tax increases when the proceeds of the tax increase provide a specific related service they desire (e.g. fuel taxes to maintain transportation systems).

An example of a comprehensive strategy for a state Long Range Financial Plan follows:

Long term structural budget/service changes:	\$100 million+
consolidation	
privatization	
transfer of services/revenue to Local Gov't	
statutory changes	
budget and policy changes	
Increase user fees to market rates for state services	\$100 million+
Raise motor fuel tax to maintain roads	\$ 60 million
Raise marine fuel tax to maintain harbors	\$ 30 million
Aviation fuel tax to maintain airports	\$ 10 million
Tobacco and alcohol tax to pay direct costs in Public Safety, Corrections, Health and Social Services	\$100 million
New statewide tax (e.g. personal income tax)	\$150 million+
Economic Development	\$ 20 million+

The rough example above is not a recommendation, nor do all the revenues completely offset current costs (for example, the state is essentially not maintaining its harbors now), but it is an indication of how a comprehensive long range financial plan for the state may rely on a number of components.

Local Government Partnership Council

The Alaska Municipal League and the Alaska Conference of Mayors have set the development of a state long range financial plan as their highest priority. The AML/ACoM offer the service of municipalities to the state in the development of the state's long range financial plan.

The AML/ACoM recommend the creation of a **Local Government Partnership Council**. The Local Government Partnership Council would consist of municipal representatives appointed by the AML/ACoM and members appointed by the state. The most important role of the Council would be to achieve consensus on services that could best and most efficiently be administered on a local level and ensure that adequate stable resources are available to maintain the service on a long term basis.

The Local Government Partnership Council would also help coordinate education of the public and support for the implementation of a state long range financial plan as well as make suggestions for the development of the plan.

Transfer of Current State Responsibilities to Municipalities

A municipality's power to provide services and to raise revenues is derived from the state. Alaska's constitution calls for "maximum local self government" and provides that "agreements, including those for cooperative or joint administration of any function or powers, may be made by any local government with any other local government, with the state, or the United States..."

Some services currently provided by the state may be more efficiently, or effectively provided under the administration of local governments, and under the policy direction of local residents.

The AML supports the negotiation of service responsibility transfers from the state to municipalities provided the state actively enters into good faith negotiations with municipalities to identify stable adequate revenues to undertake the transferred services.

Specifically, the AML supports entering into negotiations with the state to transfer the responsibility for operation, maintenance, and improvement of harbors, some classes of local roads, and some classes of air transportation facilities with the long term commitment of the state to share fuel taxes, and other revenues, with municipalities to supplement direct user fees. Other services may include some health and social services, public safety services, direct support services to local government, education services, etc.

Specifics of the transfer negotiations should be proposed by the **Local Government Partnership Council** discussed above.

Fair Distribution of the Resources that belong to All Alaskans (Municipal Revenue Sharing Programs)

All states provide some form of revenue sharing to their political subdivisions because states are the only taxing authority that can fairly allocate a state's resources to ensure that all citizens receive a basic level of public services. According to the 1994 federal ACIR Report, the **average nationwide state contribution of state revenues to local governments is 34.2%** of local government budgets.

Without state revenue sharing, some areas of a state would not receive a basic level of health and safety services while other areas would pay disproportionately higher local taxes for those services. Over the past ten years, cuts to MA/SRS, and other state programs that provide funds to local governments, have been so severe that they have destabilized some communities, forced some dissolutions of municipal governments, and effectively increased local taxes as much as the equivalent of ten mills of property tax. **When municipal governments dissolve, the long term cost to the state is much higher than the cost of Municipal Assistance/ Revenue Sharing.**

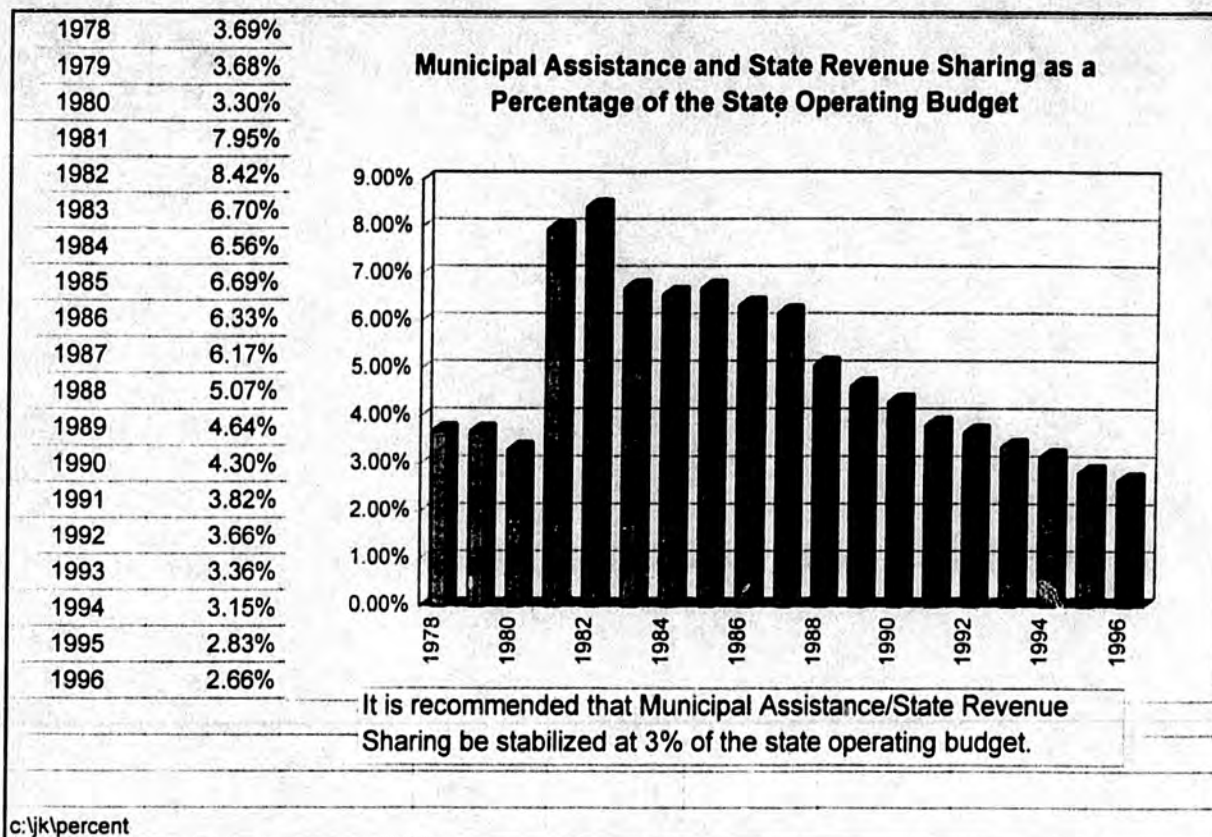
Currently, Alaska has two main general revenue sharing programs for municipal service operations: Municipal Assistance (MA) and State Revenue Sharing (SRS).

The AML supports a consolidation of the Municipal Assistance and Revenue Sharing programs into one that allocates funds considering the level of basic municipal services provided by each community (public safety, health, local share of education, road maintenance, water/sewer), population, and the financial resources of the community.

Most important, the AML supports a **stable revenue relationship** with the state to promote local fiscal planning and to promote local economic and community development.

Municipal Assistance/Revenue Sharing (MA/RS) in FY96 was 2.66% of the state operating budget. It has declined from approximately 8.00% of the state operating budget in 1982 and was 3.68% of the state operating budget in 1979.

The AML and Conference of Mayors supports a stable funding of MA/RS at the level of 3.00% of the state operating budget so that the funding of municipalities is consistent with the resources of the state. The AML and ACoM support a freeze of funding for MA/RS at the 1996 level of funding until the state budget adjusts or decreases to the point where the 3.00% relationship with MA/RS is achieved. The standard of setting MA/RS at a percentage of the state operating budget is used in other states (see appendix).



Capital Project Matching Grant Program

Alaska has also implemented a capital project revenue sharing program, the **Capital Matching Grant Program**, to fairly provide a basic level of support to municipalities to construct basic public facilities as determined necessary by the local community.

The AML supports the continuation and stable funding of the Capital Matching Grant Program because it is an effective revenue sharing method that provides for a basic level of community capital public facilities and promotes local self determination.

Education

The Alaska Constitution states, "The Legislature shall by general law establish a system of public schools open to all children of the State...". Open access to a quality education is a primary right guaranteed by the Constitution. All states provide support for education. The

nationwide average of education transfers versus all other transfers to local government is 62.1%, according to the 1994 ACIR Report, while Alaska is close to the national average at 59.7%

The AML supports efforts to increase the efficiency and effectiveness of education programs for our children, such as the changes proposed by the Alaska Association of School Boards, and other efforts to increase local flexibility in providing cost efficient and cost effective education.

The AML supports the effort to restructure the school foundation program to more equitably and effectively distribute the state resources for education. The AML does not support a 50 to 100% increase in mandatory local taxpayer support for schools.

The AML supports application of the priority-based school construction and maintenance grant programs established by AS 14.11.007-019 equitably to all districts. The AML supports the addition of an incentive to encourage communities to achieve higher maintenance standards and reward those that properly maintain their facilities. The AML urges the legislature to consider statewide bonding for ongoing school construction and maintenance needs. (AML Policy Statement p. 23)

State Unfunded Mandates on Local Governments

An unfunded mandate is a responsibility mandated by a higher level of government to a lower level of government, without providing funding to carry out the mandate. In 1994 the federal government passed a bill to protect the states against unfunded federal mandates. Many states have enacted similar bills, or constitutional amendments, protecting their municipalities against unfunded state mandates. Such a bill for Alaska will be a means to ensure a long term stable relationship between the state and its political subdivisions.

The AML/ACoM supports the enactment of a municipal "unfunded mandates bill" to provide protection from unilateral decisions on the part of the state that have the effect of forcing municipalities to raise local taxes or cut services.

Senior Citizens Property Tax Exemption

The AML/ ACoM supports the enactment of the Senior Citizen/ Disabled Veteran Property Tax Exemption as a local option or with a reasonable cap on the growth of the program at a level similar to other states. This program began with full state funding. Over the past several years, the state has almost eliminated state funding for the program yet requires local governments to grant the exemption without regard for the financial need of the individual recipient, or other reasonable criteria. The current cost to municipalities is about \$17 million per year.

Other State Programs That Ensure a Basic Level of Services to Alaskans

Many areas of the state, especially rural areas, have a very small local tax base. Over the years, state programs have been developed to target specific basic services to these areas. Such programs include: Power Cost Equalization; Village Safe Water Program; Public Safety Officer Program.

The AML supports the inclusion of these programs into the long range financial plan as part of the comprehensive strategy to provide basic services to all communities in the state.

Local Self Determination and Tax Equity for all Citizens of Alaska

The AML supports the formation of new local governments to promote local self determination and to provide a mechanism for all citizens to participate in paying for services they consume according to their ability to pay.

The AML supports the equitable financial participation of all communities and all residents in the funding and support of basic government services including education, public health and safety, and other basic services.

New Tax Revenues for the State

The State Long Range Financial Planning Commission has asked the AML/ACoM what major new revenue sources it supports if new revenues are enacted.

As part of a long range financial plan for the state and municipalities, the AML recognizes that action must be taken to incrementally introduce new revenue sources for the State well in advance of a financial crises. The 1995 AML Policy Statement urges consideration of the following revenue options if new revenues are a part of the long range financial plan:

1. Personal Income Tax- (AML Policy Statement p. 16) The AML supports legislation to reinstate the state income tax, with a tax credit for local participation in sales, personal, and real property tax, to allow for maximum capture of revenue from non-resident employees working within Alaska.
2. Use of Permanent Fund earnings for Municipal Support - (AML Policy Statement p.3) The AML supports the use of Permanent Fund undesignated earnings for revenue sharing, municipal assistance, education foundation formula, school debt reimbursement, and school construction and maintenance projects on the Department of Education priority lists established under the provisions of AS 14.11.
3. Sales Taxes - Sales taxes are a primary source of municipal tax revenue. Ninety five municipalities currently have sales taxes ranging from 1.5% to 7% plus a variety of special taxes. The AML Policy Statement does not support a statewide sales tax because of the potential for negative impacts on the diverse sales tax programs in Alaska's municipalities. While it is possible to levy a statewide sales tax, it is critical that municipalities retain reasonable flexibility in the use of this revenue source and that any exemptions be carefully considered to avoid diminishing this revenue source. Municipalities must be guaranteed the long term receipt of 4 or 5% of the tax proceeds and have a significant voice in setting exemptions from the sales tax and the levy of special taxes, such as bed taxes that largely affect visitors
4. Fuel Taxes to support municipal and state transportation systems - Currently, the state tax on motor fuel is \$.08 per gallon and on marine fuel is \$.05 per gallon. The national average motor fuel tax is \$.18 per gallon. The AML (AML Policy Statement p.44) supports increased fuel taxes, and other transportation related fees, sufficient to support

state and municipal transportation system needs, i.e. roads, harbors, airports, marine highway.

5. Property Taxes - Property Tax is the primary source of revenue for many municipal municipalities. This revenue source is carefully balanced to provide for local service needs while not overburdening the local citizens. This revenue source is highly utilized by municipalities. The AML/ACoM strongly recommend that the state reserve this revenue for municipalities.

Excess Tax Capacity

The Commission has asked the AML/ACoM to comment on the state use of "excess tax capacity" in Alaska. The Commission shows that, considering the Permanent Fund Dividend and all state and local taxes, the average Alaskan has a net revenue gain while other residents of other states pay significant net state and local taxes.

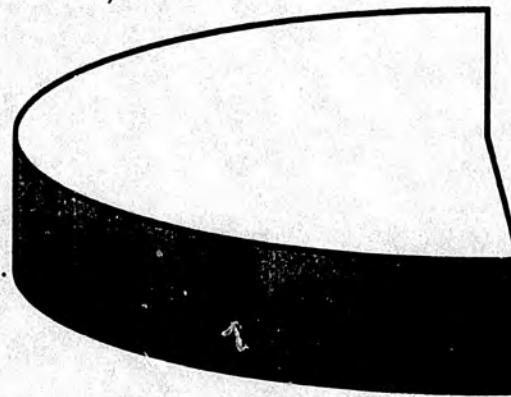
In Alaska, local sales and property taxes are near maximum in many communities. The state has used 0% of its tax capacity since the state has essentially no individual taxes. The AML/ACoM recommends that the state first consider its excess tax capacity in tax areas not currently utilized by municipalities.

Cuts in Municipal Programs

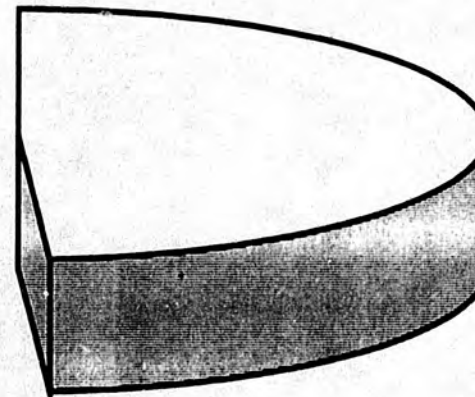
The Commission Chair asked the AML/ACoM what cuts to municipal programs it would recommend if the Commission decided to recommend \$10 million in direct cuts. As stated in an earlier section, the AML/ACoM supports well planned structural changes in state or municipal programs that result in savings. The AML/ACoM has offered several structural changes above and has offered to continue to work to plan and implement these and other changes. The AML/ACoM strongly opposes additional across the board cuts that simply pass problems along to local government and/or have greater long term costs to the state; (e.g. cuts in Municipal Assistance/ Revenue Sharing have the long term impact of giving small communities an incentive to dissolve and pass education and other service costs back to the state.)

**Comparison of Alaska's Public Services
by State Government vs. Local Governments**

Local Gov't Public Services
(\$2.4 billion)

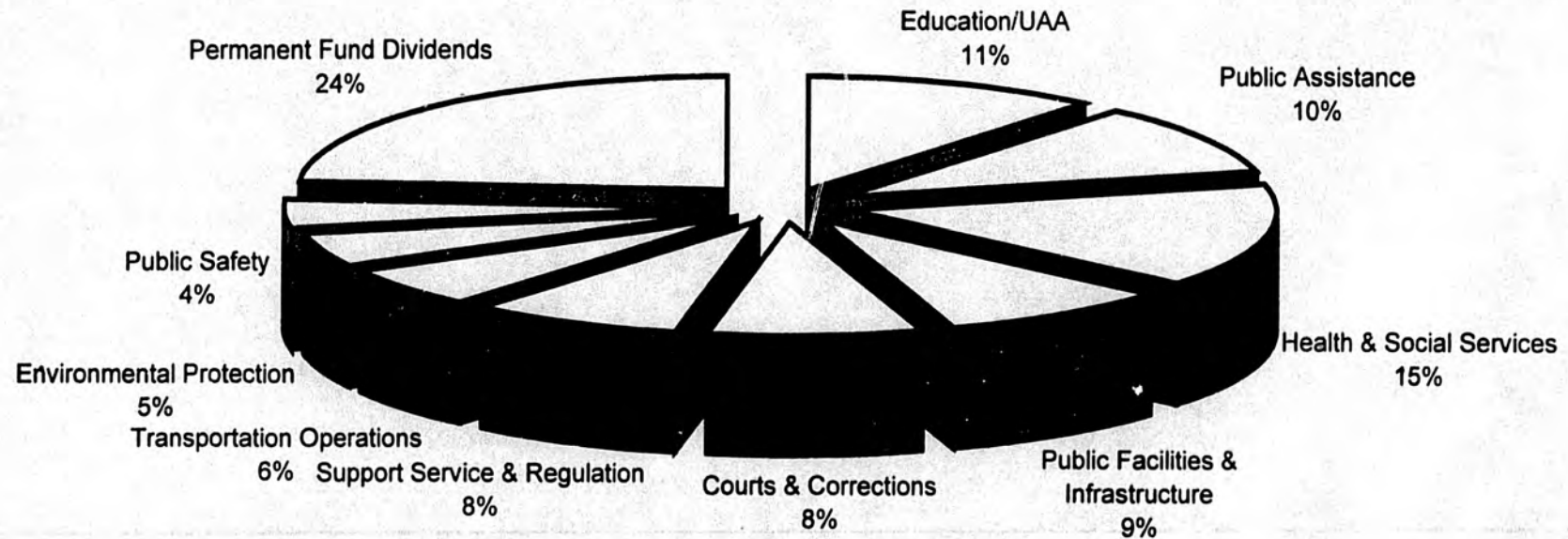


State Gov't Public Services
(\$2.3 billion)

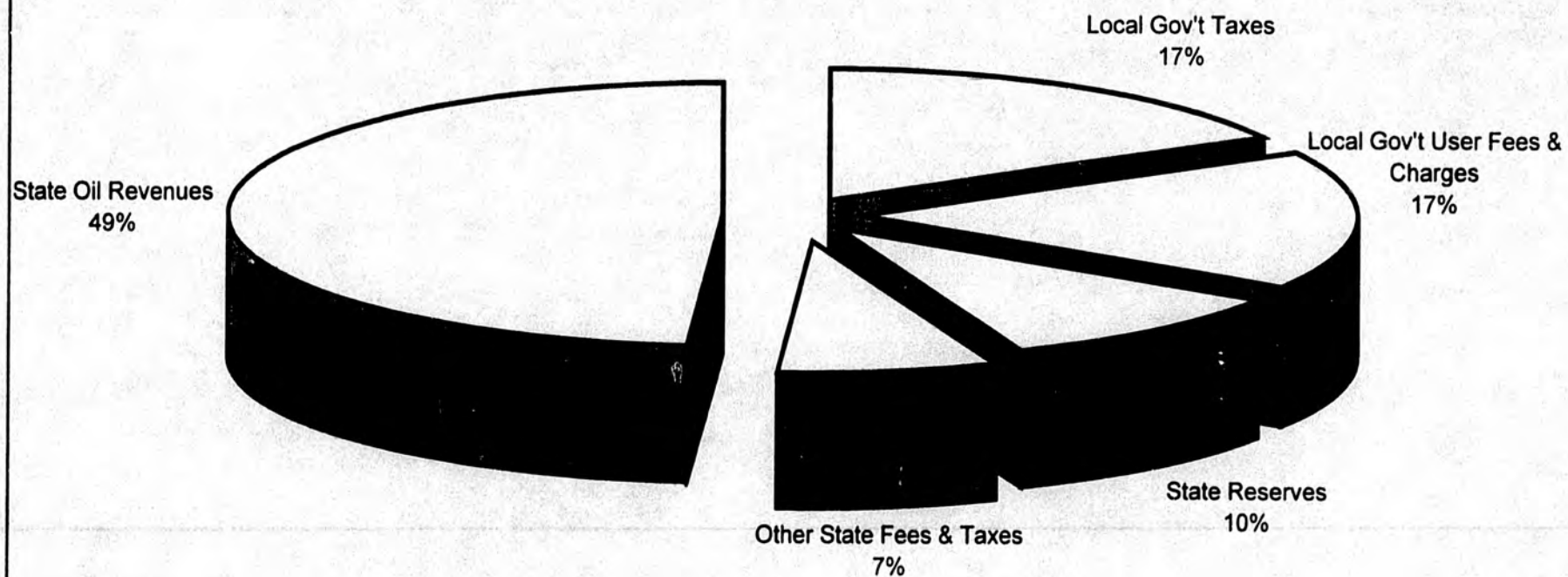


Source: Dept. of Community & Regional Affairs FY 93 Municipal Fiscal Database; OMB Long Range Fiscal Planning Commission "base case" budget analysis; Department of Education.

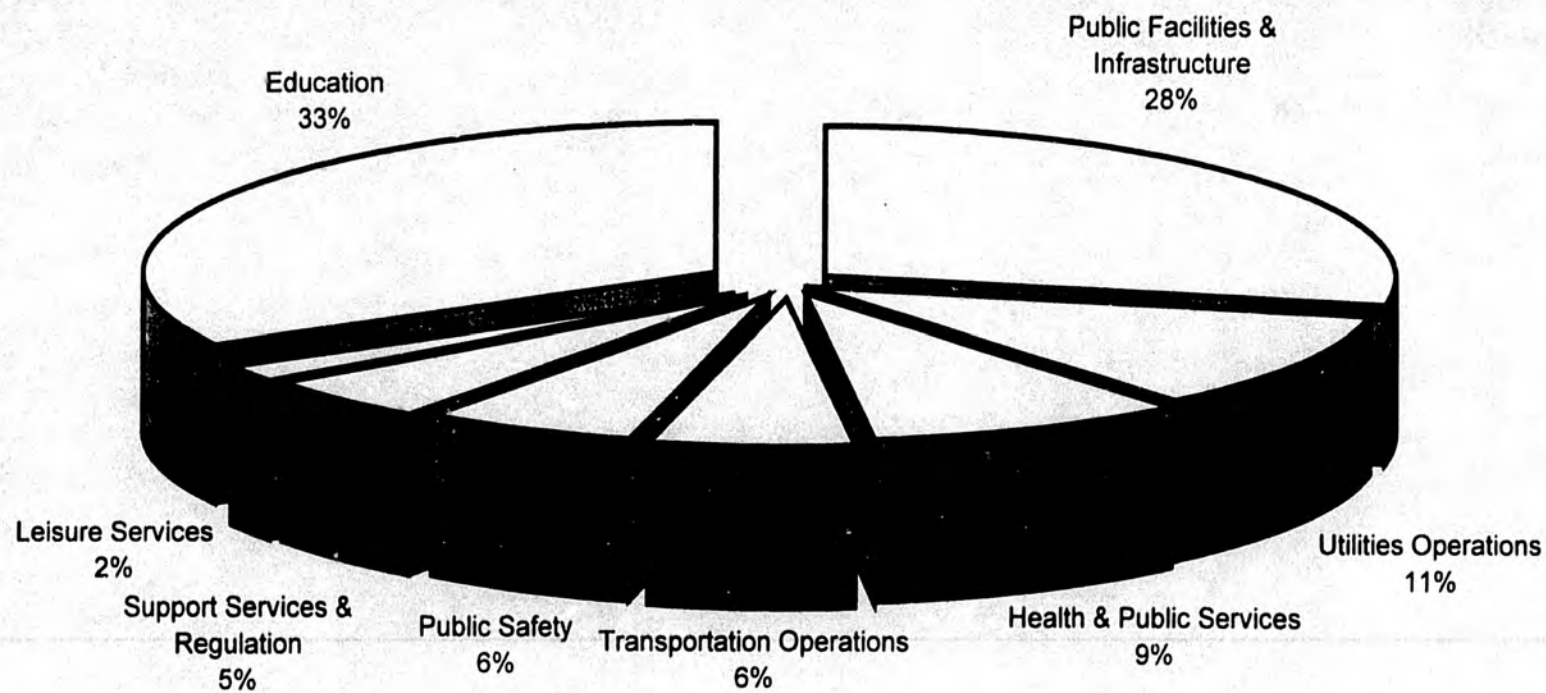
Services Provided by State Government in Alaska
(total \$2.3 billion)



Funding of Public Services in Alaska (excluding Federal)



Services Provided by Municipal Governments in Alaska
(total \$2.4 billion)



LRFP - received
9/6/95 Rkw

August 18, 1995

To Whom It May Concern:

The following Article was ran in the Perninsula Clarion July 28, 1995. I have personally recieved telephone calls from 45 different State employees and 60 individuals regarding the matter at hand. All are in favor of this proposal and would like to know what else can be done about halting more pay increases that are in effect or are soon to be approved.

The problem at hand needs to be looked into thoroughly and not put on the back burner any longer. From the department of Administrations explanation of how they determine pay ratio goes as follows: Looks at job requirements for each position and then compares it to what Government, Borough, Other States and then private Companies pay. With that in mind all employees paid by taxes are in a higher pay rate than in most companies.

Ask yourselves if you don't start the "halting process" then who will? Does every-one Benefit from those who are "GREEDY"? Definition of greedy; wanting or taking all that one can get, with no thought of others needs; desiring more than one needs or deserves. And fineally, why should the people have to pay for something twice because of the States previous negligence of the finances? It only seems logical that you not give someone a pay raise when you are already working in the "RED"!!! I am sure you also wouldn't purchase one vehicle twice at the same time, just because the Salesman said that that's how much it was!

The State is asking for a portion of "everyones" dividends, but what is the State willing to sacrifice?????

This is per Joe Thomas at 465-5616 in Juneau with the Division of Finance who kindly furnished this information:

1995 Alaska State Employees Salary

WAGES: 544 Million Dollars
BENEFITS: 338 MILLION DOLLARS

Now can you honestly say that you have no other means of balancing the BUDGET without getting your greedy hands on the permanent fund money?

Sincerely,

Marie Brooks

Marie Brooks
HC3 Box 904-B
Soldotna, AK 99669
(907) 262-3927

CUTBACKS YOU SAY?!!!!

Okay I'll agree that it is long overdue and desperately needed. Well now you say how do we go about it? I say start from the top and work to the bottom not vice versa! So you are now wondering exactly what do I mean. Sit down and hold on because you're not going to like it, but it is the most logical. Since this is obviously not the seventies stop spending such an outrageous amount for the "State Employees."

Here is just a small example of what I have researched so far, For the "Average worker" it goes as follows:

<u>Title</u>	<u>Amount</u>	<u>Total</u>
Clerk/Researcher	\$7.50 hr	\$14,400.00 year
Secretary II	\$10.00 hr	\$19,200.00 "
Mechanic non-union	\$15.00 hr	\$28,800.00 "

Now with that in mind take a look at what the "State" pays for the same job. But don't just stop there check at how much each of the "Representatives, Aides, and other high State Officials are making. This is from the State Personnel Office which goes as follows:

<u>Title</u>	<u>Amount</u>	<u>Total</u>
Admin. Clerk I	\$10.68 hr	\$20,505.60 year
Secretary II	\$13.52 hr	\$25,958.40 "
Mechanic Union	\$16.65 hr	\$31,968.00 "
(After 7 mths)	\$19.95 hr	\$38,304.00 "
Legislatives		
Sec./Researcher (Beginner)	\$17.16 hr	\$32,952.00 "
Assistant (Starting salary)	\$25.97 hr	\$49,860.00 "
Rep./Senators (+they get per- diem)	\$12.50 hr	\$24,012.00 "

Are you surprised at the difference? Oh and by the way check on the benefits issued to most of the "private workers" verses the "state workers".

Now if you take \$5,000.00 at least from each state employee and I'll just use a figure of 640 State employees since I could not get an estimate from them, that in itself would save the state \$3,200,000.00 per year!!!!

With all that said and done now it just needs to be acted upon. Take a State wide poll of this proposal and you will undoubtedly get a positive response to get this acted upon as soon as possible.

If your community is dirty you shouldn't go telling everyone else to clean up their yard first when your's is the worst. Take a look at your yard and do something about it, and then go to the others.

So in other words start with Governor Tony Knowles, then yourself and so on. I watch my money and I don't like where it's going.

Second---When in session cut the "CRAP" out! No parties on my time and money. That's not what you are there for. Discuss personal problems on personal time. If you have to do Time Management and find out exactly what gets done then do it and efficiently. CAUTION: It doesn't cost \$400,000.00 to do the Time Management Analysis either.

Third---If you have an employee who has constient legitiment complaints against him/her then they should be relieved of their job and loose the priveledge to work for the State. Keep in mind that they are working for the people of the State of ALASKA.

Fourth---Do you have a contractor working for you? Are they doing a good job, and is the job done on time? No you say, then it's time you get someone who can do the job and for the original contractor they are removed from the list with no further chance of being put back on!

Fifth---Are you not happy with this?! Then get a real wake up call and work for the private sector. And let someone who can do a good job, and who will be more than happy to take your place. A good secure job with excellant benefits and of course highly paid is easy to come by, so you wouldn't have a hard time finding another one!

So with that all said and done you're proposing to take our Permanant Fund Dividends away or raise State Taxes to cover your spending habits. I THINK NOT!! At least not until the employees of the State of Alaska start being responsible for their own actions/pay. Why should everyone have to pay more taxes to cover the states incompetence. I elected you in office to control the spending not increase your pay. But just put this down as a big lesson and start fresh. Is it really that much to ask for? Times are changing so get with it and start changing the States spending habits today.

To all those Alaskans out there you had better wake up and find out just where your money is being spent, and do something about it. If it isn't getting done, or costing too much, or just being ignored you need to speak out or you will never be heard!

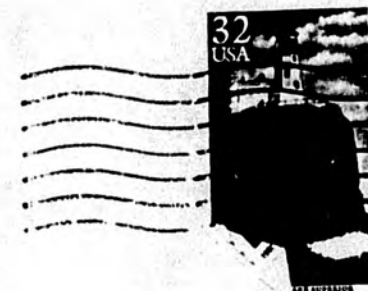
If you are interested in changing the pay of your employees who work for the State of Alaska contact the State Department of Labor. But don't stop there you will also need to get involved with making sure it gets put on the ballot to stop it today!!!

Sincerely yours,

Your Boss, Concerned Taxpayer, Mother of three and Small Business Owner
Marie Brooks
HC3 Box 904-B
Soldotna, AK 99669

BROOKS
HC3 BOX 904-B
Soldotna AK 99669

URGENT

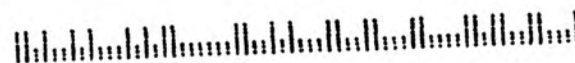


rec. 9/6/95

Financial Planning Commission
716 W 4th Ave. Suite 470
Anchorage AK 99501

ATTENTION: BOB

99501-2133 95





CITY OF HOONAH

P.O. Box 360 • Hoonah, Alaska 99829 • (907) 945-3663 • FAX (907) 945-3445

August 21, 1995

Long Range Fiscal Planning Commission
Brian Rogers, Chairperson
716 West 4th
Anchorage, Alaska 99501

Dear Mr. Rogers:

For the past three years small communities such as Hoonah have fought hard to keep the Legislature from cutting Municipal Assistance and State Revenue Sharing completely. In the past six years they have cut the funding for both Municipal Assistance and State Revenue Sharing more than 50%. As a small community with only a 4% sales tax for revenue we would be unable to continue providing services to the people of Hoonah if they eliminate these two programs.

The City of Hoonah feels that it would be a major mistake to completely eliminate the Municipal Assistance, State Revenue Sharing, Capital Matching Grants, and other Municipal Grants and Programs. Every year when our Finance Committee works on our budget it gets more complicated to find the money needed just to provide basic services.

As the Mayor of Hoonah I have been working on finding the needed resources from both the State of Alaska and from the Federal Government to build a much needed water treatment plant. In the past three years we have had little to no success and with each passing day it continues to get harder to provide treated water to our community.

As I stated in my first paragraph without these programs, small communities will be forced too dissolved. If that happens the cost to the State to provide these services will be much higher. Small government issues are not an easy task. Any cuts to the School Foundation Funding Programs affect the local government. The local fishermen are having a very slow if not bad year and the effects will show in our Raw Fish Tax. The Subsistence issues, the IFQ issue, all these affect the City along with the cut backs in the fishing season. The total lost of forest service receipts will also drastically effect the City and the School. Generators generate our power and without the power equalization fund most of our citizens cannot afford power to their homes. Our community is also going to have to face what the Welfare Reform Act will do to some of our citizens.

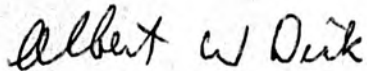
Page 2

Long Range Fiscal Planning Commission

So what I am asking you, when the committee is sitting around making suggestions to the Governor concerning long range fiscal planning. Please do not forget what the effects are going to be not only to the State, but also the small local governments.

I would like to thank the committee for taking the time in reading this letter, and to ask that they keep us informed concerning any recommendations your commission may develop.

Sincerely,



Albert W. Dick, Mayor

cc: Governor Tony Knowles
Senator Fred Zharoff
Representative Jerry Mackie
Kevin Ritchie, AML Executive Director
Senator Jim Duncan



PRESTON GATES & ELLIS
ATTORNEYS

August 30, 1995

Long Range Financial Planning Commission
716 W. 4th Avenue
Anchorage, AK 99501

Re: Statewide Sales and Property Tax; School Debt Reimbursement Program

Ladies and Gentlemen:

I do not envy you your thankless and difficult task as Commission members. I am sure many of the responses you receive to your preliminary report will be in the nature of "not in my backyard," "not my Permanent Fund Dividend check," "no new taxes," or "that is politically impossible." This letter may sound like an attempt to protect a backyard.

Although I have been involved since the mid-60s as either an elected municipal official or a municipal attorney and currently represent several municipalities as either general counsel, bond counsel or special counsel, I am writing as a student of Alaska local government, and not on behalf of any of my clients.

At the hearing you conducted on August 5, 1995 for the AML and Alaska Conference of Mayors, the topic of a state sales tax and a state property tax arose and a request was made for data comparing the fiscal capacity of Alaskan municipalities in the sales and property tax area with the capacity of municipalities in other states in sales and property tax. If that was the scope of the request, I would urge you to be cautious about drawing any conclusions from such data for a number of reasons.

State Sales Tax

Alaskan municipalities have, since before statehood, grown to rely upon the sales tax and a general property tax for their revenues. With the exception of a few municipalities that have established a part of their tax structure based on economic activities arising out of natural resource activities (e.g., mining) Alaskan municipalities generally have not ventured into other areas of taxation. Unlike their counterparts to the south, they have not established a diversity of tax sources.

As you are aware, many of the smaller boroughs and cities have little or no real property tax base, the bulk of the land within their jurisdiction being federal, state, ANCSA, Native

allotment, or Native townsite land which is exempt from real property taxes. To the extent these municipalities are able to raise tax revenues locally, they must look to a sales tax. If the state were to implement a statewide sales tax, in all likelihood these municipalities would lose their only practical, substantial source of local tax revenue. Even if the state were to allow a municipality to piggy back on the state sales tax, it is doubtful there would be enough capacity (politically or practically) for the state levy and for what is required by the municipality. Municipal sales tax rates throughout Alaska range from one percent to seven percent with the bulk of the taxes falling in the two to five percent range. Where a borough levies a sales tax, it is levied on top of sales taxes that may be levied by cities within the borough, thus increasing the actual rate applicable to a sale within such cities. An unscientific observation of some of the states that permit a city to piggy back on a state sales tax shows that such municipalities are given authority to levy only a very small part of the total levy. If this allocation between state and the local piggy back sales tax were applied in Alaska, I fear this critical source of revenue for cities and boroughs without a real property tax base would essentially disappear.

Under a state sales tax with a municipal piggy back, it seems unlikely that the state would permit municipalities to create exemptions that differ from those of the state. It is also likely that the state would determine to exempt sales that are currently the major source of revenue for some municipalities. For example, a number of coastal cities and boroughs levy a sales tax only on the sale of raw fish, essentially exempting all other sales. The tax on raw fish sales ranges from one percent to three percent, with the bulk of the municipalities levying a two percent tax on raw fish sales. If the state were to levy a sales tax substantial enough to produce significant revenues for the state and, at the same time, allow the municipalities to piggy back at a rate sufficient to replace the local tax revenues that would be lost, it seems reasonable to assume that the sales tax on raw fish would double or triple if there were both a state and local levy on such sales. Such a rate could affect the market for Alaska seafood products.

Additionally, under a piggy back system, such municipalities would probably be forced to levy its portion of the sales tax on the same transactions as those subject to the state tax. This would substantially reduce the ability of municipalities to tailor a sales tax to the needs and unique situations that exist in different municipalities.

At least one borough in this state has issued several million dollars of general obligation bonds to the Alaska Municipal Bond Bank. This municipality does not levy a property tax and relies for its local revenues upon a raw fish sales tax. The Bond Bank and those in the bond market who bought the Bond Bank's bonds on these issues relied upon the existence of the borough's raw fish tax revenues in determining that the bonds were a reasonable credit risk. At least one other borough that relies heavily on a raw fish tax and a city that relies on a sales tax are currently dealing with the Alaska Municipal Bond Bank with respect to the Bond Bank's purchase of their bonds. Any incursion into the authority of municipalities to levy sales taxes would undoubtedly not only have an adverse effect on the credit rating of such municipalities, but would adversely affect the ability of such municipalities to repay their existing debt.

In any analysis of a state sales tax as a source of state revenue, the Commission must take a realistic view of the way such a tax would be imposed and of the variety of impacts the imposition of such a tax would have in the many different municipal settings within Alaska.

Tax Data From Other States

In any review of data comparing the sales and property tax capacity of Alaskan municipalities to that of other states, the Commission must bear in mind a number of factors that would make such simple comparisons highly misleading. First, where a state sales tax is levied there is generally a cap on the rate a municipality may levy. The same applies to property taxes, and municipalities in many states are up against their caps. In many states, valuations are (constitutionally, statutorily, or by practice) set at some level less than 100% of full and true value. In a state that mandates assessments at 50% of full and true value, a 20 mill levy is roughly equivalent to a 10 mill levy here in Alaska where assessments are required to be at 100% of full and true value. Ohio, for example, recently set its assessment ratio at 22.5%. In some states, counties are required to levy a property tax which it then must share with the different cities, towns and special purpose districts within the county. Additionally, many states require the levy of a county property tax which is returned to the state for redistribution to school districts or to counties for education or other purposes. In many states, municipalities levy numerous other taxes such as income tax, business and occupation tax, land sale/recording tax, employment tax, and others. Because of the large amounts of tax exempt property within many Alaskan municipalities, and because of the very low or narrow range of economic activities that occur within many of our municipalities, it may not be possible to draw a valid conclusions from a comparison of sales tax and property tax capacity in Alaska with the appearance of such capacities outside the state. The lack of practical alternatives to these two sources of local revenue in Alaska would make the fruits of such an investigation suspect.

School Debt Reimbursement Program

Under Scenario No. 1, the proposal is made to eliminate the school debt reimbursement program. As you might imagine, this would have serious effects on the budgets of most municipalities that are also school districts (all boroughs, unified municipalities and all first-class and home rule cities that are outside boroughs). The impact would be most serious for those boroughs that have school debt and in which the education function is the primary function of the borough. In such cases, a greater percentage of local revenues would be devoted to school debt retirement than would be in municipalities that provide a number of additional services and functions. Additionally, the impact of the credit rating of municipalities and the State of Alaska should be considered before any recommendation for such a change is considered. Elimination of payments under the program would be not only a breach of faith with municipalities that issued bonds in reliance upon the promise of reimbursement, but would undoubtedly generate a negative view by the bond market of Alaska's credit. Official Statements issued by the Alaska Municipal

Bond Bank or by municipalities in connection with the issuance of school bonds point to the state school debt reimbursement program. Even though such discussions are accompanied by the caveat that the reimbursements are a subject to annual legislative appropriation, a history of the rate of reimbursement compared to the actual entitlement as almost always included in such discussions. The high rate of reimbursement to entitlement these comparisons show has led bond buyers to believe the state has a reliable record of honoring its statutory obligation to reimburse school debt and has served to reassure bond buyers and bond holders of the substantial state participation in providing funds that can be used for debt service on school bonds. Deletion of payments under the program would most certainly have a negative impact on the credit rating of the state and most municipalities. As the debt service payments must be made, such a move would only have the effect of shifting this burden from one public treasury to another public treasury and creating a negative impression of Alaska and its municipalities in the bond market.

The reputation, experience and background of the members of this commission will give the Commission's final report to the legislature a great deal of credibility. I urge you to proceed with an abundance of caution when analyzing the prospects and impacts of state sales and property taxes and the elimination of the school debt reimbursement program. Thank you for your time and consideration on the foregoing.

Respectfully,

PRESTON GATES & ELLIS

By:

Gerald L. Sharp



GLS:shm

c: Kevin Ritchie, Executive Director (AML)

JOHN A. LUND

P.O. Box 202460, Anchorage, Alaska 99520
(907) 333-5037

Good Morning,

I'd like to save money.

- 1) Two tier contracts for all state employees. New employees start at 15% lower.
- 2) Use it or lose it annual leave policy. No pay off for annual leave.
- 3) This includes school districts. No buyouts of multi year contracts.

JOHN A. LUND

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A state employee may only contract for 2 years. And they must serve the term of the contract, no extended contracts after one year.

4) Develop grant that encourage school districts or municipalities to cut the cost of employees not essential jobs. You can have more teachers if you cut the average cost of a

JOHN A. LUND

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(907) 333-5037

teacher. We don't need to
cut jobs, we need to cut the
cost of an employee.

5) Limit travel by state
employees

6) Develop a commission to look
at limiting legal costs for
the state, school districts, and
municipalities. School districts
spend \$100,000 and more for legal
fees!

J. A. U

■ **SPILL DRILL:** Response exercise keeps oil field workers on their toes.
Page 3

■ **BUSTED:** Kotzebue police charge 27 with sale of alcohol, drugs.
Page 5.

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■ Classifieds.....page 18
■ Crime.....page 20

TV Listings
Inside

The Arctic Sounder

Vol. 9, No. 35 • August 31, 1995 • In North and Northwest Alaska • 75¢/copy

Serving the
communities of the
Northwest Arctic
Borough, the North
Slope Borough and
Norton Sound



Mayors, AML wrestle with fiscal gap

By Dimitra Lavrakas
Arctic Sounder

BARROW — Sixteen mayors from the Alaska Conference of Mayors and 13 board members of the Alaska Municipal League met for two days last weekend in Barrow.

For two hours Saturday both groups held a teleconference with the state Long-Range Financial Planning Commission, which was formed last March by the state Legislature to study and solicit comments from the public on the most effective way to close the state's \$513 million fiscal gap.

While some mayors from larger cities thought that splitting the Permanent Fund Dividend with the state might help, Barrow mayors voiced strong opposition.

"Maybe 100 percent of the population of 350 in Buckland are involved in subsistence," said Buckland Mayor Nathan Hadley. "They need the dividend for snowmachines, all-terrain vehicles. They gotta buy gas to hunt ugruks, belugas, fish, berries. A lot of people don't have jobs there, we have a lot of people working in the Red Dog (mine). And Public Health



Above, Barrow Mayor Don Long, right, prepares to testify during a joint teleconference last Saturday that involved the Alaska Municipal Board of Directors, the Alaska Conference of Mayors joint meeting in Barrow and the State Long Range Financial Planning Commission in Juneau. At left, Anchorage mayor Rick Mystrom confers with another mayor during the Alaska Conference of Mayors meeting in Barrow last week.

Dimitra Lavrakas/Sounder photos

See Conference, page 2

Mayoral incumbent receives challenge

Fern Greenbank
Arctic Sounder

KOTZEBUE — Northwest Arctic Native Association Vice President of Corporate Affairs Walter Sampson will challenge Northwest Arctic Borough Mayor Chuck Greene for his seat in the upcoming Oct. 3 elections.

Greene has served two terms as borough mayor and intends to seek another term.

Sampson was born and raised in Noorvik, served in the Vietnam War and began his career with NANA 22 years ago as a lands technician, moving up to director of lands and then to the vice president position.

In addition to his duties with NANA, Sampson is a member of the Federal Subsistence Advisory Council and the Bulk Fuel Task Force. He is a director on the board of the Alaska Village Electric Cooperative and chairs the joint Alaska-Canada committee responsible for monitoring the whale stock in

**NAB
Election
'95**

See Election, page 19

Officials: Water problems pose low health risk for residents

Fern Greenbank
Arctic Sounder

KOTZEBUE — Officials from the Alaska Department of Environmental Conservation and the Public Health Service say the likelihood of serious health problems from exposure to copper and lead in drinking water caused by acidity is low and there are steps Kotzebue residents can take to minimize exposure.

Recent reports by Kotzebue residents of blue-tinted water and

of the Alaska Area Native Health Service. "The greatest concern with lead intake is from lead-based paint, not water."

Copper is a natural metal found throughout the environment and is useful in human metabolism, according to literature distributed by PHS.

The presence of lead and copper occurs when water sits in copper pipes for prolonged periods of time.

"At elevated levels copper is considered a local irritant causing

Commission approves BP's scaled-down Badami project

By Dimitra Lavrakas
Arctic Sounder

BARROW — The North Slope Borough Planning Commission last Friday approved British Petroleum (Alaska) Inc.'s rezoning proposal for its buried, chilled oil pipeline at Badami. BP's request for rezoning of two off-shore blocks from Resource Development Districts to

Conservation Zoning Districts was approved in return for two resource districts along the coast.

Peter Hanley, a permitting specialist in BP's Environmental and Regulatory Affairs Department, said that the buried, chilled continuous pipeline will be the first of its kind on the North Slope. Buried under the permafrost, except at river crossings, and running 27 miles,

See Project, page 2

Senator gets cool reception in 'Indian Country'

David Hilden

hunters travel 50 miles or more by boat or four-wheeler

Conference

From page 1

Services is putting in a haul (water) system that'll cost \$200 per month per household."

Nuiqsut Mayor Leonard Lampe agreed on the importance of the fund to his village's residents. Lampe will not be running for reelection this October, because he wants to spend more time with his family.

The suggestion that a voluntary check-off system on the PFD application form would allow people to fund those programs that they want, but which funds are getting cut.

The possibility of an income tax was hotly debated, with AML chairman Tom Boedeker getting a round of applause for saying "I think an income tax is long overdue. People from out of state fly in here, make money and leave."

And indeed the commission is

considering a 1 percent income tax for individuals, along with a statewide real property tax, statewide sales tax, employment tax, corporate net income tax, highway motor fuel tax, marine motor fuel tax, aviation motor fuel tax, fisheries business tax, fishery resource landing tax, tobacco tax or alcoholic beverages tax.

Barrow Mayor Don Long, also president of AML, said that the state has to learn to live within its means and not look to the PFD or

the municipalities for relief.

"One of the main reasons we (AML) wanted to get involved in the fiscal process is that they're trying to balance the budget on the backs of the municipalities," Long said. "Some people want to use the PFD instead of getting fiscal responsibility. They have to start looking at other sources of revenue cutting instead of getting into the PFD."

"We (mayors) are the solution," said Juneau Mayor Dennis Egan.

"We balance budgets every year. A lot of communities have budget surpluses, because we know the emergency is coming. We have to convince the Legislature that the emergency is coming."

The commission will be taking public comment throughout September about what residents think should be done about the fiscal gap.

Call the commission at (907)258-8165 for the date of the nearest teleconference.

Health ...

From page 1

is required by the Department of Conservation. In August 1994, Kotzebue exceeded that level. A plan for treatment was submitted to the agency but never fully implemented. The city has had several department heads and treatment plant operators since that plan was submitted.

High exposure to lead can cause such health problems as impaired mental development, short attention

spans, hearing deficits, low birth weight and high blood pressure.

Moderate levels can cause general fatigue, irritability, difficulty concentrating, tremors, headaches, abdominal pain, vomiting and weight loss. These problems can be mistaken for other illnesses, the Public Health Service literature says.

Kotzebue Water Treatment Plant Supervisor Kurt Riemer said the city's water does not exceed "action levels" for lead at this time and the copper levels are not excessive, even though the pH has been low for some time.

As a general rule, residents should let their water run for a few minutes before using it because the highest concentration of lead and copper will be in water that has been sitting in the pipes, said officials from the Public Health Service.

Hot water tends to dissolve more lead more quickly than cold water, so it is recommended that hot water not be used for cooking or preparing baby formulas.

Evans said that copper and lead standards set in 1982 have greatly reduced the risk of exposure.

"Most federally-funded or HUD

housing has been free of lead solder for 10 years," Evans said. "Even older houses with copper pipes tend to build up a natural sealant with other minerals in the water over time."

The most typical source of copper and lead in drinking water is the plumbing and faucet bodies themselves, according to PHS. Even so, Evans emphasized that copper plumbing has been free of lead solder for more than 10 years. Bronze faucets sometimes use lead when they're cast but can easily be replaced.

On Aug. 9, ADEC issued a notice to the City of Kotzebue regarding its pH level. Environmental Engineer Lee Johnson informed the city that the DEC would require a "desk-top study" to make recommendations for corrosion control. Riemer and acting Public Works Director John Rae is now working with city officials to secure an engineering firm to perform the study.

Riemer said the easiest way to correct the pH and corrosion problem is to add soda ash to the water. The city is looking into ordering the chemical as soon as possible.

Reception

From page 1

said.

Gilbert and most of the other adults in the Arctic Village, 40 or 50 people in all, spent a good part of last Thursday with Sen. Frank Murkowski, trying to convince the chairman of the Senate Energy and Natural Resources Committee to reverse his position and block oil drilling on the coastal plain of the Arctic National Wildlife Refuge 50 miles north of here.

Murkowski, the Alaska Republican who will lead the push in Congress this fall to open the refuge's coast to exploratory drilling,

came here and to the neighboring village of Venetie to try and soften the strongest pocket of opposition to ANWR oil development in the state. It was the Fairbanks banker's first visit to the Gwich'in settlements.

Murkowski asked to meet with the Gwich'in after the board of the Alaska Federation of Natives, prodded by development-minded Native corporations, voted in June for the first time to support ANWR development.

Murkowski came to one of the most politically defiant regions of the state. In Venetie, he was greeted by a big green billboard saying, "Welcome to Venetie Indian Nation." Both Venetie and Arctic Village refused to participate in the Native

Claims Settlement Act, abolishing their corporations and turning land over to tribal governments.

Murkowski got a polite if cool reception. Hardly anyone came out of the Arctic Village meeting hall to greet him when he arrived. Leaders of the village, who have complained about not being given enough time to speak congressional hearings in Washington, forced him to sit at the front of the room and listen to a parade of villagers before being allowed to address the group. He applauded each one.

When Murkowski did speak, he was told to wrap it up after 10 minutes or so. When he stood to answer questions from tribal judge Gideon James, who also was standing at the front of the room, Murkowski was told to please sit down. James lectured him for 10 minutes on why opening ANWR is bad.

"If the caribou are in danger, then

the Gwich'in people are in danger, too," said Joel Tritt, a young tribal council member with shades and a headband over his long hair.

A huge spread of food was set out on tables, including pots of caribou soup and boiled chunks of caribou meat. A fresh hide hung on the wall. The room smelled of wood smoke and cooked caribou.

Murkowski's response was this: There's no reason to think ANWR drilling will substantially hurt the caribou. Studies show they calve over a huge area, much of it outside the proposed development zone.

The Gwich'in should look north, he said, to the cash-rich villages on the Slope, and he noted that the Gwich'in are not only dependent on caribou, but also welfare. The Gwich'in villages are some of the poorest in the state.

"I was thinking as your elders spoke about the transitions and

changes that are occurring," he said. "That evolution from straight subsistence to subsistence and welfare. I have heard concerns about education and concerns about the future of your youth. Those are legitimate concerns."

He said he's asked oil companies to shuttle workers from this region to the Slope if ANWR is developed, and also offered to give the Gwich'in a stronger voice in managing the Porcupine herd.

"What we're asking of you people is to respect us and our way of life," said Faith Gimmell, a 22-year-old villager. Murkowski thanked the group, shook some hands and headed home. Good meeting, he said. Back in the hall, Gimmell took her place in the food line and said the same thing.

"After this," she said. "I don't think he can go back to D.C. and say the Gwich'in think it's OK."

DO YOU HAVE BUGS IN YOUR BUGS?

HOW TO IDENTIFY SILVERFISH

Silverfish are wingless insects with a flat shape. The adults are about 3/4 of an inch long and are generally silvery, but can be a darker color. Nocturnal by nature, silverfish like to live near food

TO: LRFP MEMBERS
FM: MELISSA FOUR

Aug 17, 1995

OPINION

FACING THE FISCAL GAP: SOME ALTERNATIVES TO CUTS AND TAXES WE HAVEN'T TRIED YET...



GET STATE REVENUE DEPT. BUREAUCRATS OUT FROM BEHIND THEIR DESKS AND INTO THE BINGO HALLS.

SOUVENIR
T-SHIRT
SALES!



VISUALIZE A
BALANCED BUDGET



BUMPERSTICKERS!

Alaska State Policy Group

ADN 11 Aug 95

State fiscal panel nearing end of preliminary findings

By DAVID GERMAIN
The Associated Press

JUNEAU — A grab-bag of money measures — from reducing Alaska's dependence on oil revenue to bringing back the income tax — are under consideration by a panel examining the state's long-term financial troubles.

The Long Range Fiscal Planning Commission this weekend is putting finishing touches on a preliminary report to hold state spending in line with revenues.

Appointed last spring by Gov. Tony Knowles and legislative leaders, the 15-member panel is trying to come up with a business plan to deal with ongoing cash shortages that are expected to grow worse in the next decade.

The preliminary report, expected to be finalized at a meeting today and Saturday in Anchorage, makes no recommendations. That will come in October, when the panel issues its final report to the Legislature and the governor.

Many of the ideas the panel has discussed are old ones, such as reviving the income tax, a politically unpopular proposal that some commission members feel is inevitable.

Equally unpopular is a proposal to cap payouts to Alaskans from the state's Permanent Fund, using the excess revenues for government spending.

Panel members said no matter what recommendations they make, the message is clear: State government must make painful decisions over the next few years to avoid the sort of deficit spending that

'We're not in a crisis situation now. The problem is, if we don't do something, we will be in that position a few years from now.'

— Annalee McConnell, state budget director

plagues other states.

"We're not in a crisis situation now. The problem is, if we don't do something, we will be in that position a few years from now," said Annalee McConnell, state budget director and a member of the panel.

In recent years, the state has avoided budget deficits only by drawing on reserve funds, money that came largely from tax and royalty lawsuits against oil companies.

This year alone, reserve cash will pay for about one-fifth of the state's \$2.47 billion budget. If that keeps up, the reserve fund — now at about \$2.2 billion — could be gone over the next decade.

The state already has begun cutbacks, reducing spending this year. The commission is trying to identify other spending cuts, along with ways to bring in more money.

Oil revenues account for four-fifths of the state's annual income. But the uncertainty of oil prices, along with declining oil production from the vast Prudhoe Bay field, makes it hard to predict revenues.

While state officials want to develop new business to offset those revenues, oil money will continue to be Alaska's main source of income for the

near future, said Rep. Sean Parnell, R-Anchorage, a commission member.

"There's no way we can hope to diversify our revenue base enough in the next 10 to 20 years to make up for declining oil revenues," Parnell said. "Prudhoe Bay is the mother lode of state government, and there's no way we can replace it."

That has led to stronger talk of new taxes, whether increasing motor-fuel taxes or bringing back the personal income tax eliminated in the late 1970s, when the state was flush with new oil cash.

"Everyone involved in government finances is kind of sorry we did away with the income tax," said Bruce Ludwig, a commission member and business manager of the Alaska Public Employees Association, a union representing 1,200 state workers. "It's going to be real hard for people to accept paying it again."

Parnell and other Republicans who control the Legislature have said that the public will not accept any new taxes until the state brings spending under control.

Panel members from both parties said that will remain one of their key goals as they develop their final report this fall.

TO: MEMBERS, LCP
FM: HAFOLSE

Aug 17, 1995

Vo

The Anchorage Times

Publisher: BILL J. ALLEN

"Believing in Alaskans, putting Alaska first"

Editors: DENNIS FRADLEY, PAUL JENKINS, WILLIAM J. TOBIN

The Anchorage Times Commentary in this segment of the Anchorage Daily News does not represent the views of the Daily News. It is written and published under an agreement with former owners of The Times, in the interests of preserving a diversity of viewpoints in the community.

Muddled musings

EACH YEAR about this time, Sen. Daniel Patrick Moynihan issues a report that shows during the previous year New Yorkers paid more taxes to the federal government and received less back than most other states.

According to the New York Democrat, states in the Pacific Northwest and Deep South receive far more federal dollars than the amount of taxes paid. Alaska, as usual, heads his list of undeserved states that receive surplus payments.

Sen. Moynihan may need some help in putting a perspective on his economic data.

The federal government owns almost two-thirds of the land mass in Alaska, more than 200 million acres. It owns very little of New York state.

The feds, for the most part, prohibit Alaskans — or anyone, for that matter — from developing the abundant natural resources on federal lands in this state. In royalties alone, the state believes it has lost some \$29 billion because of the policies governing federal lands.

Less than 1 percent of Alaska is in non-Native private ownership. Almost all of New York is in private hands.

The solution? If Sen. Moynihan wants Alaska's balance sheet to be more like New York's, he should support taking the federal shackles off Alaska development and allowing this state to chart its own destiny. Alaskans would gladly pay their fair share of federal taxes if the economy were allowed to move ahead.

Plan ahead

AFTER FOUR months of public hearings, in-depth briefings and much discussion, the 15-member, blue-ribbon panel appointed by the governor and Legislature to recommend a long-range fiscal plan for Alaska has issued its preliminary report. The bottom line? Alaska has a serious financial problem, and it's getting worse.

Gee whiz, you may be saying. Why do we need a special committee to tell us what we already know? Hold on, there's more.

In its 50-page report, the Long-Range Financial Planning Commission provides a thumbnail sketch of the state's finances and a summary of the options available to close the fiscal gap, now running about \$500 million a year. The report makes for a quick read, and it's easy to follow.

The commission on Oct. 1 is to recommend to the governor and Legislature the action it believes the state must take. For now, however, the preliminary report should interest anyone who stands to be affected by the final policy decisions — and that means all of us.

Get your copy of the report by calling 271-5978, or stopping by the commission's office at 716 W. 4th Ave., Suite 470.

ADN 11 Aug 95

More gas will enter pipeline

Arco wins strategic tussle with BP over Prudhoe Bay shipments

The Associated Press

FAIRBANKS — The Alaska Oil and Gas Conservation Commission has granted Arco's request to raise the amount of natural gas liquids flowing through the trans-Alaska oil pipeline.

The decision is a defeat for BP Exploration (Alaska) Inc. BP's experts have argued that the gas should be reinjected to push more oil out of Prudhoe Bay and that it could reduce oil recovery for decades to come.

Arco Alaska Inc. says the shipments leave enough gas for reinjection.

In announcing its decision Wednesday, the commission said the disagreement between Prudhoe Bay's operators was leading to a waste of resources.

The three-member panel directed oil field operators to blend as much of the gas liquids as possible for movement through the pipeline until August of next year, which may give the companies enough

time to resolve their differences.

The commission also scheduled another hearing for next month to consider restructuring Prudhoe's conflicting gas and oil ownership interests, which the commissioners said was a contributing factor in the dispute over uses of gas byproducts from the North Slope's largest field.

"Current property and contractual arrangements governing the operation and development of the Prudhoe Oil Pool

are inadequate to prevent, and may promote, physical waste," the commissioners found.

"This is a good decision for Arco, a good decision for the Prudhoe Bay unit and a good decision for the state of Alaska," said Arco Alaska spokesman Ronnie Chappell.

But Jim Palmer, BP's director of external affairs, said the commission may have sent a mixed message by ordering producers to pump the maxi-

Please see Page D-4, GAS



GAS: Arco wins fight to ship more rather than reinject it back into wells

Continued from Page D-1

mum allowable limit of natural gas liquids through the pipeline while also directing them to continue injecting gas into the field.

"We're studying it," Palmer said. "We'll comply with the legal order, but that doesn't mean we're not looking at other options."

Chuck Logsdon, the state's chief petroleum economist, figures Alaska could earn as much as \$14 million a year if Arco fol-

lows through with its request to mix an extra 20,000 barrels of gas liquids a day into the North Slope's pipeline stream.

But he noted that collecting the quick windfall could be costly if BP is proved correct and if Prudhoe Bay's lifetime production is substantially diminished.

"If you sell those gas liquids today, are you really just robbing Peter to pay Paul?" Logsdon asked. "In the long-term perspective, that argument is cen-

tral."

Last winter, Alaska's two biggest oil producers engaged in a four-day standoff as Arco sought to pump extra gas into the pipeline.

BP retaliated by adjusting valves at a North Slope mixing facility under their control to cut off Arco's extra shipments.

Both companies appealed to the state Oil and Gas Conservation Commission.

In a series of hearings that began in May, the

commission collected more than 7,000 pages of testimony from industry experts.

Wednesday's 25-page ruling made repeated references to the fundamental strategic disagreement among the field's joint operators.

"Arco and BP agree that current production practices are producing physical waste from the Prudhoe Oil Pool, but disagree why," the commission noted in its ruling.

John Shively, who heads

the state Department of Natural Resources, said the commission overstepped its authority by intervening in a dispute more properly handled by his department.

"We will probably continue to hold our own hearings," Shively said. "At best, there are two government agencies doing the same thing." DNR has a hearing scheduled for Aug. 22 on the natural gas issues, said Ken Boyd of the state Division of Oil and Gas.

In recent years, Alaska crude flowing through the trans-Alaska oil pipeline has been supplemented with about 74,000 barrels a day of natural liquids.

Arco and Exxon want to increase those shipments, reflecting the 42 percent share each holds in Prudhoe Bay's natural gas.

BP, which owns 50 percent of the field's oil but only 14 percent of the gas, sees more benefits in reinjecting extra gas to force more oil out of Alaska's aging field.

Anchorage Daily News
15 Aug 95

TO: LRFPF MEMBERS

FM: MHOUSE

State deficit won't die easily

Panel's findings might include unpopular ideas

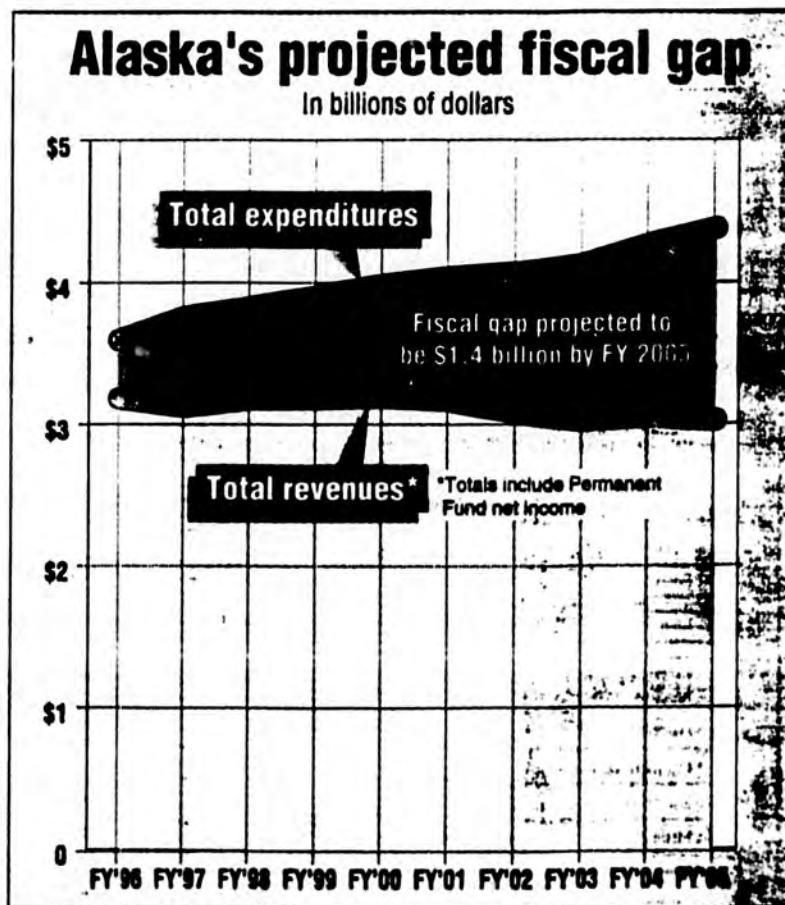
By RALPH THOMAS
Daily News reporter

JUNEAU — Pity the Long Range Fiscal Planning Commission.

The panel was appointed by Alaska's politicians and given less than six months to do something the politicians themselves haven't been able to do for years — solve the state's festering fiscal gap. Meeting in obscurity since June, members have spent many of their summer weekends studying spreadsheets that show the state's annual budget deficit ballooning from \$500 million this year to nearly \$1 billion in five years.

Now it appears the commission is headed toward some conclusions that nobody — especially the politicians — will like. At a meeting Saturday in Anchorage, the group finished a preliminary report outlining some of the grim options for fixing the fiscal gap.

For starters, the report says, more cuts in government services are a must.



Source: Office of Management and Budget

RON ENGSTROM / Anchorage Daily News

But the report also suggests Alaskans should brace for something new — state taxes. The commission is looking at all sorts of possibilities, from imposing a new statewide sales tax and reviving an

individual income tax to increasing taxes on alcohol, cigarettes and fuel.

Additional oil taxes, however, don't appear to have much favor. Taxes

Please see Back Page, GAB

GAP: Medicine likely to be bitter

Continued from Page A-1

and royalties on oil production currently provide about 75 percent of the state's operating budget, and the commission says that's probably as hard as the industry can be hit, given declining production.

But even the Permanent Fund is losing some of its sacred-cow status. The report suggests the state may need to spend earnings from the \$13 billion fund, or perhaps reduce or eliminate the cherished dividends Alaskans receive each year.

Next month, the panel will hold a series of statewide hearings to find out if the public has a preference.

"It's like asking a condemned prisoner waiting on death row, 'Would you rather be hung, shot or poisoned?'" said commission chairman Brian Rogers, a Fairbanks management consultant.

By Oct. 1 the group is supposed to issue a final report with its recommendations. After that, the problem is back in the politicians' hands and wide open for criticism or support from the public.

The 15-member budget commission was appointed last spring by Democratic Gov. Tony Knowles and leaders of the Republican-controlled Legislature. The bipartisan group includes four legislators and two top Knowles advisers as well as representatives from industry and labor groups.

Several commission members have said their first mission is to convince Alaskans the fiscal gap is real. The problem is basic: state government is spending more than it takes in.

But Rogers said events such as the 1991 Persian Gulf War, which sent oil prices and state revenue soaring, and the recent surge in back-tax payments from oil companies have postponed any real crisis.

"People have been saying for 10 years that the sky is falling ... and it hasn't," Rogers said.

In its preliminary report, the commission tries to illustrate the severity of the situation. According to the report:

- North Slope oil production — the state's main source of revenue — is in steady decline. Meanwhile, statewide population continues to climb, increasing the demand for government services.

- For the past five years, state government has been

spending more than it takes in. At \$500 million, the budget deficit already equals Alaska's entire payroll for state employees. It's also nearly as much as the state hands out each year in Permanent Fund dividends. If nothing is done to increase state revenue or decrease spending, the deficit will grow to \$1.4 billion within 10 years.

- Alaska has more than \$3 billion in cash reserves. But, if reserves are the only thing used to offset the budget deficit, the entire \$3 billion will be spent in six years.

- Lawmakers have tried to solve the problem by chipping away at the state bureaucracy. But while the number of state employees per capita is lower than it was in 1979, state spending per capita is still more than twice the national average.

Though the commission has not made any firm recommendations, members agree on at least one key point: the fiscal gap can't be closed through budget cuts alone. In other words, state government has to find more money somewhere.

Where to find that money will be the group's toughest task, said Judy Brady, a commission member and director of the Alaska Oil and Gas Association. "When you're talking about taking money away (from people), there are no easy choices," she said.

Sen. Steve Rieger, an Anchorage Republican who serves on the commission, said his hunch is that the panel will favor spending Permanent Fund earnings before bringing back the state's income tax, which was abolished in 1979.

Before anything gets changed, however, the panel's recommendations will still have to face Juneau's political maze. And, heading into an election year, lawmakers might be reluctant to embrace the commission's ideas, especially if it means dipping into voters' wallets.

But Rogers said he believes the commission will give elected officials "political cover" that will make it easier for them to cast some difficult votes.

And Brady said if the commission, with its diverse group of individuals, can agree to a long-term plan for closing the fiscal gap, then the Legislature should be able to as well.

Bob Walsh - 258.9869
BRIEN ROGERS - 465.2531



THE ALLIANCE

4220 'B' Street, Suite 200 / Anchorage, Alaska 99503-5911

ALERT TO ALL MEMBERS!

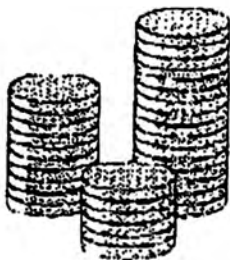
It is absolutely essential that Alliance Members participate at the 7:00 am Friday Morning Breakfast Meeting on August 11, 1995 at the Petroleum Club!

- ✓ This will be the first public viewing of the Long Range Planning Committees interim report. Judy Brady and Brian Rogers will be speaking on the process that is critical to closing the fiscal gap that exists in our state government budget!

If Alaska is ever truly going to be open for business, we must balance the budget! This has been the issue that has kept investors away!

Members, let the committee know how important their task is to our future!

Please RSVP by Thursday August 10, 1995:



Name _____

State of Alaska L.R.F.P.C.
Commission Members c/o
#716 West 4th Avenue
Anchorage, Alaska 99501
(907) 258-8165



rec. 7/20/95



Dear Commission Member; *Melissa Tower; Bob Walsh*, July 17th, 1995

Greetings from the far-north! I felt it was important to officially correspond with you and the Long Range Financial Planning Commission that will help identify sources and options to the revenue and budget needs of our State. Your long range financial plan of 5-10 years is important especially with the dipping into the Constitutional Budget Reserve and the inevitable compromise which will lead to the demise of the Alaska Permanent Fund Dividend Program.

It's my hope you will not dismiss me or the echo I send you from here... Is my hope in vain that you might realize a different or accompanying approach to our revenue problems which were actually addressed between 11/8/55 and 2/6/56 at the University of Alaska Fairbanks? Your duty to Alaskans and the Governor are important indeed as recapitulation has been supplanting the leadership resolve our State began at birth with and you find yourself in the cross roads of. New-born leadership appearing as a "curse" was actually a "blessing".

With the intent of objectivity I've enclosed a few articles I will refer to within this correspondence as I attempt to impart reasonings, "distinct" from that of a "lobbyist". Perhaps it will be conveyed by your issued commission recommendations this October (?). I'll look for unilateral confirmation therein.

Will you be sure to consider me, and all Alaskans when you deliberate on the weighty matters before you? (Cui-bono?) There's been much talk about the revenue & budget needs of the State of my birth, Alaska yet, there seems to be an absence of rudimentary understandings which have been permitted to cloud our resolve and enable not only "exploitation", but the "theft" of our public incorporated State of Alaska's assets. As shameful as it is may I offer some clarification? Without focusing on me I want you to know that I was born in Fairbanks on 4-7-62 where near the banks of the Chena River in July of 1923 prior to my arrival, 29th U.S. President Warren G. Harding spoke. In referring to Alaska and talking to it's Territorial residents within comments he publicly declared was that "Alaska's resources should go to Alaskans". This was after his election in 1921 and after the open renunciation & repudiation of the League of Nations which is and was the for-runner of today's United Nations.

After aboriginal born native Alaskans began to command seats within their Territorial Legislature in 1924 a year after Harding's first historical presidential visit to Alaska since Cession 57 years earlier, over the next 31 years "mandated" by constituents throughout rural Alaska aboriginal born native Alaskans began to have an increasing impact upon Alaska's destiny. By 1955 when a Constitutional Convention was called for at the UAF, several lawfully selected aboriginal born native Alaskans were sent by election to Fairbanks to protect and defend their rural constituent's interests as they crafted the Alaska State Constitution being amongst the 55 delegates in attendance. The record shows that there was an acute understanding of the basis for which Alaska was "rejected" for Statehood "14-times" since 1916 being that of economic cost and affordability of Statehood. In-addition, these delegates understood exactly "where" the revenue base was to come to meet the future incorporated State of Alaska's economic needs..... "Off their lands", the traditional lands of their fathers, before the 1867 Treaty of Cession, before 1721 back to ancient days of old. This was before the idea of "ANCSA" took-off. If there was to be any public incorporated State of Alaska at-all deriving it's economic base off these federal lands in "ALASKA" the maximum derived from thereupon would have to remain under the control of the new perceived State for it's residents.

Yes, that's right, the people of this newly perceived State was to maintain the largest control as "beneficiaries" of the public incorporated State of Alaska to meet the needs of operation and to provide the desperately needed rural public services "citizens" of this new State were and "ARE" entitled to as beneficiaries from the common assets owned by this public incorporated State of Alaska! The understanding and evidence of this intention is found in the very work they authored from 11/8/55 to 2/6/56 at the UAF..... It's found as Section. 28. (a) (1) within the Alaska Statehood Act which ratified their work which was "tried-by-fire"! The 85th U.S. Congress recognized and ratified this work setting in law (Lex-Rex) this economic provision in P.L. 85-508, (72 Stat. 339) 7/7/58 H.R. #7999. This was just over 2 years later, after they met in Fairbanks on 11/8/55 with the 14 prior rejections preceding since 1916.

As you know, this led to the 34th U.S. President, Dwight D. Eisenhower proclaiming Alaska as the 49th State to the Union on 1/3/59 after Alaskans passed the referendum of 8/26/58 establishing among other things the State's borders.

The protracted but chronological progression of developments hereafter should not be over-looked as they relate to the very questions before you today. I'd like you to examine the fact that after 1/3/59 when the new-born State did begin to make land selections a "departure" of good intentions arose as the State began to make land selections upon traditional aboriginal lands within Alaska without sensitivity or deliberations with indigenous groups, Alaska's first residents in continual occupation since ancient days of old! It was here the idea of ANCSA was given birth in "action", the "dispute" arose. Unlike any other indigenous group in America, past or since, the aboriginal born native Alaskans "claimed" their aboriginal ancestor's birthright occupation claims to these disputed lands. ANCSA was signed in 12/22/71 as law (Lex-Rex) which did recognize these claims extending back before 1867 to ancient days of old. "ANCSA" was aboriginal born native Alaskan's "1st-portion" birthright claim to pre-1867 existence and occupation of Alaska as it's first residents, Alaskans.

For the sake of definition and clarity comments to reflect subsistence or ANILCA will be limited as they may tend to distract off the issues before you and what the intent of my conveyance is. ("Unlike any other group in Amer.")

The precept and principal behind ANCSA and it's contention now found in law (Lex Rex), was validated with it's 12/22/71 signing as the October 18th, 1867 Treaty of Cession by it's "specific-terminology" acknowledged Alaska's first residents which pre-ceded Territorial status in 1912 and the Alaska Statehood Act of 7/7/58. According to "Lex Rex" (Law is King) the Treaty of Cession gave the very basis as a legal instrument affirming in law (1867) the aboriginal born native Alaskan's contention, which led to the landmark ANCSA of 12/22/71 and which "pre-empted" the new-born state's land selections.

If one strips away all of the propaganda and rhetoric encompassing our State and focuses upon the rudimentary foundation confirmed in (ANCSA-1971) Lex Rex, the October 18th, 1867 Treaty of Cession, one may clearly see aboriginal born native Alaskan's 1st-portion birthright inheritance claim based upon their ancestors, which is not only perfectly legitimate but one such as I may contend Providential! However "unpopular", this IS a "historically" legitimate viewpoint.

As a native born Alaskan like Bill Egan (1914 Valdez, Ak) I'm very thankful for ANCSA and the 13 regional corporations, private for profit it set up across our State. Is'nt this apart of our State's combined heritage? As the State of Alaska's "L.R.F.P.C." will you discuss officially amongst the other commission members on what basis is the aboriginal born native Alaskan's "2nd-portion birthright inheritance claim" negated, suspended or disqualified?

As you "explore" ways to get our State back on a sound fiscal track please do not discount the reality of the past 128-years which contains this 2nd-portion birthright inheritance claim that "jointly" belongs to every member of "all" of the 13 ANCSA regional corporations and their members whom were born or living in Alaska from 1867 thru 1995 (128-years). ANCSA, for pre-1867 birthright claims does NOT disqualify "POST-1867" birthright claims to lawfully receive as beneficiaries the benefits grounded in law (Lex-Rex) for them and all other Alaskans with this "birthright-claim" to section 28.(a)(1).

Please note that the Alaska Statehood Act is a Compact or "COVENANT". Section 28. (a)(1) provides the needs which you discuss, it states: " 90 per centum thereof shall be paid by the Secretary of the Treasury to the State of Alaska for the disposition by the legislature thereof;"

Since ratification of the Alaska Statehood Act on 7/7/58 and Statehood officially on 1/3/59, we've all been complimented in Alaska by this wonderful facet of ANCSA on 12/22/71! The social and economic infrastructure developed in Alaska's rural regions is unprecedented because of this recognized 1st-portion birthright claim (ANCSA). For this, did the aboriginal born native Alaskans retrace their steps. This matter can be presented as such as the ANCSA corporations, their subsidiary corporations and the slew of "post" 1/3/59 public municipal incorporated cities throughout rural Alaska has created a network that "now" could and would accommodate the "channeling" of these 2nd-portion birthright inheritance claim funds through our State Legislature for the very purposes that they were placed there and intended for. ANCSA adds to the chain in the sense that small cities and municipalities can benefit much as was envisioned originally back in 1955-56 with the construction of public projects each community decides upon for itself with what is now known as Municipal Assistance and Revenue Sharing Program Funds that are apart of the "disposition" or "distribution" of these funds. With the local private for profit ANCSA or subsidiary corporations available to bid, this enhances the rural employment, training and development scope in-mind as was intended for a healthy economic profile of Alaska's rural communities. Those shareholders in the various local private-for-profit corporations would benefit as well from such projects by these resource dollars staying in Alaska, to be spent by Alaskans, for Alaskans, and in return benefit "all" Alaskans as the beneficiaries they ARE "owning" the "90%" revenue base within their public incorporated State of Alaska.

I must submit and "adjure" you to recognize the developed economic rural infrastructure now in place to achieve the intended goals for this 90% revenue base "WE-OWN", which was in addition to just paying for the cost of State Government. Section 28, (a)(1) belongs to us, it's our birthright claim for all those born in Alaska and to those people and families which have moved here and have gained citizenship by domicile.

How can there be any dissention or disagreement about this provision of our Alaska State Constitution grounded in law (Lex Rex) to benefit all of us? "For the good of mankind"..... "... admission of the State of Alaska into the Union on an equal footing with the other States of the Union..." (1/3/59).

I want to assert this "birthright-claim" before you and the L.R.F.P.C. for the State of Alaska and it's people "Cui-Bono". For those people born after 1867, throughout Territorial days, through Statehood in 1959 and those like myself born between 1959 and 1995 between 1 and 36 years of age who are'n't even being heard from or offered a voice for this "claim" with a 128 yr foundational basis in-law. Let-not political expediency eclipse my being & voice.

I rebuke the fore-gone conclusion which is a "misapplication" of any common sense, jurisprudence, or even the above mentioned 12/22/71 ANCSA-(Act) That, "ANCSA" somehow negated or disqualified our post-128 year birthright claim is more than just "hogwash", it's "theft"! "Theft" of this public incorporated State of Alaska's public assets held in-common to benefit "all" Alaskans without regard to race, religion, ethnic or cultural background. Let's claim it now!

What is behind the scrapping or "severing" of our birthright-claim based on the last 128 years without any due-process? The cultural development, history, heritage, advancement and growth is all apart of the uniqueness of our State and it's people, from the first residents to those born this morning.

After being in the State of my birth, Alaska for 33 years and 15 in Barrow I've seen terrible compromises and recapitulations when encroachments are made post-facto by dogmatic actions and edicts south of Alaska's 8/26/58 49th established borders, and east of the Mississippi by those who are using our national government to violate the United States Constitution and the Alaska State Constitution while they seize "OUR" public incorporated State's public assets from it's people without consent, compensation or comparison to any other State in the Union. These are acts of violent aggression perpetrated against a sovereign people's body politic. It is not rational thinking to believe that pre-1867 birthright claims can be acknowledged without also having-

-faith enough to believe that our 128 year post-1867 birthright claim will be recognized and acknowledged as well. Has'nt ANCSA taught anyone anything? I do declare before you that it does not matter what our congressional delegation thinks about this issue, although their refusal to uphold the Alaska State Constitutional section 28.(a)(1) is more revealing than one might care to see at first-blush, they are superceeded by historical precedent over the last 128 years, Lex-Rex (Law is King), the October 18th, 1867 Treaty of Cession, the Alaska Statehood Act P.L. 58-508, (72 Stat. 339) 7/7/58 - 85th U.S. Congress H.R. #7999, which contains "OUR" 90% economic revenue base share of all resource developement off all federal lands in Alaska to go to the Alaska State Legislature for the disposition thereof. These things are a matter of "LAW" not feelings, attitudes, propaganda or notions! Please do not forsake Alaska's "birthright-claim" to it's own resource base but "ADJUDICATE", "LITIGATE", "CONTEND" as did the first Alaskans who set this example based upon LEX REX validated through and by the 1867 Treaty of Cession. It's clear you must av 'd "all" gain-sayers like Noe, and press on according to "law"..... Above-which is the aforementioned, AND THAT: Statehood Acts may not be alt unilaterally has been "CONSISTENTLY" upheld by the U.S. Supreme Court in C vs. Roberts, 59 U.S. (18 How.) 173 (1855); Beecher vs. Wetherby, 95 U.S. (5 Otto.) 517 (1877); and Sterns vs. Minnesota ex.rel. Marr, 179 U.S. 223 (1900).

Will you not see the reason? Based upon the above laws is it not yet clear to you "why" State of Alaska vs. Babbitt (9th Cir.) #A94-35480 was abruptly "dropped" just after our State's 36th birthday at it's only point of vulnerability..... after filing and before a ruling? It could not have stood in the face of the above cited case-law concerning "STATEHOOD-ACTS"! The State of my birth, "ALASKA" would've re-gained control-management on all federal lands in Alaska if a ruling were to have been allowed. This lawsuit (birthright-case) did not challenge the "post-facto" existence of (ANILCA) rural priority or the federal court oversight provisions therein (ANILCA).

A brief pre-ponderance of the evidence more than suggests but "shows" who and how the augmentation of the "DISMANTLING" of the Alaska State Constitution is taking place. Not only from without the 8/26/58 established State boarders but now from within at the only window of vulnerability from within the Governor's office! This was done with no regard for OUR State's birthright claim whatsoever, to include no solicited telephonic hearings or orderly testimony gathering from within any of our State's election districts. This very action undermines our State and cultivates it for what I identify as "theft" of it's publicly owned assets transferring them under the control of other entities outside of our boarders. The forces at work are very real indeed but often not identified for what they are. Take for instance the judicial-activism of Alaska's Judge Holland which decided that while Congress did not expressly grant the Secretary of the Interior management authority, Congress must have intended to, but "inadvertently and unitentionally" did not. So, of course, by "proxy" Holland affectively "sequestered" this State's collective right to manage, set seasons and bag limits on Alaska's federally owned lands which was predictable under the very instrument of this corporate "take-over", ANILCA-laws. This "activism" of Holland's just as that of Governor Knowels' affectively has sequestered or "taken property or a right away, into custody (arrested) until a controversy, claim, ect., is settled or satisfied". In the case of State vs. Babbitt #A94-35480 it's to keep status-quo or the door open for further federal controls at the demise of State Sovereignty by judicial activism as demonstrated by Holland aforementioned.

Amongst Governor Knowels first official acts he dropped this case "after" consulting the Chief Cecil Rhoads Scholar representing all the defendants named in the State vs. Babbitt case in November of 94 prior to election as he visited Washington D.C. for nothing more than a "political-briefing" on Alaska by those exploiting and manipulating the created circumstances here to seize Alaska's public incorporated assets in the manner inwhich it has before you this day.

It is not my intention to be lengthy just informative as I do owe you and the State of my birth, Alaska this as a civic-minded citizen that cares about his State and all it's citizens ("Cui-bono").

Now then, just a few months later after dropping State vs. Babbitt in January of 1995 ANWR became headlines did it not? "IF ANWR OPENS, CONGRESS WANTS HALF" (Anchorage Daily News 6/1/95) "Half" of what do you suppose? Could it be "half" of section 28. (a)(1)'s "90%" revenue base belonging to you, your families, your State and rural municipalities by "post-facto-edict" as was ANILCA, also designed and engineered from outside? Here again, without any regard for those who "OWN" this economic base provision established between 1955 & 56 at UAF in law, "Lex Rex" after 7/7/58 ratification. I declare unto this Commission that the dropping of State vs. Babbitt without due-process was a "green-light" for the on-going "attack" upon the sovereign assets of this State for an out-right contest over it's seizure by nothing more than "UNCONTESTED", "UNLITIGATED", "UNJUDICATED", edicts emanating from east of the Mississippi by those who have infiltrated our national government.

State of Alaska Long Range Financial Planning Commission, whyfore art thou? Is it truly "cui bono"? Are you there for the people of this State north to south and east to west? Or, for political expediency and social promotion, along with perhaps a little party fanaticism to blind you to it's dangers ready to recapitulate and help augment the "theft" and take-over" of "OUR" State's assets? I charge you! I adjure you, to come out in defense of our State of Alaska's birthright claim to section 28.(a)(1) no-matter how unpopular your ethical, moral and lawful ("Lex Rex") position is presented "or" mis-presented before us (Cui-bono, Alaska), in the statewide controlled media! The people of this State will rally and the force of LEX REX is real, aside from the "hogwash" and "poppycock" rhetoric that this is somehow going to balance the national budget. Mounting evidence is confirming that it will be going elsewhere.

In the Arctic Sounder of 3/2/95 Governor, Knowels conveys a wantonness to discuss the matter (State vs. Babbitt) "after the fact" of dropping this case without any discussion! "Or" due-process! And if words do speak to you louder than these actions please take a few minutes to digest the following: "I'm going to be asking them to step up to the plate". "All Alaskans have to step up to the plate". "And certainly one of those ways might be an income tax". (Gov. Knowels) Without the acknowledgement of the birthright claim this State of my birth, Alaska has according to the Alaska State Constitution it is easy to be deceived by these words "over-looking" the last 128 years as Gov. Knowels has deliberately chosen to do to the compromise and loss of this State's assets (corporate) and sovereignty. Certainly one of these ways might be an income-tax as you will deliberate upon but, isn't this income tax going to "first" be in exchange for our State's 128 year based birthright claim and the aboriginal born native Alaskan's 2nd-portion birthright inheritance claim being distinct from pre-1867 ancestral claims which was at the heart of the 12/22/71 ANCSA Act?

Howmuch more should the current 128 year based post-1867 birthright claim of this State of Alaska be recognized through jurisprudence if we as a nation recognize pre-1867 birthright claims I ask you? All that is lacking is leadership and determination. Have I not come publicly before each of you before? I've enclosed the affidavit signed in Barrow 2/27/95 and published in the Anchorage Daily News on 3/13/95, page F-4. This was "before" we were ambushed from within by articles and statements by Alaska's Congressional Delegation asking that we lay-down and recapitulate any assertion or claim that belongs to the people of this State being voiced by it's leaders. The fact is, even in July of 1923 President Harding acknowledged that there was at that time a \$14.00 to \$1.00 return to the federal government to all dollars expended upon Alaska to include it's 1867 purchase through the Treaty of Cession \$7,200,000.00. The federal government is in "arrears" to all of the people of Alaska through the withdrawal of millions of acres, the ANILCA LAWS, restricting development and now they brazenly want to destroy "OUR" Section 28.(a)(1) 90% revenue-base entitlement because lack of leadership and will to resist the seizure of "OUR" public incorporated State of Alaska's assets and secured provisional economic blessings grounded in-law, "Lex Rex" (Alaska Statehood Act P.L. 58-508, 72 Stat. 339 7/7/58.

5) In ending this rather long but justified communication on behalf of those with this birthright claim afforded through Statehood to all Alaskans in residence at the time and those since 1959, I would request that there be some-

- "reflection" of this common understanding in the form of a "primary" resolution to be presented within your commission's recommendations to be released this October. This may-be to some an unusual perspective but none-the-less an accurate one based on the birthright-claim we have as Americans and "Alaskans", "citizenship" within the public incorporated State of Alaska. After-all, keeping your eyes upon your State's birthright claim to assets it owns with you jointly helps one to see from within and without the direction of a foe that wants to and is working hard to "sever" you from your ownership to such assets, your "citizenship-inheritance-birthright". These things are real indeed.

I want to submit two articles of unusual interest by Alaska State House Representative of district #37 residing in Barrow Rep. Eileen P. MacLean dated 4/6/95 & published in the Arctic Sounder. Also one by Barrow Mayor, Don Long who is purportedly representing Alaska's cities and boroughs as the President of the Alaska Municipal League published 4/14/95 in the North Slope Sentinel. "Both" of these local leaders hold offices within the public incorporated State of Alaska or within one of it's political sub-divisions and have taken an oath to protect and defend Alaska's State Constitution from enemies both foreign "and" domestic.

With relationship to the following I issue you a challenge to immediately access a public document that will be made accessible to you upon your request at the City Of Barrow P.O. Box 629 Point Barrow, Alaska 99723 (907) 852-5211, fax 852-5871. It's #Z-205-183-307. Your Commission's recommendations should'nt be made without the fullest amount of information possible from every quarter, to include the geographical-political "geopolitical" perspective I bring with regard to the birthright inheritance claims. There's certainly a foundation in-law concerning "minority" status of a group of people with this unusual birthright claim to Alaska's Constitution and it's provisions, 560,000 people out of 250 million! And then there's the international application of this principal in law isn't there?

The last point I wish to make is that in Point Barrow, Alaska the Utkeagvik Presbyterian Church was founded 21 years after the Treaty Of Cession in 1898 which was embraced and did embrace the descendants of Birnirk and Utkeagvik who were the northern Inupiat Eskimos and ancestors of today's native population in Barrow and also apart of the ASRC regional ANCSA corporation of which both Barrow Mayor, Don Long and Dist #37 Rep. Eileen P. MacLean are active shareholders. Eileen is in-fact a Arctic Slope Regional Corporation (ASRC) Boardmember. After the Territorial Constitutional Convention at the UAF 11/8/55 thru 2/6/56, after the ratification of the Alaska Statehood Act on 7/7/58 and just (2) two days after the 8/26/58 referendum passed which established our State's borders by the Alaskan electorate, on 8/28/58 an ORDER OF INCORPORATION was signed and recorded in the U.S. Commissioner's Court For The Noatak Kobuk Recording District Second Judicial Division, Territory Of Alaska incorporating the "Village Of Barrow" pursuant to the provisions of Territory Of Alaska Law CH 150 SLA 1957 making the public incorporated Village Of Barrow a body politic which encompassed the 1898 established Utkeagvik Presbyterian Church and all the residents of the the Village Of Barrow. Upon Statehood as proclaimed by public presidential proclamation on 1/3/59 the residents here in continual occupation became immediate citizens of the State of Alaska and birthright-claimants, "heirs" to section 28. (a)(1) of the Alaska State Constitution, the 90% economic revenue share provision of all resource development off all federal lands in Alaska.

I'd like you to know that both Eileen MacLean and Don Long were both contacted about this matter and were well aware in-advance of the writing and publication of their respective articles about the aforementioned yet, within their articles they make no mention of it! Even when Gov. Knowels in his 3/2/95 article is referencing a tax by his aforementioned statements... "ALL ALASKANS HAVE TO STEP UP TO THE PLATE". The deliberate distractive and protractive assaultive comments upon fellow legislators, corporate officers within the State of my birth, Alaska gives one reason to believe perhaps these articles were designed by the same person or ideological camp of thought trying to keep the ambers of "hate", "mistrust", "bitterness" and unforgetfulness alive over the earlier mentioned land selections taken out-of-order due to insensitivity, inexperience and the legal "standing" afforded the specific aboriginal born native Alaskans through the Oct. 18th, 1867 Treaty of Cession and it's "terminology". (6)

If these things be true, then it can be for only one reason that both Rep. Eileen P. MacLean and (AML) the Alaska Municipal League President, Barrow Mayor, Don Long, purporting to serve the cities and boroughs throughout Alaska would keep silent in the face of aforesent correspondence and subject the people and constituents to a "TAX" in "EXCHANGE" of the aboriginal born native Alaskan's legitimate 2nd-portion birthright inheritance claim to their Alaska Constitution's section 28. (a)(1) 90% economic revenue share provisions through their public incorporated State of Alaska.....

There is deliberate collusion to confound and weaken this State and challenge it's SOVEREIGN AUTHORITY within it's borders through the ANCSA CORPORATE BOARDS and elements within the FEDERAL GOVERNMENT to defraud the State of Alaska of it's assets and along with that "THEFT" the 128 year based birthright claim found in the Alaska Statehood Act, "OUR" Compact, "OUR" Covenant! With all fore knowledge as public officials acting in the capacity of their office they have deliberately and conveniently "omitted" this information from the public arena of shared understanding to help facilitate the corporate "take-over" of our State's assets in this fashion. And in this fashion would go so far as to subject the local people dotting the north and northwest arctic coastline to an "unwarranted" tax as this birthright is "thefted" presumably without notice!

I submit to you, that just after Gov. Knowels' comments were read by me in the Arctic Sounder on 3/2/95 I did go down and put an article on (ASRC's subsidiary) Barrow Cable T.V. notifying people of this birthright claim on the same day and before it ran it's full length it was altered twice! Furthermore, as people began to call me I explained and directed them to Rep. Eileen P. MacLean (State House Dist #37) wherein, shortly thereafter she co-sponsored H.B. #251 which would've suppressed not only local inquiring public constituents concerned about this 90% economic revenue provision but the very same people as they are also private for profit ASRC corporate shareholders, which with the passage of H.B. #251 would've not been able to call their ASRC boardmembers into account by calling for a shareholder's meeting. This H.B. #251 would've suppressed not only ASRC shareholders but "ALL" ANCSA corporate shareholders by requiring a 25% call of the shareholders to have a meeting instead of the current 10%. This bill is still pending by the way and was only "stopped" because of a concerned Spirit moveing upon the Alaska Federation of Native's first President and leader of the (1st-portion birthright claim) ANCSA movement, Mr. Emil Notti as the enclosed 5/11/95 published Arctic Sounder article illustrates.

Please look at the big-picture, the legitimate birthright claim our State and it's people have, the chronological date pattern of the articles and information enclosed, please access the aforementioned public informational documents #Z-205-183-307 dispatched on 3/20/95 and recieved on 3/22/95 from the City of Barrow for which there has been no response to-date which preceeded the (AML) President's article of 4/14/95 (Barrow Mayor, Don L.)

My contention would be incomplete and your analysis less in depth to accurately reflect a balanced course of action with regard to your Commission's recommendations to be released if I were not to comment upon the enclosed 6/20/95 letter from the Toksook Bay Traditional Council.

The Alaska Statehood act, "OUR" Alaska Statehood Compact or "Covenant" is approximately 36 years old. General forgetfulness is identified as a reason it is being "THEFTED" from the greatest portion of our population in both rural and urban areas of our State, rather than a deliberate "foresaking". But, amongst the ANCSA Boards their's is a deliberate concealment of this legitimate 2nd-portion birthright inheritance claim that is "OWNED" in-part by everyone of their membership as the evidenced portrayal of some form of conflict of intrest between rural vs. urban, State vs. ANCSA Corp., aboriginal born native Alaskan vs. native born Alaskan vs. domiciled Alaskan is used as a "front" to maintain the exploitation and looting of Alaska's commonly owned assets. The common people like me low on the power structure want Alaska's resources to go to benefit all Alaskans just as did Pres. Harding 39 yrs before my arrival. Please recommend we as a State and people "AJUDICATE" and "CONTEND" for those things "ours". Please dismiss "all" prejudices "PACS" and special intrest groups & pray for guidance.

Mr. Mark A. Ames

rec. 7/20/95



J. R. F. P. C.

Dear Commission Members;

July 17th, 1995

Please consider the following terms in light of "OUR" present revenue and budget "crisis" which is intended to financially bind Alaska and it's people after the siezure of it's publicly owned assets is completed as "OUR" local, State and federal position's of leadership are continually "infiltrated" to augment the recapitulation and demise we are experiencing with no CONTENDING or ADJUDICATION by law lex rex (law si King).

The following terms are taken out of the American Dictionary Of The English Language, Noah Webster's first edition of 1828.

COMPACT/COVENANT - An agreement; a contract between parties; a word that may be applied, in a general sense, to any covenant or contract between individuals; but it is more generally applied to agreements between nations and states, as treaties and confederacies. So the constitution of the (Union) United States is a political contract between the States (49th); a national compact. = Alaska Statehood Act

Just as the October 18th, 1867 Treaty of Cession was based in Law and was used to lay-claim to pre-1867 ancestral birthright claims..... So, it is that the provisions of the Alaska Statehood Act (Section 28.(a)(1)) P.L. 58-508, (72 Stat. 339) 7/7/58, 85th Congress H.R. 7999 are also grounded in law, Lex Rex. why are you or others therefore so ashamed you will not defend and protect it?

If pre-1867 aboriginal born birthright claims can be made, why-fore cannot "POST-1867" birthright claims based on the last 128 years since purchase, which was not cession of the inhabitant's birthright claims, but just of the of Russian-America from Russia to America? ANCSA sets a wonderful example of LEX REX in action and is a precedent that can be followed today concerning those born prior to, thru and after the Alaska State Constitution. The people born between 1959 and 1995 between 1 and 36 years of age have no-one to speak for them or their intrests to protect them from "THEFT". Are "WE" without origin?

COVENOUS/COVINOUS - (WITHOUT DUE-PROCESS, BY DOGMATIC EDTIC) Collusive; fraudulent; deceitful; as a "COVENOUS" lease of lands.

COVIN -(INFILTRATED FORCES WORKING WITHIN THE FEDERAL GOVERNMENT) ... to defraud. "THEFT"; Signifying to conceal, or to agree; is a secret place or meeting. In law, a collusive or deceitful agreement between two or more to prejudice a third.

("3rd", Alaska, it's people and it's birthright-claim-90%!!)

AFFIDAVIT OF MARK A AMES

I, Mark A. Ames, after returning to Barrow on January 18th, 1995 from vacation did read an invitation on Barrow Cable TV. I am a native Alaskan having been born in Fairbanks, raised in North Pole and now have resided in Barrow for 15 years. The various issues that our state faces are also of political interest to me. NSB Mayor Ahmaogak issued everyone in our community an invitation to attend a public event which read:

(Pg. 1) NSB MAYOR GEORGE AHMAOGAK SR. INVITES COMMUNITY TO JOIN HIM, GOV. TONY KNOWLES & LT. GOV. FRAN ULMER AT A GALA CELEBRATION OF THEIR INAUGURATION ON FEB 24. RECEPTION AND ESKIMO DANCE START AT 7 PM-8:30 PM.

(Pg. 2) THAT WILL BE FOLLOWED BY A DANCE AT PIURAAGVIK STARTING AT 9:30 PM FEATURING THE MUSIC OF MICKEY & THE MUSTANGS. ADMISSION TO BOTH EVENTS ARE FREE! DONATIONS WILL BE ACCEPTED AT THE DOOR OF PIURAAGVIK FOR THE GOVERNOR'S FUND & CLOTHES FOR CHILDREN.

After reading this I and my friend decided to attend. On the 24th I took a cab and arrived about 8:00 PM. I entered Ipalook Elementary for the first time saying hello to several people, I shook hands with as I took a seat wherein no one sat behind or to either side of me. I presented as I was seated a small (2) two-sided sign elevated over my head at arms length which read:

(Side 1) "10th Amendment" "Stop" federal "theft" of Alaska's land, resources & revenue!

(Side 2) "Tony" don't be a "phony". Stop the feds from ripping Alaska OFF! Support 1959-Statehood Compact Keep litigation - "Full court press"

Approximately 8 minutes later local police officers were asking me to leave! My actions to come and peaceably assemble with the community I am part of was being infringed upon as repeatedly officers began to lay their hands upon my left shoulder and back of the neck! The sign was still extended to silently express my political views before our communities assembly within a public building. Officers then repeatedly asked that I leave? I asked why? Responses ranged. I told them that I wanted to stay and that I was here for the community event and was silently expressing my views on one of our statewide issues as I enjoy the activities. Then I had to request that the officers who were increasing in numbers and handling of me to "please keep your hands off me!" The officers began deliberately causing my reflexed response as they then asserted that I was causing a disturbance, and that if I didn't leave that I would be arrested. I asked why am I being asked to leave and who requested it? NSB Officer Bleth said school officials and the people putting on the activity...repeatedly I was intimidated as officers began to handle me all along obstructing my right to be there with the community and silently express my views, purporting that I was causing a disturbance when in fact they were under apparent instructions to do so, as they threatened me with arrest! Needless to say I was shocked that the socialist-oligarchy would violate a citizens rights in front of so many people. On the way inside I also said hello to Tony Kessler the NSB Mayor's assistant who got the ball rolling saying that I couldn't do that...He is not a native or native born and really doesn't understand the bigger issue. I have no malice against him even though he took it upon himself to decide what communications our native peoples will see or not see.

I am neither embarrassed or ashamed because I have a different point of view. In fact, many native friends called my home to find out what my small poster said? I thank them for their sharp perceptiveness and concern over witnessed violations against me and oppression obstructing this expression. Because this silent poster was so small 14x22 inches and I was rudely forced to leave a public gathering that I am apart of, I chose to dispatch this information so all throughout could understand and not depend upon foolish rumors as an account of what actually transpired.

The 1959 Statehood Compact concerns us all and if it is not obstructed by our Governor Knowles as I was by the socialist oligarchy at Ipalook Elementary on 2-24-95, It will net Alaska (Alaskans) 29 billion dollars and control over our state once again. It's been 35 years!

Governor Knowles' announced justification to drop these cases in the name of subsistence is a smoke screen to cover up the real reason behind it. The government (Federal) doesn't want any Alaskans to control our own resources, land development or revenues due us because it's already spoken for by the international banking cartel who would be stopped from their plans to exchange it for the great "LAND FOR DEBT SWAP" they've engineered.

Why should ANILCA and subsistence issues, which are very important to all of us be used to threaten Alaska's claim over the 90% Alaska 10% Federal share agreement that our 49th entrance into the Union guaranteed us? There is more to an issue than it's surface. I believed and still do, that the Eskimo mind can receive this. Apparently others felt differently.

The election spouted as justification for dropping these cases is not sensible at all! As elections on ANILCA and subsistence can take place whenever they are scheduled can they not? This is not a political party issue, it is an Alaskan issue and theft at it's heart.

Well, this is my different point of view much to the disliking of some but Alaskan, ever so much the same as those that brought us into the Union.

I invite everyone across the state to view the available tape at the local Legislative Affairs Office: "Broken Promises". Why should the 1959 Alaska Statehood compact be purposefully thwarted behind the cloak of subsistence or ANILCA when we can win on all fronts? Let's go to the polls and let's keep the full court press on the federal manipulators. Who will otherwise barter our land, rights, resources, development and revenues away as if it were their own. The Hickel administration filed suits will prevail if allowed. Please stand behind our State Legislature who will continue the challenge against federal usurpation over the people. From all quarters of the state compact your representatives or 29 billion and land rights will be forever lost to the cartel.

As a 32 year old Alaskan from this far quarter of our state I have been heard against the will of just a few political opportunists who wheel the armed police force up here. Will you do the same and be heard if you do decide, or date to hold another point of view? Go find out now. To the people of the North Slope and Alaska remember the Clinton-Knowles connection prior to his election as Governor, and that Alaska land/resource issues are really national issues which are manipulated so by the One World international banking cartel.

To Alaska's new Governor Tony Knowles, I say uphold our "original" 49th Statehood Compact, as it was drafted and as it was understood! The Tenth Amendment is important and here for a reason. So don't sell us out to the pressures you're faced with. I am not sorry for my point of view but that others prevented me from sharing mine with you and our community upon your visit here to Point Barrow, Alaska on February 24th. May God guide you. Further the affair sayeth naught.

/s/ Mark A Ames
P.O. Box 368
Point Barrow, Alaska 99723 (907) 852-5527
Paid for by the Alaska Freedom Council

/s/ Jeri Cleveland, signed before me this 27th day of Feb. 1995, Point Barrow, AK Notary Public in and for the State of AK My commission expires 9-9-97.
(Notary Seal)

Anchorage Daily News Monday March 13th 1995 Alaska Statehood 1959. Two portion blessing, a "birthright" inheritance of the land. Amen

Page F-4 (2nd portion birthright claim loss) Indigenous born native Alaskan

Ball ...

From page 1

be resolved on two points — a consensus that subsistence is an economic and cultural imperative for rural Alaska, and that the state should maintain its management of fish and game.

"We should have a rural priority for subsistence, not because the feds tell us so, but because it's the right thing to do," said Knowles. "We need to have a resolution to do that."

Knowles said that in 1982 45 percent of Anchorage voters approved a rural subsistence preference, and that he felt they would do so again. He said that if state attitudes have changed since 1982, then it's due to lack of education on the matter.

"That's why we need the discussion," he said. "Take it out of the courts, start the discussion."

Ulmer, on her campaign visit to Barrow last year, said that she found working with Knowles to be a real 50-50 partnership.

"That's still true," Ulmer said. "He doesn't just listen. He brings in people's ideas and gets them headed in the direction of his goals. In the transition team process, it's one thing to get a few ideas, but it's another to put over 300 Alaskans to work for you for nothing. And then get them to give you ideas how to achieve those goals. I think that's very symbolic of the kind of governor that Tony Knowles is."

"It's a mutual admiration," said Knowles. "She headed up those teams. In the fisheries management

'We should have a rural priority for subsistence, not because the feds tell us so, but because it's the right thing to do.'

— Gov. Tony Knowles

team, which is the most contentious group you'll ever find, she got them — commercial, sports and subsistence fishers — in 30 minutes to agree that we needed a constitutional amendment on the ballot for rural preference. And that was on Kodiak, too."

"It was unanimous," said Ulmer. "That was the least controversial of the issues that the fisheries team discussed and they were from all over the state."

Both Ulmer and Knowles said they were at a loss as to why a positive report like that was not mentioned in news reports. They both felt that the media tended to dwell on the controversy and not the solution.

"That's why we need to keep talking about it," said Knowles.

Knowles also said he was in the process of negotiating whether state

workers should work a 40-hour week for 37.5-hours' pay and couldn't discuss all of the negotiations.

"But," he said, "I am going to look to a partnership with people involved in public service on how we can address the question of how we can live within our means — and that's the whole budget process. I will not tolerate within an administration the scapegoating of public employees. And I think I said at the beginning of our discussion what a pleasure it's been working with so many talented people in public service. And they're going to help solve a lot of problems we have in the state. I am going to ask them to look at ways to provide better service for less. Every organization does that."

"I'm going to be asking them to step up to the plate," Knowles said.

"All Alaskans have to step up to the plate."

"The thing we have to do first is get our house in order," he said. "People feel that government hasn't been living up to its share, its end of the bargain. So I'm going to propose a budget on Tuesday that is going to set some of the new directions that we need to have and consistent with the priorities that I think Alaskans want to have. We're going to set those directions and have budget discipline in that. When we get our house in order, and if at such a time in the future that we need to, with reduced oil revenues, look at ways to pay for essential services, I will look at the fairest way we can do that. And certainly one of those ways might be an income tax."

And jokingly, he choked on those words.

In Barrow 2/24/95

The Arctic Sounder newspaper Vol. 9, No. 9 3/2/95

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BARROW, ALASKA 99723

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Republican legislators have little regard for rural Natives' welfare

It's a sad week in the legislature when Republicans are slashing rural programs and then joking about the high poverty rate among Alaska's Natives. Sad, but not surprising.

A representative from North

Pole's glib remark that indigenous (Native) people tend to be indigent (poor) made the House Judiciary Committee members laugh. It may have seemed harmless to urban Republican legislators who have good incomes financed by public dollars. But that laughter echoes beyond the walls of the Capitol. It haunts people who live in villages suffering from economic malnourishment, and it stands as a sorry testament to the lack of concern expressed in the budget recommendations emerging from the Republican leadership.

Let's face it. This is shaping up as a Legislature that is willing to hammer rural Alaska in the same casual manner as one member from the House Judiciary Committee's play on words. Whether it's the education foundation formula or social service programs or staffing of state offices, rural cuts are easy to justify. State programs in the Bush are necessarily more costly and they serve fewer

people. When the squeeze is on, programs that are expensive per capita seem like the logical ones to dump. Conveniently, the per capita approach works in favor of urban interests every time.

Never mind that those indigenous people out there "tend to be indigent," as a representative from North Pole said with a smile. When nearly 30 percent of the state's Native people live in poverty, there's a powerful reason to spend more or concentrate the state's resources on rural problems. It's called common decency.

That kind of decency seems to be in short supply here in the Capitol building. The Republican leadership may not applaud the notion that Natives are more than three times as likely to live in poverty as non-Natives. But by their words and their deeds, they're obviously a whole lot more likely to laugh it off than if it were their people suffering.

Rep. Eileen Panigeo MacLean



Why isn't Barrow Mayor Long

Letter to the Editor

"making" a "claim?" For the people of "Birniak" & "Utkeagvik?"

State implicated in local unrest over municipal tax hikes

Dear Editor

It is critical for communities to recognize the role that state government plays in increasing local taxes. It is likely that up to half of the property tax mill rate in many communities can be traced to state cuts to local government programs since 1986.

Since 1986, the state has cut the Municipal Assistance and Revenue Sharing Programs (the two main programs for sharing state oil revenues with municipalities) over 55% or about \$76 million. The negative impact of cuts to this program alone has been the equivalent of an increase of 2.0 to 6.0 mills of property tax in our communities.

Many businesses in Alaska are concerned over the steady rise in local taxes. Businesses are reluctant to locate or expand in a community with unstable taxes. More cuts to Municipal Assistance and Revenue Sharing and other traditional municipal aid programs, such as schools, are bad for business and bad for communities.

While cuts in Municipal Assistance and Revenue Sharing have had the effect of raising taxes in larger cities, the cuts have had a more devastating impact on smaller municipalities that lack a significant local tax base. This year five municipalities petitioned the legislature for the right to dissolve as cities. According to the state's Local Boundary Commission, many

more municipalities are in the process of considering dissolution. When a city dissolves, the state is obligated to step in and pay the cost of providing basic services to residents.

The state has also passed on significant new service costs to municipalities through budget pressure or administrative requirements to accept responsibility for state services and programs that were previously state responsibilities. Every state department has participated in this process to increase municipal responsibility for state road maintenance, environmental protection, prosecution of criminals, public health, inspections of food establishments, etc., without reimbursement. These new programs and services, in many cases

have significantly increased the number of municipal employees and increased upward pressure on municipal tax rates.

As President of the Alaska Municipal League, a statewide organization representing cities and boroughs, I feel that it is time for our communities to speak with one voice in opposing further cuts to municipal aid programs. While we all need to work on making state and local government more efficient, local communities can no longer stand by and let state government balance its budget on the backs of local taxpayers. In fact, cutting municipal aid programs is not cutting the state budget, it is raising your taxes.

Sincerely, Donald Long,

President, Alaska Municipal League

NORTH SLOPE SENTINEL, BARROW, AK
(Underlined: MP)
4/14/95

The Arctic Frontier 4/16/95 page 13
Since asked by me about subsistence activity as the "attack," but cannot find from 1991

Notti: Proposed legislation concerning corporate recall likely to die in '95 session

By Jim Paulin

Arctic Sounder

KOTZEBUE — Proposed legislation aimed at making it more difficult for shareholders to recall Native corporation directors is stalled in the state Senate where it will probably die this year, said Emil Notti, who lobbied against the bill in Juneau, with expenses paid by Kotzebue's Native village corporation.

"I think it's too late in the year

for them to do anything in the Senate, so I suppose nothing will happen until next January," when the legislature reconvenes, Notti said.

Notti, 62, was the first president of the Alaska Federation of Natives, and worked for the passage of the 1971 Alaska Native Claims Settlement Act which established for-profit Native corporations in Alaska. He currently is the president of the Alaska Native

See Recall, page 2

Page 2

The Arctic Sounder

Thursday, May 11, 1995

Recall ...

From page 1

Foundation which provides technical assistance to village corporations. The Kikiktatruk Inupiat Corp. paid for Notti's Juneau expenses.

Said KIC President Bish Gallahorn, "Everybody at KIC feels pretty strongly against it." He added, "If we're not doing the job we're supposed to be doing, we would expect to be bombarded by shareholders."

Gallahorn said the possibility of a recall election is "a checks and balances thing. It's an encouragement and an incentive to do a good job for our shareholders."

Notti said the bill, approved last week by the House, would give Native corporation directors special

protection, more than other corporations in Alaska. ANSCA is a federal law but which delegates corporate regulation to state rules. "The state cannot discriminate based upon race. Only the federal government can," Notti said.

Notti criticized the bill's requirement for "judicial standards" for a recall election. "You've got to practically charge a member with something criminal and be able to prove it," he said.

The House bill was co-sponsored by Reps. Eileen MacLean, D-Barrow, and Carl Moses, D-Unalaska. It passed the house by a 26-14 vote with the support of Reps. Richard Foster, D-Nome, Irene Nicholia, D-Tanana and Ivan Ivan, D-Akiak. Moses aide Tim Benintendi said that while MacLean was very supportive of the bill, her

office was not involved in drafting the proposal.

MacLean complained that present law allows just 10 percent of shareholders to force a special election, and special elections cost corporations and shareholders money. Just 30 shareholders from a 300-member corporation can now call a special election, she said.

"Everytime it happens, it costs the corporation lots of money, thousands and thousands of dollars. In the end, who does it negatively impact? The shareholders. It impacts on their dividends," MacLean said.

The original bill increased the

percentage needed for a special shareholders meeting to 25 percent as required by federal law, but was later amended to 15 percent, MacLean said.

Benintendi said the bill's main regional corporation supporters were Sealaska and Cook Inlet Region Inc. Also endorsing it were the Arctic Slope Regional Corporation, Bristol Bay Native Corp., AHTNA, Aleut Corp. and UIC, the Barrow village corpora-

tion, Benintendi said.

An aide to State Sen. Al Adams, D-Kotzebue, said the bill was referred to two committees, community and regional affairs and also finance. It is currently in community and regional affairs.

When the Senate leadership wants to fast-track a bill, it refers it to just one committee. So a double referral is a likely indication of the bill's death in the current session, said aide Cheryl Davis.



Toksook Bay Traditional Council

June 20, 1995

The Alaska Freedom Council
Attn: Mr. Mark A. Ames
P.O. Box 368
Point Barrow, Ak. 99723

Subject: 2nd Portion Birthright Inheritance Claim

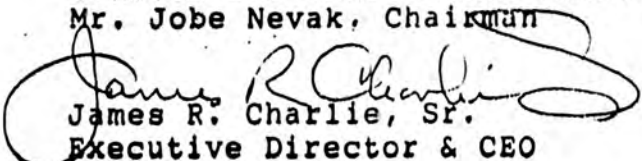
Dear Mr. Ames,

I read the statement you faxed with great interest to find that we do have inheritance of 90% of the revenue base share UNLESS this is something that splintered groups or sovereignty activist have surfaced. I don't know about this because its the first time that I hear about it. May I ask if you have ties with organizations like Kasigluk or Tununak Traditional Elders Council (KTEC or TTEC)?

I could barely read the one you have faxed, could you send me clear copy by mail or any other supporting documents because I want to present this to the Tribal Council for discussion before we call a joint session of this Council, City Council and village corporation Board. I need to make sure before I should present it.

Thank you for providing us the information and I will look forward to hear from you.

Quyana,
TOKSOOK BAY TRADITIONAL COUNCIL
Mr. Jobe Nevak, Chairman


James R. Charlie, Sr.
Executive Director & CEO

Voice of The Times

The Anchorage Times

Publisher: BILL J. ALLEN

"Believing in Alaskans, putting Alaska first"

Editors: DENNIS FRADLEY, PAUL JENKINS, WILLIAM J. TOBIN

The Anchorage Times Commentary in this segment of the Anchorage Daily News does not represent the views of the Daily News. It is written and published under an agreement with former owners of The Times, in the interests of preserving a diversity of viewpoints in the community.

Why not taxes?

AS THE LONG Range Financial Planning Commission this summer explores ways to get the state on a sound fiscal track, undoubtedly commission members will be tempted to look at new sources of state revenue — the dreaded "T" word.

If taxes end up being the commission's major recommendation, however, public reaction may be overwhelmingly negative — and the commission's work might go for naught. Let's face it, Alaskans enjoy the distinction of living in one of the least taxed states in the nation.

And even with the primary state revenue source — oil — on the decline, Alaskans are not likely to want to pay taxes as long as the rate of this state's government expenditures continue to far exceed those of other states.

State government first must pare employee pay and benefits, welfare and other public benefit rates and the long list of spending programs unique to Alaska. Only then, perhaps, will the public reluctantly agree to consider taxes to fund state government.

The most frequently mentioned options include a personal income tax, a statewide sales tax and an employment tax. The advantages and disadvantages of each is spelled out in the workbook being used as a guide by the commission.

Forty-three states now tax personal income at rates varying from 0.4 percent to 11 percent. Prior to 1980, Alaska had a state income tax that ranged between 3 percent and 14.5 percent of an individual's adjusted gross income.

If the state reinstituted the income tax, it could raise between \$250 million and \$400 million a year. An income tax is considered progressive, meaning that those who earn more pay more, but it also discourages savings. And it would require a whole new bureaucracy to manage collections and enforcement, and a cost that would be substantial.

A statewide sales tax could generate between \$50 million and \$200 million a year, depending on the rate. Forty-five states have sales taxes ranging from 3.5 percent to 8 percent. A sales tax is considered regressive because poor people would have to spend a larger share of their income to purchase goods. A sales tax, unlike a state income tax, is not deductible from federal income taxes.

An annual employment tax, say of \$100, would raise about \$50 million. Similar to the state's old school tax of \$10 a worker, an employment tax would be applied to all adults holding a job in Alaska — including temporary workers who live outside the state. It, too, though, is considered regressive.

Undoubtedly, there are other forms of taxation — such as a property tax — that the commission may consider.

We trust, though, that new taxes are not at the top of the commission's recommendations when it issues its report Oct. 1.

"why not?"

Because Sec 28.(A)(1)!



P.O. Box 800
Craig, AK 99921
Phone 826-3274
FAX 826-3322

CRAIG CITY SCHOOL DISTRICT

Dr. Martin Laster, Superintendent

Mr. Dan Blanton, Principal

June 26, 1995

Mr. Brian Rogers, Chair
Long Range Financial Planning Commission
716 W. Fourth Avenue
Anchorage, AK 99501

Dear Mr. Rogers,

As you work to complete your charge of aligning the state's revenue and expenditure projections, I would like to share a perspective for your consideration. I understand the incredible time frame you are working under but I believe that this essential responsibility must be addressed.

My name is Dr. Martin Laster and I am currently the Superintendent of the Craig Schools, formerly assistant superintendent of Mat-Su Schools. I have also worked for Anchorage and Northwest Arctic School Districts. I only share this background to provide a platform from which to speak.

Not only educational operational funding must be addressed but also capital construction. Within capital construction, both maintenance and unhoused students must be funded annually, in a stable, predictable and effective manner. Binge and bust funding will not work.

Three years ago, working with the legislature as a Mat-Su administrator, we were certainly the recipient of one of the best years of school construction I can remember. Craig was not a recipient in the same manner and Craig's needs have only accelerated. I have included an article detailing our 300% growth in the last decade from the Alaska Legislative Digest. While I am clearly an advocate for Craig, my point is not to just support our cause; it is to reinforce the need for an annual funding mechanism that addresses Alaska's educational facility needs.



I will be away from the office until mid-July taking two of the reason for Craig's facility needs to visit Grandma and Grandpa.

Please feel free to contact me after that, or you can reach me during that time on the Internet at the following address:

DR. L@eworld.com

Thank you for your consideration and my deepest respect and support for your efforts.

Sincerely,

Martin Laster

Martin Laster, Ph.D.

cc: Paul Thibodeau
Craig School Board President

Craig shows that small school districts experience near catastrophic growth too!

AK. Legislative
Digest
Jan. 20, 1995

What school district has grown fastest over the past decade? Possibly the Craig School District on Prince of Wales Island in Southeast Alaska can claim the title. Craig's growth has jumped from 527 in 1984 to a 1994 population of 1,700. Its schools in 1984 had an enrollment of 141. Today that enrollment is 394. School growth over the past decade is pushing 300%, and in some periods school growth was moving upward at a catastrophic 15% rate. Students are now housed in facilities estimated to be 200% over design capacity, and the community is waiting "impatiently" for its priority numbers to come up on the DOE funding list. On the DOE capital projects list since 1986, the Craig school projects have climbed slowly up the list to be ranked sixth and seventh for the coming year. But funding for the school projects is an "on again/off again" game in Juneau. There is no certainty that there will be much of a capital budget this year, and even if there is, uncertainty remains whether lawmakers will give priority to school appropriations.

It's easy to be blind to small community growth impact!

A point worth noting is that we tend to talk about the big railbelt school districts as "growth districts," and indeed they are! But we are not as impressed by numbers we see in association with smaller districts. We tend to miss the fact that these small numbers may reflect catastrophic growth too, and when they do the problems may be more complex than in our big districts. Larger and more urban districts can often buy time by juggling attendance boundaries, easily moving portable classrooms, and bussing students. For example, despite the fact that it has been counted as a separate attendance center, Anchorage buses secondary students from Girdwood into Anchorage.

The point is that despite its "separate" attendance designation, Girdwood is not so isolated that Anchorage could not mitigate the need in Girdwood by "transporting" students, buying time until efficiency or money availability underwrites a new Girdwood school. Rural and small city districts generally lack such flexible options to mitigate growth. They also either lack legal authority or sufficient fiscal ability to fund facilities on their own as Anchorage did a few years ago.

Option for small school growth is usually to wait and pray!

Smaller city districts and rural REAs generally must keep squeezing kids into existing facilities. Generally their only option is to pray and wait. Most REAs represent areas with no fiscal options of their own. Communities like Craig do have fiscal options and a growing tax base, but that tax base is still insufficient to finance such large projects as school construction. Alaska's coastal small cities must rely on state assistance for school projects.

This does not mean communities like Craig do not pay. Ironically, Craig and most of Alaska's coastal small cities show a willingness to pay taxes that far exceeds our more affluent boroughs. Many of these communities have property taxes, personal property taxes on such things as boats and gear, and also collect sales taxes. Perhaps these are the only folks left who remember the old Alaska, one where everyone was expected to do their part in paddling their own canoe.



FISCAL NOTES

A BUDGET UPDATE FROM THE ALASKA STATE CHAMBER • ISSUE #12 • JULY 20, 1995

Governor's Budget Vetoes "Save" \$3 million...but Widen the Fiscal Gap

In late June the Governor finalized his review of the operating and capital budgets. While the Legislature cut \$142.4 million from what the Governor proposed to spend, he still found room for a few vetoes. Other more significant actions include:

- Approval of depositing \$500 million in excess Permanent Fund earnings into the Permanent Fund (the Governor reduced the Legislature's deposit of over \$1 billion). (Proponents of the full deposit said it will take money off the

table that could be used to fill the state's fiscal Gap, thereby forcing budget cuts. Opponents said it limits the budget balancing tools available to the Long Range Financial Planning Commission. In political terms, it means the Legislature's Republican Majority still will have to negotiate with the Democratic Minority to get their votes as part of the required 3/4 vote to access the Constitutional Budget Reserve Fund (CBRF) to balance the budget.)

- Veto of \$17 million from the reserves of the Alaska Industrial Development and Export Authority (AIDEA) that would have gone to the general fund. To fill the Gap, the Legislature has looked to the state's two corporations to pay a "dividend" in return for the cash the state put into the corporations in its more "rich" days. The Governor let stand a \$70 million dividend payment from AHFC. The veto means \$17 million more has to come from the CBRF.

The Final Budget Numbers

	Leg Approved	After Governor's Vetoes	Difference
Operating Budget:			
Agency Operations/Programs	1,114.3	1,114.2	-0.1
Formula Driven Programs	1,077.3	1,077.3	0.0
FY 96 Operating Totals:	2,191.6	2,191.5	-0.1
Other Appropriations			
FY 95 Supplementals	45.6	45.6	0.0
Capital Budget	109.0	106.3	-2.7
Debt Service	109.4	109.4	0.0
Loans/Transfers/Other	20.2	20.0	-0.2
Other Appropriations Total:	284.2	281.3	-2.9
Total Spending:	2,475.8	2,472.8	-3.0

How The State is Paying for the Budget

Petroleum Revenues
Other Revenues
Non-Recurring Revenues

1,473.4
301.3
180.1
1,954.8

Includes \$91.0 in user fees collected by state agencies.

Includes \$70.0 from AHFC reserves. The Legislature also used \$17.0 from AIDEA reserves, but the Governor vetoed it. This meant \$17.0 more has to come from the CBRF.

This amount is coming from the Constitutional Budget Reserve Fund (CBRF).

The actual Gap between recurring revenues and expenditures would be \$698.1 million if it wasn't for the one-time funding sources (non-recurring revenues).

- \$18.0

Long Range Financial Planning Commission Continues Its Work

Interim Report to be Issued Early August

The Long Range Financial Planning Commission continues to work on its recommendations of how to bridge the ever growing fiscal Gap between state revenues and expenditures. Use of the state's Constitutional Budget Reserve Fund, consisting of one-time settlements from disputed oil and gas taxes, continues to fill the current Gap and is providing time to develop and implement a long-term plan. If state spending is restrained, the CBRF can be expected to cover the Gap for about three more years.

Interim Report

To date the commission's discussion has focused on defining the gap and the tools available to close it--all which is similar to the work and ideas from other "Close the Gap" efforts. A draft report is scheduled to be completed by August 5, with public hearings the week of September 11. The commission is also considering a questionnaire through which Alaskans will offer their direct input on options.

The draft interim report provides background information about the Gap and state spending. It discusses the fiscal tools available to close the gap including taxes, the role of the Permanent Fund and its earnings, use of reserve funds, budget cuts, and budget process improvements. It also includes identification of \$500 million in potential spending reductions, a task assigned to it by the Legislature when it

created the commission.

What's Missing

But what is not in the interim report is the most significant part of what the commission needs to do--its recommendations on how to close the Gap. Instead, it will develop these steps after it hears from Alaskans what they think should be done. The final report is due to the Legislature and Governor on October 1.

Commission's Meeting Schedule

Thursday, July 27 • 1:30 to 7:30 p.m.

Video Teleconference

UAA, UAF and UAS Sites

Friday, August 11 • 10 a.m. to 5 p.m.

Saturday, August 12 • 8:30 a.m. to 4:30 p.m.

Anchorage LIO

Call Commission's Anchorage Office for meeting location information, times for public comment, and copy of interim report:

258-8165

Why Every Alaskan Should Care About the Commission's Work

The Commission is developing a "base case" of future state spending and revenues to use as a tool in understanding the magnitude of the deepening fiscal Gap. The most recent version projects:

By Fiscal Year 2005:

- Alaska's oil revenues are projected to drop by 22%.
- State population is projected to increase 17%, from 606,278 to 711,900.
- Spending is projected to grow 14%. This would mean per person spending would go down from \$4,079.66 to \$3,954.07. If spending grew at the rate of 3% inflation per year, a 27% increase would mean \$5,179.90 per Alaskan would be spent.
- Permanent Fund Dividend pool is projected to grow 26%.

• This fiscal year we are spending **\$855.00 for every Alaskan** from the Constitutional Budget Reserve Fund **just to cover the gap**. BY FY 05, that number will increase 111%, to **\$1804.00**.

Commission discussion has included the benefits of starting to close the Fiscal Gap sooner instead of waiting until all reserve funds, such as the Constitutional Budget Reserve, are exhausted. The challenge is that in the absence of a "crisis," it is tough for elected officials to gather the political courage to make the kind of budget cuts or implement revenue-generating measures, such as taxes, that will be required to fill the Gap. The commission's work may provide "political permission" for difficult steps to be taken.

"Fiscal Notes" is a project of the Alaska State Chamber of Commerce. Information is compiled and written for the State Chamber by Cheryl Frasca. It is distributed to organizations, who fax it to their members. If you get more than one copy or no longer want to receive "Fiscal Notes", contact the organizations of which you are a member. For other comments, suggestions, contact the Chamber's Anchorage office at 278 2722; fax 278 6643. Please copy and distribute "Fiscal Notes" to others interested.

GREG ERICKSON
586. 1987

June 30th Meeting

- Brian Rogers, Chair
- Judy Brady, V-Chair
- Annaliese McConnell
- Hugh Motley
- Mike O'Connor
- Lee Goesuch
- Marie Westfall
- Mary Nordake
-

These people attended over the course of the day - not all at once. Hence, the quorum problem.

Letter follows, 2 pgs.

PLZ FEEL FREE TO CALL IF YOU NEED ANY MORE INFO.

E-Mail address: LEPPC%LEGISSTATE.AK.US

State of Alaska
Long Range Financial Planning Commission
716 W. 4th Ave., Anchorage, AK
(907) 258-8165

MEDIA ADVISORY:
COMMISSION TO RELEASE PRELIMINARY
FINANCIAL REPORT

For Immediate Release: July 12, 1995
Contact: LRFP Office 907/258-8165

ANCHORAGE -- The Long Range Financial Planning Commission will hold a public meeting on **Friday, July 14, 1995, and Saturday, July 15, 1995 in Room 220 of the Anchorage Legislative Information Office at 716 West 4th Avenue.**

The meeting agenda will include a discussion relating to the adoption of the preliminary report of the Commission to the Governor and the Legislature. The agenda also includes a review of base case assumptions, reports of the subcommittees and unfinished business.

Saturday's meeting will feature the adoption of the preliminary report and an opportunity for public testimony.

Members of the public are welcome and encouraged to attend both meetings.

Friday's meeting begins at 10:00 AM, and Saturday's meeting begins at 8:30 AM. The public is welcome and encouraged to attend.

MEDIA NOTE: For a copy of the complete agenda or for further information, please contact 907/258-8165.

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The Anchorage Times

Publisher: BILL J. ALLEN

"Believing in Alaskans, putting Alaska first"

Editors: DENNIS FRADLEY, PAUL JENKINS, WILLIAM J. TOBIN

The Anchorage Times Commentary in this segment of the Anchorage Daily News does not represent the views of the Daily News. It is written and published under an agreement with former owners of The Times, in the interests of preserving a diversity of viewpoints in the community.

Why not cuts?

THE 15 men and women serving on Alaska's Long Range Financial Planning Commission face an awesome task. They are to come up with a credible and politically palatable plan for state government to eliminate its annual half-billion-dollar fiscal gap.

They have the next three months to develop their recommendations. The apparent options are to reduce expenditures and/or raise revenues.

Ask 100 Alaskans at random about which option they prefer, and you'll probably get 100 agreeing to cut spending. However, you may get 100 different answers about where specific cuts should be made.

A logical first consideration should be among those programs that are unique to Alaska. Which would you eliminate or reduce?

Permanent Fund Dividends	\$585 million
School debt reimbursement	\$103 million
Longevity Bonus Program	\$73 million
Municipal Assistance	\$34 million
Pioneers' Homes	\$30 million
Permanent Fund Corp.	\$27 million
UA Outreach Colleges	\$18 million
PF Dividend Hold Harmless	\$22 million
Power Cost Equalization	\$19 million
Tourism Marketing Council	\$5 million
Contract Jails	\$4 million
Mount Edgecumbe School	\$2 million

These programs enjoy various degrees of popularity and will be tough to cut. Besides, unless you're willing to give up your Permanent Fund check, you can't get the necessary \$500 million to \$600 million annual savings from this group alone.

It's even more difficult to target the state's obligations to provide education and fund formula programs that grow each year with increases in population and inflation:

K-12 education	\$660 million
University of Alaska	\$167 million
Medicaid	\$143 million
Corrections	\$129 million
AFDC	\$59 million
Adult Public Assistance	\$39 million

How about state government's operations? State salaries require about \$530 million a year. Contracts total \$220 million; supplies and buildings, about \$50 million; and, travel another \$20 million.

We could eliminate operations of state government to make up the deficit, but our problems would become much worse because we wouldn't have any money coming in and no state services — just general chaos.

In short, the easy answer to solving the fiscal gap — cut spending — may be much harder than it looks.

July 9, 1995

Knowles' strategy is to put more liberal Democrats in Juneau

"I'm a man of principle," Illinois Sen. Everett Dirksen liked to say, "and I strongly believe in the principle of compromise."

In politics, Dirksen knew one can't be like Goldilocks and her porridge — "Oh, my, this bowl's too hot! Mercy be! This bowl is too cold!"

Gov. Tony Knowles would have us believe that he disagrees with the late Senate minority leader; that he's a Goldilocks kind of guy. He wants his porridge just right.

Hogwash.

All — repeat, all — serious politicians understand and practice the art of compromise.

Not all the time, on every issue. But as a rule, they do not allow the ideal to stand in the way of the achievable. What, then, to make of some recent Knowles vetoes?

Car theft by juveniles, especially in Anchorage, is epidemic. The offenders don't even get a slap on the wrist for their crimes. The legislature wanted these young thieves to be treated as adults, just as they are



**FRITZ
PETTYJOHN**

for traffic and fishing violations.

Veto! Didn't go far enough! We need to overhaul the entire juvenile justice system, said the governor. Can't do it piecemeal. Gotta do it all, all at once!

Welfare reform? Veto! Went too far!

Charitable gaming reform? Veto! Went too far. Also, didn't go far enough.

Teacher tenure reform? Too far!

Billion-dollar deposit into the permanent fund? Too far! (Need to "save"

half a billion for things like forward funding for education.) Not far enough! (Need complete solution to fiscal gap. Got a committee workin' on that!)

Finally, in Fairbanks, Knowles vetoed (or tried to) public busing for Monroe Catholic High and Immaculate Conception Grade School. This practice has been going on for 20 years. It is sanctioned in state statute and has been upheld by the courts. It is strongly supported by the people of Fairbanks and approved of, on a bipartisan basis, by the state legislature. By relieving the state of the expense of educating 550 students, these schools save the state of Alaska around \$3 million a year. Every year.

Went too far!, pro- nounces our toothy chief executive. Can't spend public funds for private schools.

Also, didn't go far enough! All private schools throughout the state must be given the same service, don't you see?

At least Goldilocks nev-

These vetoes may be part of a larger strategy. It's widely known that Knowles is deadly serious about putting his fellow Democrats into power.

er claimed her porridge was too hot and too cold at the same time.

In justifying these vetoes, our ceaselessly grinning governor is not being honest with the people of Alaska.

The teacher tenure veto? A bow to a core constituency, the National Education Association.

The charitable gaming reform veto? Money is the mother's milk of politics. Pull tabs and bingo are cash cows for Alaska Democrats. Such cows are to be milked, not gutted.

The juvenile joyriding, welfare reform and private school busing vetoes? Just doing what comes naturally to a liberal Democrat.

And vetoing \$500 million worth of a deposit into the permanent fund? Need to keep the Democratic minorities in the legislature

relevant. Keeping that \$500 million on the table, and available for appropriation, means Democratic votes will be needed to pass next year's budget. Which means substantial budget reductions won't take place. And if anything is clear about Knowles after eight months in office, it's that he does not want to reduce the size and scope of state government.

Taken as a whole, these vetoes may be part of a larger strategy. It's widely known that Knowles is deadly serious about putting his fellow Democrats into power in the legislature.

Out on the campaign trail a year from now, he may plan on saying, "As your governor, I've tried to work with these Republican majorities. But they refuse to work with me, so

I've been forced to use my veto pen. As a result, these Republicans have no record of legislative accomplishment. To implement my program for Alaska, I need Democratic majorities in the House and Senate."

The fact is, up to now, the Knowles administration has not had a legislative agenda, other than a bill allowing it to reduce the state's royalty share on what it determines are marginal oil fields. If Alaska's voters believe that electing more Democrats will allow Knowles to win more such legislation, Republican prospects in '96 look just fine.

□ Fritz Pettyjohn is an Anchorage lawyer, host of a local talk-radio show, and former state representative and state senator.

70: BEAN COASTS

ice of The Times

Deferred maintenance part of fiscal plan

By LEW WILLIAMS Jr.

KETCHIKAN — It's encouraging that the state's Long Range Fiscal Planning Commission, early in its life, is looking at deferred maintenance of state facilities. The goal is to find a way to catch up on deferred maintenance of state facilities and to finance annual maintenance so it isn't deferred in the future.

It's no surprise the commission is paying attention to maintenance. Chairman of the commission is Brian Rogers, who until January was vice president for finance for the University of Alaska. The university has lobbied heavily for years for funds to clean up \$156 million in deferred maintenance on its campuses.

When Gov. Knowles signs the new budget bills, enough deferred maintenance will be funded that the university's deferred maintenance bill will be reduced to \$120 million, still the biggest amount of deferred maintenance for the state.

University buildings aren't the only state facilities that have been neglected. The deferred maintenance for highways is about \$30 million, for airports \$12 million, for harbors \$30 million and for the ferry system \$8 million. Deferred maintenance for the university and all other state facilities totals \$331 million.



Williams

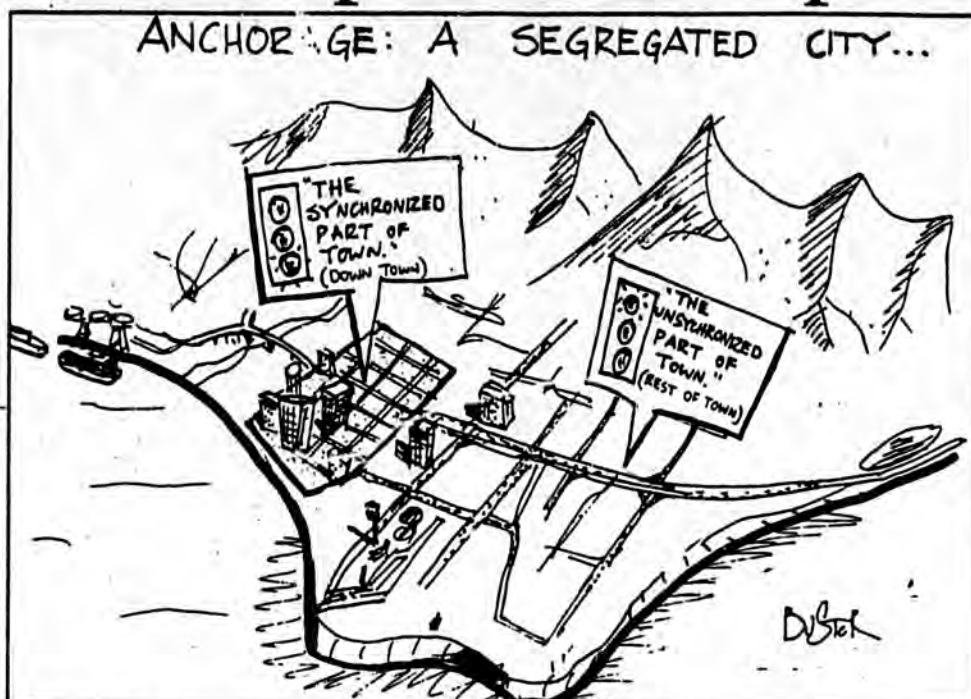
The Office of Management and Budget estimates that it will take \$51 million a year to properly maintain all facilities, plus another \$22 million a year for the next 10 years, at least, to catch up on the deferred work.

The problem with maintenance in the past is that lawmakers and governors have been more inclined to put money into new projects for which they can take credit. Just fixing up something isn't as noticeable at election time.

Thank goodness the new bipartisan fiscal commission is going to consider maintenance of facilities as it figures out a way to close the budget gap and put the state on a sound financial program.

The commission, appointed in March, has met three times and held at least one teleconference meeting. So far, it is outlining the issue areas, such as maintenance, and working in subcommittees. A progress report is due out July 15.

The Aug. 26 meeting, however, may get more attention than the progress re-



port. That is when commission members get into the issue of more revenue — taxes, if and when. The final report goes to the governor and Legislature Oct. 1.

What happens if the state does nothing? According to OMB, if the people of the state and their leaders do nothing, the Budget Reserve Fund will be used up between 1999 and 2003. The fund, near \$2 billion at the end of this fiscal year, is built from revenue the state receives from settling oil tax cases.

The Legislature had to dip into the Budget Reserve for \$498 million to finance the fiscal '96 budget that begins July 1. That is more than double the \$242 million appropriated from reserve last year for the current fiscal year.

OMB predicts that next year the Legislature will have to appropriate \$700 million from the reserve to finance state operations. At that rate, the Budget Reserve Fund goes dry within three to six years — even if the reserve picks up an expected \$1.1 billion in additional tax settlement over the next four years.

For those who say just cut government spending to close the gap, it should be noted that if every state employee was fired, only about \$550 million would be saved. That's \$150 million less than it will take to close the gap next year.

When it is noted that the most the Legislature could cut the budget for next year over this year was \$22 million (some say it wasn't even cut), the fiscal gap is serious. Legislatures have been trying to cut budgets for a half dozen years with

little success compared to the size of the problem.

The general fund budget for the past four years has been lingering in the \$2.3 billion area despite the best efforts to cut. Inflation, the population and entitlement programs keep growing.

The commission, of course, will have its eye on the Alaska Permanent Fund earnings reserve and on new taxes. We are assured that commission members are a long way from deciding whether to cap the dividend or tap the Permanent Fund earnings. They also are a long way from deciding on new taxes.

The Department of Revenue is doing a review of all taxes and possible tax sources which it is scheduled to give the commission by June 30. There will be public hearings as the commission proceeds with its work, especially after the August meeting to consider revenue sources, and before the final recommendations are made Oct. 1.

OMB has conducted financial reviews for past Govs. Steve Cowper and Walter Hickel, although not as extensive. But there appears to be no new ideas out there.

And the facts remain: The state is spending more than it takes in with no change in sight; the state is letting its facilities fall into disrepair while it hands out dividends to all Alaskans rather than collecting taxes from them. There isn't going to be a painless way to change the situation.

Lew Williams is former publisher of the Ketchikan Daily News.

The Anchorage Times

Publisher: BILL J. ALLEN

"Believing in Alaskans, putting Alaska first"

Editors: DENNIS FRADLEY, PAUL JENKINS, WILLIAM J. TOBIN

The Anchorage Times Commentary in this segment of the Anchorage Daily News does not represent the views of the Daily News. It is written and published under an agreement with former owners of The Times, in the interests of preserving a diversity of viewpoints in the community.

Why not jobs?

THE TWO options heard most often about how state government can balance its annual budget involve spending cuts and taxes. There is a third alternative that must be added to the mix.

Besides spending less money or increasing tax revenues, economic development is a key component of the solution for bridging the state's half-billion-dollar-a-year fiscal gap.

There may not be another Prudhoe Bay bonanza to fall into our lap, but as the owner of more than 100 million acres of undeveloped land with a broad range of resource development potential, Alaska always has that possibility. In addition to oil, we have a lot of natural gas and coal waiting to be developed.

And while none of Alaska's industries can compare to oil in the ability to generate revenues for the state treasury, Alaska must continue to broaden its economic base and stimulate growth in the mining, fisheries, tourism and timber industries.

First, though, we must make sure that Alaska remains competitive in the world arena as an area where companies want to invest.

The governor and the Legislature made a good start this year in telling private industry that Alaska is open for business. Positive steps included passage of the royalty adjustment bill for petroleum development, the mining exploration incentive bill, the timber salvage bill and approval of a measure authorizing the lease of state lands along the Dalton Highway.

But more must be done.

There is little advantage for Alaska and the state's ability to address budget woes if resource development goes to Outside businesses and Outside workers.

Alaskans must be the ones who benefit from the harvest and production of state resources. When newly created jobs and new business opportunities go to Alaskans, the state realizes the benefits of the unemployed going off welfare to instead collect pay checks.

Development of Alaska's resources should be tied to increased investment in Alaska's infrastructure — for maintenance and new construction of roads, ports, airports as well as for schools, parks, playgrounds and facilities that improve the quality of life.

And resource development must include value-added work in Alaska wherever possible — creating more jobs and making it possible for new generations to choose to live in Alaska and raise their families here.

The 15 men and women serving on Alaska's Long Range Financial Planning Commission, we are confident, will give close attention to the merits of the state's role in stimulating and guiding economic development.

For a majority of Alaskans, the creation of new jobs and new employment opportunities is the preferred option for our long range financial security.

July 7th, 1995
ANCHORAGE DAILY NEWS

Communities look for harbor-upkeep revenue

The Associated Press

JUNEAU — Coastal communities are looking for alternative sources of revenue for harbor upkeep now that Gov. Tony Knowles has vetoed an increase in boating fuel taxes.

The legislation, vetoed by Knowles last week, would have raised the state marine fuel from 5 cents to 8 cents, with the extra proceeds going to local communities for harbor repairs.

Knowles spokesman Bob

King said the governor vetoed the bill because he does not want to raise taxes.

"I know many of those communities do have their needs, but the governor made a pledge in his state of the budget address that there will be no new taxes until we have our house in order," King said.

Knowles said he is awaiting recommendations from his financial planning panel before he authorizes any new taxes.

The higher fuel taxes

would have raised an estimated \$5 million this year, money that could have been used for local communities to take over and repair or replace state-owned harbors.

City officials, especially in Western Alaska, had asked for the higher taxes to raise money for deteriorating docks and harbors.

"We're trying to get some sort of stable maintenance revenue for the ports and harbors in the state," said Dutch Harbor port director Jim Stearns. "We

already put in a lot of local money into our facilities."

Harbors raise considerable cash for the state and deserve more financial support, Stearns said.

In Juneau, harbor master Joe Graham said officials had figured the rise in fuel taxes would not come through and had not counted on the money.

Knowles said he would try to incorporate parts of the boat-fuel bill into future plans for communities to take over state harbors.

TO: Members, Long Range Financial
Planning Commission

From: Staff
258-8165

Legislative Research Agency

Alaska State Legislature



130 Seward Street, Suite 218
Juneau, Alaska 99801-2196

Phone: (907) 465-3991
Fax: (907) 463-3351

March 3, 1994

MEMORANDUM

TO: Representative Mark Hanley

FROM: Gordon S. Harrison, Director 

RE: "Endowment" Method of Using Trust Fund Income
Research Request 94.161

You noted that the fiscal plan advocated by Mr. Roger Cremo relies on an annual withdrawal from the permanent fund of a certain percentage of the fund's assets (measured by market value), and you asked if this technique is used by other, large trust funds. The answer is yes. In fact, it is the method typically used by such funds. We refer to the method here as the "endowment" method or the "payout" method, although I do not know if those are conventional terms used in financial circles.

Ideally, the fixed percentage of a fund's assets withdrawn each year under the endowment approach is equal to the long-term *real* rate of return of the fund. If the annual payout exceeds the real rate of return, the principal of the fund erodes. Thus, if inflation averages 4 percent per year, and the fund's nominal rate of return averages 10 percent per year, then the payout should not exceed 6 percent per year for the fund to stay whole ("inflation proofed" in the parlance of the Alaska permanent fund). Under the endowment approach, managers calculate *total* return, not just cash return. That is, unrealized appreciation or loss is included in the calculation of annual return.

The Alaska permanent fund does not use the endowment method of determining income that may be appropriated annually by the legislature. Rather, it uses a strictly cash method. That is, only cash income generated by the fund during the year is available for use: unrealized capital gains and losses are excluded from the computation of income. A few years ago there was considerable interest on the part of a few permanent fund trustees to switch to an endowment approach. The trustees saw three advantages to it.

One advantage is that the method does not distort investment strategies by requiring that the fund produce a minimally acceptable amount of cash each year. That is, under the current, cash-based system, fund managers may sell securities that they would not otherwise sell at that time in order to have sufficient cash to pay dividends and inflation proof the fund.

Representative Hanley

March 3, 1994

Page 2

Another advantage perceived by the trustees interested in the endowment approach is that it could allow the fund to shift more of its assets into equities (stocks), where higher long-term returns have been the historical experience, in contrast to fixed income securities such as bonds. The problem with equities, from the perspective of the current management regime, is that they do not generate much cash and their returns are volatile from year to year. The trustees thought that the endowment approach would encourage a longer-term investment perspective by diverting public attention from the annual cash performance of the fund. Finally, the trustees were interested because the endowment method is simple and understandable, whereas the current management and accounting scheme of the permanent fund is complex and understood by surprisingly few people.

During the administration of Governor Cowper, analysts in the Alaska Office of Management and Budget interviewed the managers of a number of large, nonprofit, foundation trust funds and university endowment funds. Apparently the federal Internal Revenue Service requires such trust funds to pay out at least 5 percent of assets in order to retain their nonprofit status. The analysts found that the payout from these funds was typically between 5.5 and 6.5 percent. They also found that an overriding goal of these fund managers tended to be financial stability for the programs the fund supported, and in some cases the managers tolerated a payout higher than the long-term average real rate of return of their fund, and thus erosion of principal, in pursuit of this goal. If you are interested in pursuing this matter, you should contact OMB analyst Jack Fagnoli (extension 3568).

I hope this information is what you were looking for. Call if you have questions or want additional information.

FAX COVER SHEET

TO: BRIAN ROGERS
456-2531

14 MAY 1995

BRIAN:

PERHAPS WE SHOULD INVITE DAVID
REAUME TO GIVE HIS POINT OF VIEW TO THE
COMMISSION!!

MAF

**STATE OF ALASKA
LONG RANGE FINANCIAL PLANNING COMMISSION**

716 West Fourth Avenue, Anchorage, Alaska 99501

Phone: (907)258-8165, Fax (907)258-9869

Internet: LRFPC%legis@state.ak.us

Staff: Melissa Aber Fouse

Bob Walsh

05 July 1995

Mr. Mark Eames
PO Box 368
Barrow, Alaska 99723

Dear Mr. Eames:

Attached is the list of commission members you requested. Your first message was cut off by the answering machine and the number left on your second message was not a working number, according to the operator.

I hope this is the information you need. Please feel free to call again if you have any further questions.

Sincerely yours,

Melissa Fouse

STATE OF ALASKA
LONG RANGE FINANCIAL PLANNING COMMISSION
716 West Fourth Avenue, Anchorage, Alaska 99501
Phone: (907)258-8165, Fax (907)258-9869
Internet: LRFPC%legis@state.ak.us
Staff: Melissa Aber Fouse

PLEASE NOTE:

**THE LONG RANGE FINANCIAL PLANNING
COMMISSION OFFICE HAS MOVED TO
ROOM 470 IN THE LEGISLATIVE
INFORMATION OFFICE - 716 WEST
FOURTH AVENUE.**

**THE NEW PHONE NUMBER IS
258-8165**

**THE NEW FAX NUMBER IS
258-9869**

**THE E-MAIL ADDRESS WILL NOT WORK
FOR ABOUT A WEEK**

**PLEASE STAY TUNED FOR FURTHER DEVELOPMENTS. I WILL
KEEP YOU POSTED.**

A handwritten signature in black ink, appearing to be 'M. F.' or similar, with a stylized flourish.



STATE OF ALASKA

LONG RANGE FINANCIAL PLANNING COMMISSION

AGENDA
Saturday, 08 April 1995

11:00 am:

Call to Order
Introductions
Speaker Phillips: discussion of HCR 1 and its charge to the
Commission (depending upon session schedule).
Strategy Session: How to Achieve the Goals of HCR 1

1:00 pm:

Break for Lunch (Sandwiches to be sent in)

2:00 pm

Reconvene
Elect Chair
Discussion of Work Plan, Timelines, & Staff Assignments
Budgeting Briefing:
Sources of Revenue/Revenue Projections
Five-Year Projections

MEMORANDUM

30 MARCH 1995

TO: Suzanne Lowell
Chief Clerk, House of Representatives'

FROM: Melissa Fouse
Staff, Long Range Financial Planning Commission

The Long Range Financial Planning Commission will be meeting on April 8th, 1995 in Juneau. The meeting will take place in the Butrovich Room from 11 am to 1 pm and from 2 pm to 5 pm. This meeting will be teleconferenced.

Please include notice of this meeting in the Committee Schedule. If you have any questions, please feel free to call me at 258-8170 in Anchorage.

MEMORANDUM

30 MARCH 1995

**TO: Nancy Quinto
Senate Secretary**

**FROM: Melissa Fouse
Staff, Long Range Financial Planning Commission**

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TONY KNOWLES
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

P.O. Box 110001
Juneau, Alaska 99811-0001
(907) 465-3500
Fax (907) 465-3532

March 24, 1995

Ms. Judy Brady
121 West Fireweed
Anchorage, AK 99503

Dear Ms. Brady:

Judi
Thank you for agreeing to serve on the Long Range Financial Planning Commission. Although the charge of the commission is ambitious and the time frame short, we are very optimistic that the commission can meet its goal of developing fiscal plan recommendations by this fall. The experience and knowledge which you and the other members bring will ensure the success of this effort.

The first meeting of the commission is scheduled for Saturday, April 8th in Juneau. We would like to start with a get-acquainted breakfast that morning. Among the items of business for the meeting will be the election of a chair and vice-chair from among the public members, a review of the draft time line and work plan for the months ahead, and a general discussion of the budgetary issues facing the state and the commission.

Enclosed is a copy of HCR 1 which established the commission and a list of the commission members. Melissa Fouse is providing staff coordination for the commission and will send you additional information on the upcoming meeting, including travel arrangements. Please feel free to call her at (907) 258-8170 if you have any questions.

Again, we wish to express our sincere appreciation for your help on one of the most important issues facing Alaska.

Sincerely,

Tony Knowles
Governor

Sincerely,

Drue Pearce
President of the Senate

Sincerely,

Gail Phillips
Speaker of the House

Enclosures

cc: Senator Georgianna Lincoln
Senator Steve Rieger
Representative Mike Navarre
Representative Sean Parnell
Annalee McConnell, Director, OMB
Pat Pourchot, Legislative Director

Many thanks!

March 24, 1995

FIELD(name/address)

Dear **FIELD**(salutation):

Thank you for agreeing to serve on the Long Range Financial Planning Commission. Although the charge of the commission is ambitious and the time frame short, we are very optimistic that the commission can meet its goal of developing fiscal plan recommendations by this fall. The experience and knowledge which you and the other members bring will ensure the success of this effort.

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Sincerely,

Sincerely,

Sincerely,

Tony Knowles
Governor

Drue Pearce
President of the Senate

Gail Phillips
Speaker of the House

Enclosures

cc: Senator Georgianna Lincoln
Senator Steve Rieger
Representative Mike Navarre
Representative Sean Parnell
Annalee McConnell, Director, OMB
Pat Pourchot, Legislative Director

Mr. Robert W. Loescher
Executive Vice President
Sealaska Corporation
One Sealaska Plaza, Suite 400
Juneau, AK 99801-1276 **ENDFIELD**
Mr. Loescher **ENDFIELD**
ENDRECORD

Mr. Brian Rogers
P.O. Box 80690 College Station
Fairbanks, AK 99708-0690 **ENDFIELD**
Mr. Rogers **ENDFIELD**
ENDRECORD

Chancellor Lee Gorsuch
c/o University of Alaska Anchorage
3211 Providence Drive
Anchorage, AK 99508 **ENDFIELD**
Chancellor Gorsuch **ENDFIELD**
ENDRECORD

FIELD NAMES (name/address; salutation) ENDRECORD

Ms. Judy Brady
121 West Fireweed
Anchorage, AK 99503 ENDFIELD
Ms. Brady ENDFIELD
ENDRECORD

Mr. Bruce Ludwig
211 Fourth Street, Suite 406
Juneau, AK 99801 ENDFIELD
Mr. Ludwig ENDFIELD
ENDRECORD

Ms. Mary Nordale
Birch, Horton, Bittner & Cherot
100 Cushman, Suite 311
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Ms. Nordale ENDFIELD
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Mr. Mike O'Connor
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Ms. Marie Westfall
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Mr. Hugh Motley
P.O. Box 710
Cooper Landing, AK 99572 ENDFIELD
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Oil giants grapple over gas

Differences yield rare public hostilities among companies

By KIM FARARO

Daily News business reporter

This week's battle before the state's oil and gas commission wasn't anything like what you'd see on "Geraldo." No overturned chairs, no broken noses. But the argument was as close to a brawl as Alaska's giant oil companies get — at least in public.

The issues: Who, if anybody, is cheating the state out of millions of dollars. And does

this fight suggest the ownership structure of the giant Prudhoe Bay field will cost the state millions more.

At the heart of both matters is money, and how different oil companies see Prudhoe's money-making possibilities very differently.

Under an agreement set up years ago, companies own one percentage of the oil and a different percentage of the natural gas.

What that might mean, some officials say, is that Prudhoe's majority oil owners are so intent on producing crude that they'll delay gas production too long — possibly losing the state its best chance to market the valuable commodity.

But that's getting ahead of the story.

First the basics. Prudhoe Bay is owned by 11 companies but dominated by three. BP Exploration (Alaska) Inc. owns

51 percent of the oil but only 14 percent of the gas. Arco Alaska Inc. and Exxon USA Inc. each own 22 percent of the oil but 43 percent of the gas.

Arco and Exxon want to produce more gas. BP says that would be a big mistake.

The owners often disagree, and the fights are often ugly. But they're behind closed doors.

Please see Page D-4, OIL

ADN Thurs, June 22, 95

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OIL: Industry giants get involved in rare public hostilities

Continued from Page D-1

The most public displays of differences are usually guarded jibes at oil-industry gatherings. Like the time an Arco vice president criticized an unnamed company for backing out of exploration in Alaska to spend its money elsewhere. Anyone in the business knew who he meant: BP.

This time, it's different.

Jeff Lowenfels, president of a company that wants to market Alaska's natural gas, called this week's hearing "the most vicious administrative hearing I've ever sat through. Arco was clearly saying: 'BP you cooked the books ... your people lied.'"

The word "lie" was never uttered, of course. But the accusations were thick and the atmosphere was tense. One day this week, John Donovan, an attorney for Arco, said BP was arguing a case that benefits only its bottom line. "BP's

technical case is a sham," he charged.

When the Prudhoe oil companies produce their oil, they also produce the field's natural gas. Most of that gas gets injected back into the ground to help push more oil from the field. The gas could be sold in world markets later.

But some gas becomes liquid during oil production, and some of this liquid gas gets put into the trans-Alaska oil pipeline and shipped to market.

A few months back, Arco tried to boost the amount of liquid gas that it ships with crude. Trouble is, the pipeline where gas and oil are mixed is on BP's side of the field. Arco says it notified BP that more gas was coming but BP refused to open the valve allowing more blending.

BP says that liquid gas is too important to sell now. The state could lose 200 million barrels of oil and gas over Prudhoe Bay's life if that gas

isn't put back into the ground, BP says. That's the size of a very large oil field.

Arco says BP is overestimating how much extra oil the gas will push up — and that the state's take from gas sales now will outweigh the value of that extra oil.

Refereeing this issue is a little-known but powerful state group called the Alaska Oil and Gas Conservation Commission. The three-man panel is charged with ensuring none of the state's oil and gas is wasted, and it can force the companies to operate differently so the state gets its fair share.

David Johnston, who heads the commission, says he expects to rule on the Arco-BP fight this summer. But that the hearings have raised additional concerns about whether oil companies' separate oil and gas ownership is good for the state.

In the past, he said, the

commission usually let the oil companies do what they wanted in developing the field — with the notion that money-making entities would try to maximize profits, which is good for Alaska's economy.

That was fine when Prudhoe Bay was such a prolific oil producer, because even owners with smaller piece of oil ownership got a lot of crude. Prudhoe still is the nation's biggest oil field. But, as less crude is produced, Johnston fears the field will continue to be run as an oil field to satisfy the more powerful and numerous oil owners. That group includes BP, but also companies like Texaco that own only oil and no gas.

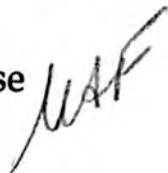
Johnston says the commission might force the companies to add the field's oil and gas together and take a single percentage of the total. But it could take months to reach that decision.

MEMORANDUM

29 March 1995

TO: Members, Long Range Financial Planning Commission

FROM: Melissa Aber Fouse
Staff



The first meeting of the Long Range Financial Planning Commission scheduled for April 8th in Juneau will begin at 11 am in the Capitol Building, Room 205 (Butrovich Room). We plan to have an informal coffee hour beginning at 10 am, also in the Butrovich Room. This meeting will be teleconferenced.

The schedule as it stands now is as follows:

11:00 am to 1:00 pm	Meeting
1:00 pm to 2 pm	Break for Lunch
2:00 pm to 5:00 pm	Meeting

Those members flying from Anchorage can fly down and back the same day if they so desire. Alaska Airlines Flight 62 leaves Anchorage at 7:50 am and arrives in Juneau at 9:29 am. Flight 67 leaves Juneau at 6:55 pm and arrives in Anchorage at 8:35 pm. Members wishing help with their reservations are welcome to call me at 258-8170.

cc:Mail for: Melissa Fouse

Subject: LRFP

From: LHSCMAF 1/30/95 2:56 PM

To: LHSCMM at JNU_CAPITOL

So what is the scoop on the Long Range Financial Planning Commission? Who is carrying the bill for Gail? Staff-wise, I mean. I think there should be a whereas or a section in the "shall" part that talks about maintenance of public facilities, a la Jeanette James HB 81. I think this is a good deal and whatever small thing I can do to help in on its way, please feel free to call on me.

Oil ban falls in House

New measure allows exports

By DAVID WHITNEY
Daily News reporter

WASHINGTON — Oil from Alaska's North Slope, which for 22 years could be sold only in the United States, may be trading on foreign markets early next year under legislation passed by the House Monday.

The Senate passed similar legislation in May, and President Clinton has said he'll sign it.

Ending the export ban will be a financial boon to Alaska and the North Slope's largest producer, British Petroleum, because prices are expected to rise as much as \$3 a barrel.

"We have believed all along that Alaskan crude should be available for export where it will be sold at a price set by the marketplace," Charles H. Bowman, head of BP America, said

Please see Back Page, OIL

QDN
25 July 95

Note: Revenue is sticking by its projections of \$80 million from this

PER ROGER MARKS:

WILL RESULT IN
\$80M YR 1
40M YR 2
20M YR 3

will be updated in fall forecast.

25 July 95

OIL: U.S. House approves export measure

Continued from Page A-1

in a prepared statement after the vote.

According to the U.S. Department of Energy, selling Alaska oil abroad could stimulate oil production in California and Alaska. That could add as many as 25,000 jobs and \$1 billion in state and federal tax receipts by the turn of the century, the agency said. Alaska's share of that would be about \$140 million a year.

But critics warned the move could raise gasoline prices for West Coast motorists. They also charged that the additional industry profits are not likely to be plowed back into domestic production, and that lifting the ban will increase U.S. dependence on foreign imports.

"We're going to create a fire sale and then we'll be completely dependent on the Middle East," said Rep. Sam Gejdenson, D-Conn.

Rep. George Miller, D-Calif., charged that the bill "represents the collapse of the argument that producing oil is vital to American security." But Rep. Don Young of Alaska said that the majority of U.S. oil imports now come from Canada and Mexico and that U.S. dependence on

Middle Eastern oil has declined. And with Alaska oil no longer depressing West Coast prices, he said, domestic production will soar.

Last year, Gejdensen was chairman of the committee overseeing foreign trade and was able to crush oil-export efforts. With Republicans now in charge of the House, however, most Democrats joined them on the export bandwagon as the chamber voted 324-77 to lift the ban.

While there are differences between the the House and Senate versions, those should be ironed out quickly. Alaska Republicans control the committees that wrote the legislation. Sen. Frank Murkowski heads the Senate Energy and Natural Resources Committee and Rep. Young, who pushed the bill on the House floor Monday with only minimal resistance, is chairman of the House Resources Committee.

The administration still would have to complete an environmental analysis before any oil could be exported, but Energy Department officials think that will take less than six months.

Still, there could be rough international waters ahead.

The bill requires the oil to be carried on U.S.-flagged and crewed vessels. The Clinton administration said that the restriction doesn't violate international trade agreements, but many countries hotly disagree.

Last week, European Union officials protested the exclusive shipping arrangement before the World Trade Organization in Geneva. If the organization agrees, the United States may be forced either to pay off the complaining countries or open the exports to foreign tankers, U.S. Trade Representative Mickey Kantor has said.

The North Slope oil export ban has been in force since 1973, when Congress gave the go-ahead to construct the 800-mile trans-Alaska oil pipeline. At the time, the United States was in the midst of an oil crisis created by an embargo on oil shipments from the Middle East. Congress wanted to make sure that Prudhoe Bay's huge reserves stayed in the country.

The consequence is that crude oil which couldn't be refined and sold on the West Coast was shipped down the Pacific to Panama, unloaded into a pipeline, and then pumped to tankers for delivery to

Gulf Coast refineries. Those added transportation costs dampened the oil's value and reduced Alaska's royalties.

Eliminating the West Coast surplus has been the driving economic force behind lifting the export ban. The argument was that if there was no surplus, Alaska oil would trade at higher world market prices. As it turns out, there isn't much of a surplus left. Prudhoe Bay oil production is declining, though it still amounts to about 25 percent of domestic production, and it is now selling at close to world prices.

The major advantage of selling the oil abroad now will be the even lower transportation costs of shipping overseas. According to the Energy Department study, Alaska oil carried on huge supertankers can be delivered at less cost to Japan than to San Francisco.

Export authorization comes as the Alaska delegation is also pushing to open the Arctic National Wildlife Refuge to oil drilling. The refuge's coastal plain is believed to be the best prospect for a giant oil discovery in North America. Any oil pumped from there could be exported.

The Anchorage Times

Publisher: BILL J. ALLEN

"Believing in Alaskans, putting Alaska first"

Editors: DENNIS FRADLEY, PAUL JENKINS, WILLIAM J. TOBIN

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Drip, drip, drip

IN SOMETHING akin to water torture, Alaskans are finding themselves subjected to a subtle but relentless bit of brainwashing. They are being quietly told over and over again — in a drip, by drip, by drip process — that, of course, one day Alaska will have to reinstitute a personal income tax.

They keep hearing in a never-ending variety of ways that if and when the time comes — and it's not really a question of *if*, but of *when* — good-hearted Alaskans will accept a new income tax because, well, it's simply the thing to do.

After, all don't all states have an income tax?

Well, as a matter of fact, not all states do have an income tax. New Hampshire, for one, gets along very well without a levy against personal income. So do six other states, thank you — and others are increasingly in a tax-cutting mood.

In Alaska, however, where the income has been off the books for more than a decade and a half, there are those who can't stand the thought of people not paying taxes — sales taxes, property taxes, income taxes, you-name-it taxes.

Taxes are necessary to support government, you see. And supporting high-paying public sector jobs is crucially important to a big number of people — and that makes the imposition of taxes an issue for a lot of politicians.

The argument in support of the let's-convince-you, drip-drip-drip faction is that the state is facing a huge fiscal crisis, and a personal income tax is the only way to close the gap between declining income and continued high spending.

But of course it isn't the only way — or even the one that will work most effectively.

The state pays out more each year in Permanent Fund dividends than it would collect in personal income taxes set at any sort of reasonable level. Elimination or reduction of the annual Permanent Fund handouts would do the job nicely. Ah, but that's a whole different political hot potato, isn't it?

Furthermore, the imposition of an income tax would mean that a whole new bureaucracy, made up of auditors, enforcement agents, collection clerks and administrators, would have to be created — thus providing more government jobs, complete with rich benefits in the form of vacations, health insurance and pensions. And that's a preferred option to a lot of people.

The state's left hand would continue once a year, under this drip, drip, drip scenario, handing out hundreds of millions of dollars in money to every man, woman and child, workers and non-workers alike, while its right hand would be taking away a big chunk of the earnings of those who happen to be working for a living.

And all the while the Permanent Fund bulges with \$15.5 billion, the ultimate use of which still remains a mystery.

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ADN 11 Aug 95

State fiscal panel nearing end of preliminary findings

By DAVID GERMAIN
The Associated Press

JUNEAU — A grab-bag of money measures — from reducing Alaska's dependence on oil revenue to bringing back the income tax — are under consideration by a panel examining the state's long-term financial troubles.

The Long Range Fiscal Planning Commission this weekend is putting finishing touches on a preliminary report to hold state spending in line with revenue.

Appointed last spring by Gov. Frank Knowles and legislative leaders, the 15-member panel is trying to come up with a business plan to deal with ongoing challenges that are expected to grow worse in the next decade.

The preliminary report, expected to be finalized at a meeting today and Saturday in Anchorage, makes no recommendations. That will come in October, when the panel issues its final report to the Legislature and the governor.

Some of the ideas the panel has discussed are old ones, such as raising the income tax, a politically unpopular proposal that some conservative members feel is inevitable.

Equally unpopular is a proposal to cap payouts to Alaskans from the state's Permanent Fund, using the excess revenues for government services.

Panel members said, no matter what recommendations they make, the message is clear: State government is in a painful position. "We're in the sort of position that we're in now," said one panel member, "that

'We're not in a crisis situation now. The problem is, if we don't do something, we will be in that position a few years from now.'

— Annalee McConnell, state budget director

plagues other states.

"We're not in a crisis situation now. The problem is, if we don't do something, we will be in that position a few years from now," said Annalee McConnell, state budget director and a member of the panel.

In recent years, the state has avoided budget deficits only by drawing on reserve funds, money that came largely from tax and royalty lawsuits against oil companies.

This year alone, reserve cash will pay for about one-fifth of the state's \$2.5 billion budget. That keeps up the reserve fund — now at about \$2.3 billion — could be gone over the next decade.

The state already has begun cutbacks, reducing spending this year. The commission is trying to come up with other spending cuts along with ways to bring in more money.

Oil revenues account for four-fifths of the state's annual income. But the uncertainty of oil prices, along with declining oil production from the vast Prudhoe Bay field, makes it hard to predict revenues.

While state officials want to develop new businesses to offset the loss of oil money, it will take time to be Alaska's main source of income, said one

near future, said Rep. Sean Parnell, R-Anchorage, a commission member.

"There's no way we can hope to diversify our revenue base enough in the next 10 to 20 years to make up for declining oil revenues," Parnell said. "Prudhoe Bay is the main source of state government revenue and there's no way we can replace it." Parnell said that has led to talk of new taxes, such as increasing motor fuel taxes or bringing back the personal income tax, which was eliminated in the late 1970s. When the state was flush with new oil cash.

"Everyone in the government financial community is kind of sorry we're dealing with the income tax," said Bruce Ludwig, a commission member and business manager of the Alaska Public Employees Association, a union representing 1,500 state workers. "It's going to be real hard for people to accept it again."

Parnell and other Republicans who control the Legislature have said that the public will accept any tax increase if the state brings spending under control.

Panel members said they will not recommend a tax increase unless the state brings spending under control.

A PRACTICAL GUIDE
FOR
DEALING WITH THE FISCAL GAP

Cliff John Groh

April, 1990

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I. The Nature of the ProblemA. The Fiscal Gap Is Real, and Is Potentially Very Wide

The biggest question facing Alaska today is how to deal with the difference between income and outgo in the state budget. This "fiscal gap" will be the issue of the 1990s as much as state spending was the issue of the 1980s.

The budget is about \$2.3 billion for fiscal year (FY) 1990. (This figure represents unrestricted General Fund dollars, which is what most people mean when they say "the budget.") The budget faces numerous pressures to grow no matter what the revenues are. One of those pressures is the continuing growth of the state's population; another pressure is the tendency of the federal government to shove off responsibilities on the states.

The revenues, on the other hand, are probably going to go down in terms of what they can actually buy. It's important to factor in the effects of inflation when thinking of future revenues and future expenditures, because \$1 will be worth less--and thus buy less--one year or five years from now than it could buy today. So let's talk about future revenues and future expenditures in terms of "real dollars"--that is, dollars measured on a common yardstick of purchasing power--so that we can account for the effects of inflation.

The following table shows the unrestricted General Fund revenues projected by the Alaska Department of Revenue for four fiscal years--1993, 1997, 2000, and 2010--plus the actual revenues for FY1989. The table shows the revenues projected for each year under each of three scenarios--low, medium, and high. Caution: these scenarios are not gospel. All three are plausible, however, and actual revenues are likely to come in somewhere between the low and the high scenarios.

Unrestricted General Fund Revenues
Real 1989 Dollars ("Purchasing Power")

<u>Fiscal Year</u>	<u>Low Scenario</u>	<u>Mid Scenario</u>	<u>High Scenario</u>
1989	\$2.2 billion	\$2.2 billion	\$2.2 billion
1993	\$1.6 billion	\$2.0 billion	\$2.6 billion
1997	\$1.1 billion	\$1.4 billion	\$2.9 billion
2000	\$0.7 billion	\$1.0 billion	\$2.3 billion
2010	\$0.3 billion	\$0.4 billion	\$0.8 billion

(Source: Alaska Department of Revenue, Revenue Sources Book, Fall, 1989--rounded to the nearest hundred million)

If the high scenario occurs, the State is in fairly good shape for the next 10 years before facing grim belt-tightening in the first decade of the next century. The news is much worse under the mid and low scenarios. Under the mid scenario, under current law and current policy the State would have to cut the budget by 30 percent by 1997 and by more than 50 percent by 2000. The low scenario is even scarier: the State would have to cut the budget by half by 1997 and by more than two-thirds by 2000.

This analysis becomes more alarming still when you remember that barring a big out-migration caused by a crashing economy, Alaska's population will continue to grow. This means that with the existing sources of revenues, real per capita public spending in Alaska will almost certainly take a sharp fall in the next 10 to 20 years.

B. The Fiscal Gap Is Caused By Falling Oil Production

The fiscal gap exists because most of the money in the Alaska state budget and the Alaska economy comes from oil. The price of oil is liable to sharp swings, and Alaska is running out of oil to sell and to tax.

Almost 85 percent of Alaska's state revenues comes from taxes and royalties on oil production. The dominance of oil revenues in the State's budget will decline, but will continue at least until today's newborns get into high school. The Alaska Department of Revenue forecasts that the state will receive more than half of its revenues from oil and gas until at least 2005.

This heavy reliance on petrodollars to fuel the State budget leaves the state exposed to drops in both the price of oil and the production of oil.

The first problem--price declines--is longstanding and well-known. Oil prices have been up and down a lot during the 1980s, particularly in the last half of the decade. The 16 months between November of 1988 and February of 1990 have seen the market price of Alaska North Slope oil below \$11 a barrel and above \$20 a barrel. Prices around \$20 a barrel--the level in February of 1990--creates a sense of complacency in State policy-makers. Prices around \$10 a barrel trigger fear and panic. The collapse of the oil market to around \$10 for several months in early 1986 brought a substantial cutback in the State budget.

Now the scope of the problem has doubled. The price of oil may bounce up and down, but the new problem is that Alaska's oil production is definitely going down. Just as most of Alaska's revenues come from one source (oil production), most of Alaska's oil production comes from one source: the super-giant Prudhoe Bay field. And the flow from Prudhoe Bay is falling.

Taxes and royalties from Prudhoe Bay account for about 75 percent of state oil revenues, and thus produce about three out of every five dollars in the state budget. Prudhoe Bay production began dropping in calendar 1989, and the Department of Revenue projects that it will continue to fall by five to 10 percent a year. The falling production at the field means that we are losing the equivalent of one well a week at Prudhoe Bay, without any replacement.

Prudhoe Bay has been an extremely rare gift to Alaska. The oil industry calls it an "elephant"; it is by far the largest oil field in North America and the only world-class field on the continent. It is highly unlikely any field anywhere near its size will be found in Alaska again.

New production from smaller fields on the North Slope will probably replace only a fraction of the lost production from Prudhoe Bay. The Trans-Alaska Pipeline is no longer full, and will almost certainly never be full again.

The Department of Revenue's high scenario projects that in less than 10 years, Prudhoe Bay production will be less than half of what it is today. Under the low and mid scenarios, that point is reached in less than seven years.

Unless the real price of oil more than doubles during that period, this fall in production will put a serious dent in the budget. The high scenario says that prices will go almost that high by 2000. The low and high scenarios do not, and forecast a real crunch in the 1990s. Counting on prices to go up as production goes down also puts Alaska on a treadmill; if prices slowed their increase or even dropped, catastrophe would follow.

Maybe this forecast is too pessimistic. Maybe other events not assumed in the forecast will force world oil prices up or increase Alaska's production. Maybe, for example, the recent moves toward free markets in the Soviet Union and Eastern Europe will increase worldwide demand for oil, thereby pushing prices up. Maybe a major field will be discovered in the Arctic National Wildlife Refuge. But even a big find in ANWR would not increase Alaska's oil tax or royalty collections until after 2000, because even the Resource Development Council says that it would take more than 10 years from the time Congress authorized drilling before the first oil could come out. (Carl Portman, "Limited exploration approach in ANWR could impede discovery," Juneau Empire, June 29, 1988, p. 4.)

It seems safest to assume the mid scenario, prepare for the low scenario, and dream of the high scenario.

II. Potential Gap Closers

LIST OF OPTIONS

The major ways available to the state to close the fiscal gap are:

1. Cut the budget
2. Raise business taxes
3. Raise individual taxes and fees
4. Settle the disputes over taxes and royalty payments from prior years
5. Invest more successfully
6. Cut or eliminate Permanent Fund Dividends
7. Cut or eliminate Permanent Fund inflation-proofing
8. Cut or eliminate Permanent Fund principal
9. Borrow
10. Sell cash assets
11. Insure against oil revenue declines ("hedging")
12. Engage in entrepreneurial activities

Let's consider these options one by one.

1. CUT THE BUDGET.

This is a popular idea. To decide whether to cut, how much to cut, and how to cut, here are two critical facts which are poorly understood: Alaska's budget is high, but it has always been high; and Alaska's high budget is not primarily caused by paying too much to too many State employees.

BUDGET FACTS

a. Alaska's budget is high, but it has always been high. In 1987, Alaska's state spending per resident was a little more than three times higher than the average of all other states, even after accounting for the higher cost of living here. (We have to account for cost-of-living differences in comparing revenues and expenditures in different places just as we had to account for inflation in comparing revenues and expenditures in different years. Just as \$1 won't buy as much in 1995 as it would in 1990, that same \$1 won't buy as much in Alaska as it would in Arkansas.)

But Alaska's higher-than-average spending did not start with the petrodollar boom. Alaska's per capita spending was almost twice as high on a cost-of-living basis as the national average in 1967--before Prudhoe Bay was discovered. It was still at about the same relative level in 1977--at the end of the pipeline construction boom but before the petrodollar boom of state spending. (Institute of Social and Economic Research, "Facts and Fables of State Spending," ISER Fiscal Policy Paper No. 2, October, 1989, p. 8.)

In the current fiscal year, FY1990, the State is spending a little more than \$4,000 per person in today's dollars. This is about the same level of real per capita spending as in FY1979, before the budget explosion of the early '80s. (Division of Policy, Office of the Governor, "State Spending in Alaska, Fiscal 1979-1990," July 24, 1989.)

There are two big differences between now and 11 years ago. The first difference is that we are more dependent on oil money--85 percent in FY90 versus 73 percent in FY79. (Alaska Department of Revenue, Revenue Sources Book, Fall, 1989, pp. 13 and 53.) The second difference is that now oil money is falling off, not about to take off.

b. The budget is high for a number of reasons, not just because there are a high number of well-paid State bureaucrats. Many people seem to believe that Alaska spends a lot of money mainly because it has too many workers and pays them too much. This is incorrect.

Per capita State employment was about 2.7 times higher in FY87 than the national average, and State employee wages in FY87 were about 25 percent higher than the national average, even after adjusting for the higher cost of living here. (Institute of Social and Economic Research, "Facts and Fables of State Spending," ISER Fiscal Policy Papers No. 2, October, 1989, p. 12.) But State employee salaries, wages, and other compensation account for only about 30 percent of the total State budget.

About 45 percent of the State budget goes for "transfers": a collection of payments of grants and claims to individuals or local governments. This is the biggest and fastest-growing part of the State budget. Also called "entitlements" or "pass-throughs," these programs include five programs for local governments: the school foundation program; school debt reimbursement; revenue sharing; municipal assistance; and pupil transportation. Another four programs aim their benefits at individuals: public assistance; medical assistance; power cost equalization; and the longevity bonus.

Of these nine largest transfer programs, four are not based on need, ~~not even partially:~~ ^{the longevity bonus,} municipal assistance; power cost equalization; ~~and school debt reimbursement~~ (in 1990 legislation changed this from a transfer program and made it part of the capital budget). Two of these programs--municipal assistance and power cost equalization--did not exist before the petrodollar boom of the '80s began, and one--the longevity bonus--existed only in a much cheaper (although unconstitutional) form.

Other reasons exist for Alaska's high per capita spending besides higher transfer program costs and higher State payroll costs. Some are special Last Frontier conditions that are not captured in a cost-of-living adjustment but still drive up the budget. This "Alaska factor" would include the state's huge size, small population, highly dispersed population, heavy reliance on flying, and harsh climate.

More important than the "Alaska factor" is that in Alaska the State government pays for and does many things that in other states are either financed and delivered primarily by local governments. ~~It is~~ ^{the} important still is that in Alaska the State government ~~pay~~ ^{for} and does many things that in other states no government ~~does~~ ^{does} at all. Examples of rare or unique Alaska State expenditures would include municipal assistance, the longevity bonus, the pioneers' homes, and power cost equalization. (Permanent Fund Dividends are also unique to Alaska, although they are not part of the budget because they come out of Permanent Fund earnings.)

To sum up, the State budget is roughly 45 percent transfers and pass-throughs, 30 percent State employee pay and benefits,

and 25 percent everything else. A budget strategy which focuses on the State employees alone misses the big picture.

BUDGET OBSERVATIONS

a. The State budget must be cut, if only because no plan to close the fiscal gap can succeed politically without budget cuts being part of the package. To win public acceptance for an overall plan, the budget must go down in current dollars, which with inflation and population growth means a significant cut in real per capita terms.

b. It will be difficult to cut the budget without also raising taxes, although that will be the first natural reaction in a true fiscal crisis. It will be even more difficult to raise taxes without cutting the budget. Being able to do either in an intelligent manner before the crisis hits will require political leadership of the highest order.

c. A budget can be cut selectively or non-selectively. Non-selective cuts are politically easier, but selective cuts are more responsible.

One example of a non-selective method is to impose across-the-board reductions. This involves picking a number--say seven percent--and ordering all program expenditures to be cut by that amount. This approach is less unpopular with State employees and beneficiaries of the budget than selective methods, because across-the-board cuts leave no one feeling singled out.

Another example is to enforce a policy of attrition. This approach is more popular with union leaders than immediate layoffs, because it makes the cuts voluntary with the employees.

Yet as politically attractive as these cuts sound, they should be avoided as much as possible. Non-selective cuts leave the government doing all the same things, only less well.* The reality is that some programs are important than other programs, and some jobs are more important than other jobs. Leadership requires the setting of priorities.

*

Attrition is particularly hard to implement as a long-term strategy to cut State employment significantly. What does an agency do, for example, if its only accountant quits? Go without? Or take an accountant from another agency, thereby leaving that operation short?

Setting priorities means being selective on the basis of values. The first values to observe are to minimize waste, fraud, and abuse and to generally economize. Saving money by getting the government to spend more honestly and more efficiently is certainly desirable, but will probably not capture substantial budget cuts.

Significant selective budget cuts will come only by deciding what the most important functions of government are, and targeting spending on those functions.

c. Cutting the budget is difficult. The budget as a whole is politically unpopular, but each individual part is important to some interest. Moreover, more than one in every four jobs in Alaska can be traced to State and local government spending. (Institute of Social and Economic Research, "Facts and Fables of State Spending," ISER Fiscal Policy Paper No. 2, October, 1989, p. 14.) There are major splits in Alaska along regional and ethnic lines, and cutting the budget touches those splits where they hurt. It is difficult for the Governor to cut the budget because the Governor's own advisors will recommend against it; they are almost invariably advocates of particular programs or interests. Finally, a Governor's greatest political power to cut the budget comes at the beginning of the term, when the Governor has the least information on which to base the cuts.

2. RAISE BUSINESS TAXES.

SPECIFIC INDUSTRIES

A. OIL. There are two pots of business money to tax in Alaska: oil and everything else. Oil is the big pot. Despite the beginning of the fall in Prudhoe Bay production, oil is still where the big money is in Alaska, at least for the next few years. A 1989 study by Edward B. Deakin, an internationally known petroleum accounting expert, reported that the oil industry made more than \$41 billion in Alaska in after-tax profits between 1969 and 1987. (Edward B. Deakin, Oil Industry Profitability in Alaska--1969 Through 1987, Alaska Department of Revenue, 1989.) More than 90 percent of that profit came from two sources: the Prudhoe Bay field and the Trans Alaska Pipeline System (TAPS).

Overall, the Deakin study showed North Slope oil development at an annual rate of return of more than 29 percent after-tax. And most of this profit is leaving the state: the Deakin study found that oil companies were re-investing in Alaska less than 70 percent of the cash flow made here.

A more recent study financed by ARCO also suggests that the oil industry can afford to pay more taxes in Alaska. The Institute of Social and Economic Research found that the tax rate

for the petroleum industry in Alaska was "just about the same" as the national average--which means that some states have higher tax rates. (Institute of Social and Economic Research, "Alaska's Potential Tax Revenues," ISER Fiscal Policy Papers No.3, February, 1990, p. 2.)

Two methods of raising taxes on the oil industry in Alaska have been recently discussed: (1) changing the method by which oil and gas corporations pay State corporate income tax (from formula apportionment to separate accounting); and (2) "decoupling" the statewide oil and gas property tax from local property taxes on oil and gas.

1. Separate accounting. When thinking about taxes, most people think about the rate; in Alaska the official top tax rate on corporate income is 9.4 percent. This is the rate for the corner grocery store as well as the multinational oil company.

But just as important as the rate is the base--which is the amount of money to which the tax rate applies. If the taxpayer can report a small base, this will lower the effective tax rate the taxpayer actually pays.

The base issue is particularly important in taxing corporations that operate in more than one state or country, and there are several methods for defining the base in this situation. The two methods most discussed in Alaska are "formula apportionment" (which we have now for all corporations) and "separate accounting" (which between 1978 and 1981 we had for oil and gas corporations).

Formula apportionment is based on a corporation's worldwide income. It thus allows deductions for expenses which have nothing to do with Alaska.

The formula apportionment method is not designed for oil production activities, and seriously understates the amount of income in an oil-producing state like Alaska. By averaging all profits into worldwide operations, the phenomenal profits made at Prudhoe and from the pipeline largely escape taxation. Detailed analyses have showed that under the formula apportionment method the big oil companies producing at Prudhoe Bay pay an effective tax rate of only 3.7 percent--not the 9.4 percent paid by the corner grocery store.

Formula apportionment also has the inequitable effect of imposing different tax levels on producers with the same profits in Alaska. Oil companies with identical holdings in Alaska pay vastly different rates.

Recognizing these problems with formula apportionment, in 1978 the Alaska Legislature adopted separate accounting as the

method for taxing the income of oil companies operating in Alaska. Separate accounting might be called "all-Alaska accounting" because it only looks at the profits and losses of a corporation inside Alaska, and does not collect taxes on income or allow deductions for expenses paid outside of the state.

The major oil producers sued after the separate accounting law was passed, claiming it was unconstitutional. Alaska won this lawsuit all the way to the United States Supreme Court, which ruled in Alaska's favor in 1986.

While the lawsuit was pending, the Legislature moved to protect the people of Alaska from having to pay back a lot of money if the State lost in court. These concerns led the Legislature to repeal the separate accounting law in 1981, returning to a form of formula apportionment.

A number of people have supported the reinstatement of separate accounting for oil companies, particularly since it was upheld by the U.S. Supreme Court.

ARGUMENTS FOR SEPARATE ACCOUNTING:

a. Separate accounting makes a lot of money. Putting separate accounting back on the books would most likely produce \$100 million to \$400 million in additional revenue each year, according to estimates by the Department of Revenue. The revenues gained by separate accounting would go up as oil prices went up, and go down as oil prices fell. At very low oil prices, separate accounting could raise slightly less than the current system of formula apportionment.

b. Separate accounting is more fair than current law. Current law lets big oil companies get out of paying income taxes on most of the profits they make here in Alaska. Under Alaska's tax law now, the oil companies can write off a share of the cost of dry holes in Indonesia or Texas against profits made here in Alaska. As a result, the tax law now lets the oil companies shift their profits so that they end up paying Alaska income tax on less than half of the profits they earn from Alaska oil. By contrast, separate accounting is a fair tax system because it only allows deductions for costs related to Alaska income, and only collects taxes on income earned in Alaska.

c. Separate accounting does not discourage marginal production. Separate accounting more accurately taxes profits of oil production and oil transportation, so it focuses on the two big profit centers in Alaska: the Prudhoe Bay field and TAPS. Less profitable operations are not hit with higher taxes.

d. Separate accounting has significant political support. This position is particularly popular in Fairbanks, and has been one of the two issues promoted by the Committee to Repeal the ELF. The Railbelt Coalition has passed a resolution in favor of separate accounting. The Coalition is a group of local governments which includes the Fairbanks North Star Borough, the Municipality of Anchorage, the Matanuska Susitna Borough, and the Kenai Peninsula Borough.

ARGUMENTS AGAINST SEPARATE ACCOUNTING:

a. Separate accounting is more difficult to administer than formula apportionment. The disadvantage of a formula is that it can be distorting in a particular case; the advantage is that it is easy to plug in numbers and come up with a tax bill. The difficulty of administering separate accounting can lead to delays in collections. The problem of delay can be partially addressed by having the State change its procedures in tax administration.

b. Separate accounting leads to more unstable revenues than formula apportionment. Separate accounting is more sensitive to profits made in Alaska than is formula apportionment. This means that separate accounting is also more sensitive to swings in the price of oil than is formula apportionment. Thus revenues could be more unstable. Policy-makers need to balance that against the high likelihood of higher revenues under separate accounting under almost all future price scenarios.

c. Separate accounting faces significant political opposition, particularly from the oil industry. British Petroleum, the major lease-holder at Prudhoe Bay, is especially strong in this sentiment.

2. "De-coupling" the statewide oil and gas property tax from local property taxes. Alaska law provides for a 20-mill State tax on oil and gas production and pipeline transportation property. (Twenty mills equals two percent.)

There are two problems with this tax. The tax base is shrinking because the value of oil and gas property is falling. And the State's collections are being gobbled up by local governments, because all property taxes paid by oil companies to local governments are a credit against the State's take.

The State cannot do anything about the shrinking tax base except encourage further oil development in Alaska. The State can do something about the second problem by eliminating the credit for local governments.

The total tax base for this tax is more than \$16 billion. With a 20-mill tax, this means that total tax collections equal about \$350 million. But because the State allows a credit for taxes paid to local governments, the State is receiving only about five mills, or about \$80 million. The local governments with oil and gas property in their jurisdictions are receiving more than 15 mills, or more than \$250 million. The North Slope Borough and the City of Valdez receive most of the revenue.

The credit means that every time that any local government with oil and gas property raises its tax rates, the State's take is reduced. The local governments have such a great effect on the State's collections that in one year the tax base increased in value and the State's take still went down because of local property tax increases.

The effect of the credit in reducing the State's take means that the State could cut its 20-mill tax rate to 10 mills and double the State's revenues if the credit for local taxes were also eliminated. This proposal would "de-couple" the State tax from the local governments' taxes, and would allow the local governments to continue to tax up to the 20-mill ceiling they face now before they go past the protection of the State tax.

De-coupling would raise the maximum potential tax burden on oil and gas property in Alaska from 20 mills to 30 mills.

ARGUMENTS FOR DE-COUPLING:

a. De-coupling will raise substantial revenues. If the credit for local taxes were killed and the State's rate were cut to 10 mills, the State's collections will double. Initially this would raise the State's take from about \$80 million to about \$160 million.

b. De-coupling would make the State's collections from the oil and gas property tax more stable. Now three percent of the State's revenues are at the mercy of local governments with oil and gas property. Each time the local governments raise their taxes, the State's take goes down. Killing the credit would remove this instability.

c. De-coupling could provide a way to eliminate legal uncertainty caused by the current system. There have been repeated legal questions raised about the operation of the present system of local governments' oil and gas property taxation. De-coupling could provide a legislative framework to get out of this continuing controversy.

ARGUMENTS AGAINST DE-COUPLING:

a. De-coupling would leave the local governments on their own against the oil companies. Now the local governments can raise taxes on oil and gas property up to 20 mills with impunity. The availability of the credit means that local government tax hikes only cut into the State's take, and do not increase the oil companies' overall tax bill.

This argument appears weak in the face of the political skill and sophistication shown today by the local governments with oil and gas property. They seem to be able to take care of themselves.

b. De-coupling would effectively raise taxes on the oil industry.

B. FISHING. The most important thing to remember about the revenue potential of the commercial fishing industry is that there is a lot less money there than in oil. In the last fiscal year, taxes on the fishing industry raised less than \$40 million for the State--and an aggressive estimate of the amount available from greater taxation would be another \$40 million a year. (Memorandum from Commissioner of Revenue Hugh Malone to Rep. Al Adams, "State Revenue Options Discussion Paper," November 14, 1988, p.2.)

This estimate of \$40 million would be for a new five percent tax on the landing of all processed fisheries resources within State jurisdiction, including transshipments that occur within Alaska's three-mile limit. Assuming that the boom in bottomfish does not fizzle out, enacting a fisheries resource landing tax is the only way to capture a good portion of the resource value to compensate for the impact the industry has on communities such as Unalaska.

We should explore the enactment of such a fisheries resource landing tax.

An approach with more political appeal would be to stop eroding the fish taxes we already have and devote more resources to enforce them. Tax credits now give away more than a third of all the potential tax collections on the raw fish tax, Alaska's ^{primary} fish tax. The great majority of these credits go to Outside-based corporations who employ mostly non-residents. We should really consider whether this credit program is helping the State.

The bottomfishing industry has grown rapidly in Southwest Alaska, and our tax compliance efforts have fallen behind. There are millions--maybe even tens of millions--to be raised by hiring more fish tax auditors.

C. MINING. Like bottomfishing, mining is growing rapidly in Alaska. Like fishing, compliance efforts on taxing this industry have not kept up with this growth. Mining could probably also support some tax increases, but any tax hike on mining would bring in very little compared to raising more money from oil.

D. TIMBER. Unlike fishing and mining, timber has not been growing rapidly in Alaska. The tax potential for this industry is lower than the other resource industries.

GENERAL OBSERVATIONS

Some have suggested paying for activities in the budget aimed at regulating certain industries by charging "user fees" from those regulated industries. This may be a good and relatively politically acceptable idea, but it is important not to overstate the revenues that can be generated in this way. Adding up the FY1990 budgets for the agencies in the Departments of Natural Resources, Commerce and Economic Development, and Fish and Game primarily concerned with regulating oil and commercial fishing produces less than \$75 million.

3. RAISE INDIVIDUAL TAXES AND FEES.

There is one central fact about individual taxes in Alaska: people here pay about the lowest taxes in the United States.

Study after study shows this. A study of the state and local tax burdens faced by a family of four in the largest city in each state shows Anchorage residents as having the lowest taxes in each of four income categories. An article in Money magazine named Alaska one of the country's "tax havens." The survey in Money shows that its average reader in Alaska has lower taxes than readers in every other state except Florida and New Hampshire. This comparison obviously understates the good deal available in Alaska, because neither Florida nor New Hampshire has a Permanent Fund Dividend program. (Department of Finance and Revenue, Government of the District of Columbia, Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison, June, 1989, pp. 10-13; and Teresa Tritch, "The Taxes You Can No Longer Ignore," Money, January, 1990, pp. 81, 82.)

Alaskans are not overtaxed. If national averages mean anything, Alaskans are grossly undertaxed for the amount of government they get.

Nor are the residents of Alaska's two largest cities--despite their complaints--taxed the most severely within the state. A 1988 House Research Agency study estimated the local taxes which would be paid by a family of four with a home and a

boat. The analysis of the local taxes levied in 12 Alaska communities showed that taxes ~~were higher~~ in Haines, Wrangell, Ketchikan, and Juneau were all higher than in Anchorage or Fairbanks. (Karen Oakley, "Local Taxation: Variation Among Communities and Effect on Receipt of State General Funds," Research Request 88.126, House of Representatives Research Agency, February 12, 1988, p. 3.)

Higher taxes are inevitable. Let's look at what kind those could be.

GENERAL CONSIDERATIONS

We can measure the desirability of different types of individual taxes and fees in Alaska by four general considerations: revenue potential; progressivity; administrative feasibility; and political acceptability.

Revenue potential is obvious. All other things being equal, the best tax is the one that raises the most money.

Progressivity is a common goal of taxation. It is based on the idea that richer people should pay a higher percentage of income to support government than should poorer people. Even those who reject the concept of progressivity should at least avoid the opposite; taxes should be at least proportional, because it cannot be right for the poor person to pay a greater percentage of his or her income in taxes than a rich person.

Administrative feasibility is a dull subject in theory, but a critical one in government. It's generally easier to raise money by hiking an existing tax than enacting a whole new tax. Start-up costs should be factored in to any discussion of the relative potential of different taxes.

Political acceptability is tricky. Alaskans have gotten used to not paying taxes. The most popular tax would be either invisible or paid only by non-residents. Given that we cannot attain much revenue from either kind of tax, let's look at ways to make taxes more or less acceptable.

One facet of the political acceptability of a tax is its visibility. It is easier to get people to pay taxes if they don't notice it. This is a big problem for the income tax, which requires taxpayers to send in very obvious annual checks.

Another aspect of political acceptability is the visibility of the benefit received for the tax or fee. The most politically acceptable revenue raisers are those linked to a specific and tangible benefit--like an increase in the gasoline tax earmarked for highway repair. Similarly, the idea of a "user fee" is more

popular than a tax because the "user fee" seems to cut out the bureaucratic middleman and directly finance a useful activity.

There are obvious limits to this "fee for service" concept. One big one is that there is no way to charge for welfare. Society has a floor below which it does not want anybody to fall, regardless of ability to pay.

A final test of political acceptability for a tax in Alaska is how much it will hit residents versus non-residents. Alaskans resent people who live somewhere else coming in and making money here. The anger is particularly aimed at the oil, fishing, and construction industries. Fishing and construction work is often seasonal, making it easy for non-residents to come in and get it. Work in all three industries in Alaska often occurs at remote sites unsuitable for permanent habitation. The individual income tax is the only tax that can hit significantly at non-residents. (But it is constitutionally and administratively impossible to get only non-residents to pay it.)

SPECIFIC TAXES AND FEES

A. INDIVIDUAL INCOME TAX. Alaska had an individual income tax before 1980, but eliminated it that year in the first surge of petrodollar euphoria. Bringing back the income tax would raise \$250 million annually (assuming a 3.27 percent effective rate, the plan proposed by Governor Cowper in 1987). (Memorandum from Commissioner of Revenue Hugh Malone to Representative Al Adams, "State Revenue Options Discussion Paper," November 14, 1988, p. 2.)

Alaska is one of only seven states with no individual income tax. The proposed effective rate of 3.27 percent would give Alaska one of the 10 highest income tax rates of any state in the nation.

The major arguments for the income tax are that it raises a significant amount of money, it is progressive, and it is the only tax that hits at non-residents to any significant degree. The major arguments against an income tax are that it is hard to start up, and that its high visibility unlinked to any obvious specific benefits makes it highly unpopular with a large segment of the public.

B. GENERAL SALES TAX. Alaska has never had a statewide sales tax. The State has traditionally reserved the general sales tax for local governments--although the biggest local government--Anchorage--does not impose one. A broad-based State general sales tax could raise \$57 million per one percent of tax, so a three percent tax could raise \$171 million. This estimate

assumes that the tax would cover all retail sales (including residential and commercial customers.

Alaska is one of only five states with no statewide sales tax. (Alaska is the only state without either an individual income tax or a sales tax.) A three percent rate would put Alaska among the top 15 states in sales taxes.

Federal tax law currently makes state sales taxes non-deductible against the federal income tax, while state income taxes remain deductible. This means that Alaskans would fare worse with a sales tax.

Enacting a statewide sales tax also raises the question of how the State will treat sales in areas that already have local sales taxes. The revenue estimate assumes that the State will neither allow a credit against the State sales tax for local governments which have their own local sales taxes, nor will it share revenues with those local governments. If the State takes this approach, businesses within those jurisdictions will be forced to assume a double filing burden. This increases the potential for errors and non-compliance, and substantially increases the political opposition.

The start-up^{costs} on a general statewide sales tax would be very high, in part because we have never had one.

This tax is regressive, and will hit particularly hard at low-income Alaskans. Non-residents and seasonal workers will largely escape this tax, because they do not buy much here.

Despite the unfairness of this tax, it is less unpopular than an income tax, because the sales tax is paid in nickels and dimes all year long instead of in a lump-sum check.

C. RAISE FUEL TAXES. Alaska levies sales taxes on specific commodities. One of these "excise" taxes is on fuel. Alaska's taxes on fuel are very low compared to other states. Alaska is third from the lowest on its gas tax and second from the lowest on its diesel fuel tax. Doubling the motor fuel tax from 8 cents to 16 cents a gallon would raise \$34 million and put Alaska at the national average on state taxes.

This tax is somewhat regressive. A tax hike is relatively easy to implement, and is a good revenue raiser for the effort.

Governor Cowper's proposal to double the motor fuel tax is going nowhere during the 1990 legislative session. An increase can best be sold politically if it is linked to highways. Supporters should consider a constitutional amendment which would allow a dedicated highway fund for this purpose.

For all these excise taxes, remember that increasing the tax will almost certainly lead to decreased consumption. This decreased in consumption will necessarily hold down ~~on~~ the revenues gained, although for some commodities--such as the next two discussed--this drop in use is all to the good.

(All excise tax rates come from Federation of Tax Administrators, "State Excise Tax Rates Are Rising," FTA Bulletin, February 9, 1990.)

D. INCREASE TOBACCO TAXES. Alaska increased its tobacco tax in 1989, and now has the 13th highest tax on cigarettes in the U.S. Note that excise tax hikes do not raise all that much money; an 80 percent tax increase only brought in \$4 million.

Just because we can't balance the budget on the backs of smokers doesn't mean that we shouldn't try to raise money to help fight the health costs of the use of this commodity. Alaska could raise another \$3 million or so if it raised cigarette taxes to the highest level in the country, and we should consider it.

E. EQUALIZE THE ALCOHOL TAX ON A PER OUNCE OF ALCOHOL BASIS. There is a different tax rate for the three major kinds of alcohol. The tax per gallon of distilled spirits is \$5.60, the tax per gallon of wine is \$0.85, and the tax per gallon of beer is \$0.35.

Alcoholic beverages are not all ethyl alcohol, although that is what people are buying the stuff for. One proposal would be to equalize the tax rates based on alcohol content, with the tax rate for distilled spirits being used as the standard. This proposal would raise the tax rate on wine to \$1.82 per gallon and raise the rate on beer to \$0.58 per gallon. Enacting this proposal would raise \$4 million annually.

Alaska's alcohol taxes are now in the mid to high range. Alaska's tax on distilled spirits would remain the third highest in the country for states which allow that liquor to be sold outside State-run stores. Alaska's tax on wine would be the highest in the country, and the tax on beer would be the third highest.

This proposal to equalize the tax based on alcohol content has three justifications. One rationale is that tax collections are dropping, and one cause of the decline is that people are shifting away from distilled spirits towards wine and beer--which are more lightly taxed. A second rationale is that what we should be taxing is the stuff people are buying it for. A third justification is that no state has more problems with alcohol

than Alaska, and anything that discourages consumption is probably desirable.

The public understands this third rationale, but the liquor lobby has stopped this proposal. A slick effort killed this idea in the Senate in 1989.

F. INCREASE USER FEES. Perhaps another \$30 million could be raised by doubling driver's license, motor vehicle registration, and fish and game license fees. Another \$30 million could come from doubling fees on the Alaska Marine Highway System.

4. SETTLE THE DISPUTES OVER TAXES AND ROYALTY PAYMENTS FROM PRIOR YEARS.

The State is claiming more than \$4.4 billion in disputes with oil and gas producers and purchasers over taxes, royalties, and pipeline tariffs. This figure does not count estimates for recent years whose audits are not yet complete, and also excludes Exxon Valdez oil spill litigation and a dispute with the Federal government over revenue sharing (the Dinkum Sands case). Adding those figures in could add another several billion dollars to the total claimed. (Richard A. Fineberg, Oil and Gas Revenue Disputes: Status Report and Recommendations, prepared for the Alaska State Legislature, February 1, 1990, p. 7; and Memorandum from Commissioner of Revenue Hugh Malone to Representative Al Adams, "State Revenue Options Discussion Paper," November 14, 1988, p.3.)

Two points about this disputed oil money: 1. The State will not get as much as it has claimed; and 2. The more we feel we have to have this money in any particular year, the less we will ever get. Taken together, these two facts mean that the State cannot count on settlements to save the budget.

Counting on settlements of these disputes to fill the budget gap on a continuing basis would be like announcing that you have to sell your car today and your house tomorrow to keep food on the table. Settlements will bring in some money over the next 10 years, but we can't rely on any particular amount in any particular year unless we want to give away the farm.

5. INVEST MORE SUCCESSFULLY.

As Prudhoe Bay production falls, the amount of money in State hands happens to be growing. The General Fund sometimes has \$1 billion or more sitting in it, and the Permanent Fund now has about \$10 billion.

The State does fairly well in the management and investment of its funds now, but it could do better. If the State could raise its return from the General Fund by one percentage point--from, say, 15 percent to 16 percent--the State could earn an extra \$10 million on its \$1 billion. The payoff from greater returns is much greater in the Permanent Fund, because it's bigger; each additional one percent added to the Permanent Fund's total return adds another \$100 million to its earnings. This suggests that the State ought to make it a high priority to get the greatest total return from its money, consistent with safety. Greater diversification of investments could be one key to greater returns.

6. CUT OR ELIMINATE PERMANENT FUND DIVIDENDS.

About half of the Permanent Fund's income each year goes for Permanent Fund Dividends. This unique Alaska program will put more than \$500 million into the Alaska economy in 1990, with each Alaskan getting a check of about \$1,000. The entire Alaska economy has about \$10 billion of personal income, so for every \$20 bill you see, about \$1 of it is a dividend dollar.

The program was born during the petrodollar surge of the early '80s, and it has several rationales.

a. Permanent Fund Dividends build a political constituency for the Permanent Fund itself. Special-interest pressure for Permanent Fund investment in shaky Alaska development schemes would be irresistible without the provision of direct and tangible benefits for individual Alaskans. PFDs provide that direct and tangible benefit, and give the public a powerful incentive to increase the size of the Fund and protect it against special-interest raids.

b. PFDs are more fair than many of the other uses of the oil money. Subsidized loan programs have been a particularly egregious example of the inequity of other uses. Loans only go to those who can pay them back--thus cutting out many people--and subsidized loans provide big grants of "subsidy welfare" to those fortunate enough to receive them.

c. To the degree that government expenditures in Alaska are justified because of the economic effects, PFDs stimulate the economy more efficiently than do operating expenditures, capital expenditures, or loan programs. Using a dollar to pay a PFD increases personal income more than using that dollar to pay for the operating budget, the capital budget, or a loan program. Permanent Fund Dividends provide a significant portion of the incomes of many Alaskans, particularly village Natives. In 1988, more than 12 cents of every dollar of income in the Wade Hampton census area around Bethel came from PFDs. Using a dollar to pay

a PFD creates more jobs than using that dollar to pay for the capital budget or a loan program.

d. PFDs deliver benefits more efficiently to the PFDs' targeted population than these other methods of using money deliver benefits to their own targeted populations. Significant chunks of the money distributed in other ways leak out to "middlemen." PFDs allow each Alaskan to receive benefits undiluted by State employees, construction contractors, or bankers.

e. The payment of PFDs decentralizes decision-making. Individual decisions can often be better than collective decisions. Some Alaskans believe that the money distributed as PFDs in the 1980s was better spent than it would have been if the legislature had had that money available to spend.

Some say that these rationales for PFDs mark the program as an antidote for a disease--too much money coming into public hands--which is now gone, and that the antidote itself is no longer necessary and perhaps even harmful. Some say it's time for the State to return to the core functions of government, which do not include per capita direct distributions. And some will say that it would be crazy to restore the individual income tax as long as the PFD survives.

There may be merit to these arguments against PFDs, but Alaskans should be wary. Permanent Fund Dividends have helped protect the Permanent Fund from low-return investments, and they have been a big boon to lower-income Alaskans with large families who were not so poor as to qualify for public assistance. Eliminating the PFD would hurt low-income residents, and keeping the Dividend should be considered whether or not the income tax comes back.

7. CUT OR ELIMINATE PERMANENT FUND INFLATION-PROOFING.

This is where the other half of Permanent Fund income goes annually: to keep the real value of the Fund from eroding each year from the ravages of inflation. No matter what you plan to use the Permanent Fund for, you need to maintain inflation-proofing to be able to do it. Reducing inflation-proofing cuts into the size of both the principal and the income in the future.

8. CUT OR ELIMINATE PERMANENT FUND PRINCIPAL.

Spending any of the corpus of the Permanent Fund would require a constitutional amendment. Soon--within a couple of years--the Permanent Fund will be the number one revenue producer for the State. Whatever you want to do with the Permanent Fund, it would be nigh-impossible politically and unwise to try to spend it.

9. BORROW.

The State could borrow, but this is of course a short-term strategy. Besides the obvious necessity of paying the money back, there are constitutional restrictions on any long-term strategy of rolling the debt to pay for the operating budget.

10. SELL ASSETS.

The State has significant assets which have some value on the open market. These assets include the Alaska Housing Finance Corporation, the Alaska Power Authority, and the Alaska Railroad Corporation. The catch is that the State is unlikely to get a good deal by immediately selling any of them. The amount and liquidity of these assets and the amount of the liabilities remain undetermined.

11. INSURE AGAINST OIL REVENUE DECLINES ("HEDGING").

The State can insure against getting hit hard by oil price declines and production drops the same way a person can insure against getting hurt in a car accident: by buying insurance. The problem is that the risk of the bad outcome is so great here that the insurance will carry a heavy price tag--say, in the hundreds of millions.

12. ENGAGE IN ENTREPRENEURIAL ACTIVITIES.

The State has gotten involved in the private economy before, often with less than favorable results--Delta barley and Matanuska Maid come to mind. Perhaps the State's problem has been that it has gotten into the ^{wrong} businesses. Instead of agriculture, perhaps the State needs to invest in more likely fields: gambling and oil.

If the State ran a lottery, one--perhaps low--estimate of the potential proceeds is \$10 million; legalized gambling operated by private interests could produce \$5-10 million in State amusement taxes and local property taxes. (Institute of Social and Economic Research, "Alaska's Potential Tax Revenues," ISER Fiscal Policy Papers, No. 3, February, 1990, pp. 12, 14.) There are obvious moral objections to either course.

A more promising venture could be found in oil. The State gets almost all of its oil money from taxes and royalties on production--the "upstream" end of the oil business. Often, however, the big money in oil is "downstream," in the transportation, refining, and distribution of oil and oil products. Some have suggested that the State buy into TAPS, but it is probably too late for that to work. It does make sense, however, for the State to explore the acquisition of an interest

in a refinery. This could allow the State to reap the profits available in processing its in-kind royalty oil. This course could be risky, but prudence might dictate diversification away from the strict reliance on the price of oil at the wellhead the State currently depends upon.