

HB

20

Alaska State Legislature
Representative Carl E. Moses



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Member
House Finance Committee

MEMORANDUM

DATE: March 10, 2001

TO: Rp. Carl Morgan and Rp. Kevin Meyer, Co-Chairmen
House Community & Regional Affairs Committee

FROM: Rp. Carl E. Moses
House District 40 *CEM*

SUBJ: Request for Hearing - HB 20

I would like to request a committee hearing on HB 20, the bill to institute a municipal dividend program. As you know, funding for Municipal Assistance and Revenue Sharing has been reduced over the past several years, leaving the state's municipalities without a predictable, reliable source of assistance.

At its core, HB 20 would reestablish the Public Safety Foundation Program, providing assistance for specified basic municipal services. It would repeal Municipal Assistance and Revenue Sharing. It would be funded from surplus earnings of the Permanent Fund's earnings reserve, after inflation-proofing and the payment of individual dividends, at a rate of \$150 per dividend recipient. It would draw approximately \$72 million from the earnings reserve account. It would free up approximately \$45 million in General Fund money. There is a broad support base for this measure.

A committee hearing at your earliest convenience will make a positive contribution to the public discussion regarding a long-range fiscal plan. If there are any questions, please contact me, or Tim Benintendi of my office. Thank you.

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SPONSOR STATEMENT / SECTIONAL ANALYSIS

HB 20 - Municipal Dividend Program

The establishment of a Municipal Dividend program would provide Alaskan municipalities with a predictable and reliable source of income with which to address basic community needs. Currently, full funding for essential services is going unmet, in part, due to declining state municipal assistance and revenue sharing General Fund allocations. Increases in local property taxes are not always the answer, especially in many communities where there is insufficient tax base to draw upon.

HB 20 would repeal the current municipal assistance and revenue sharing programs, thus allowing for a General Fund cut of approximately \$50 million. It would fund defined basic services from the surplus earnings of the Permanent Fund at a rate of \$150 per dividend recipient, only after inflation-proofing and only after payment of individual dividends. This plan would provide approximately \$72 million to municipalities in the next fiscal year (FY02), a very modest draw from the surplus earnings. It clearly defines the uses to which funding may be applied, and provides minimum amounts for small municipalities (\$45,000) and unincorporated communities (\$10,000).

It does not require a constitutional amendment, nor does it require a vote of the public. Approval of this Municipal Dividend plan is fully within the authority of the legislature. Within HB 20, annual legislative powers of appropriation remain intact. The bill's impact on an individual dividend check is slight over time, with estimates by the Permanent Fund Corporation at less than \$100 per year for the next ten years (see PFC chart). Measure this against the value of adequate local police, fire, EMT, health care, and road maintenance services of benefit to individual residents over the same time period.

Given our inability to substantially cut the state operating budget, and given our unwillingness to raise new revenues, we need to look at using surplus earnings of the Permanent Fund in some effective way because of the above two political realities. The Municipal Dividend program responds to the continued reduction in state funding to municipalities, and would be an effective counter to the popularity of a local tax cap solution. It is effective, reliable, and controllable. HB 20 is a plausible component of a long-range fiscal plan.

ADAK • AKUTAN • AMCHITKA • ATKA • ATTU • BELKOFSKI • CHERNOFSKI • CHIGNIK • CHIGNIK LAGOON • CHIGNIK LAKE • COLD BAY
DUTCH HARBOR • EGEGIK • FALSE PASS • IGIUGIG • ILIAMNA • IVANOF BAY • KING COVE • KING SALMON • KOKHANOK • KOKHANOK BAY • LEVELOCK
NAKNEK • NELSON LAGOON • NEWHALEN • NIKOLSKI • NONDALTON • PEDRO BAY • PERRYVILLE • PILOT POINT • PORT ALSWORTH • PORT HEIDEN
PORT MOLLER • SAND POINT • SHEMYA • SQUAW HARBOR • SOUTH NAKNEK • ST. GEORGE ISLAND • ST. PAUL ISLAND • UGASHIK • UNALASKA • UNGA

BILL SECTION 1: Sets out findings which provide guidelines for the bill, including identifying the basic services of police, fire, EMT, health and road maintenance, recognizing the Public Safety Foundation Program, recognizing municipal accountability, and protecting the integrity of the Permanent Fund's inflation-proofing and individual dividend payment program.

BILL SECTION 2: Defines those fire-fighting and EMT organizations eligible to receive payments under new section AS 29.60.730 (in Bill Section 7).

BILL SECTION 3: Adds the Public Safety Foundation Program to those programs that apply to Home Rule communities.

BILL SECTION 4: Adds the Public Safety Foundation Program to the compliance language necessary for municipalities to receive program funds.

BILL SECTION 5: Adds the Public Safety Foundation Program to the list of programs through which funds are allocated to a municipality, that a municipality must report to its taxpayers.

BILL SECTION 6: Declares that compliance with AS 29.45.660(b) is necessary for receipt of funds under the Public Safety Foundation Program.

BILL SECTION 7: The heart of the bill. Reestablishes the Public Safety Foundation Program; establishes the Municipal Dividend Fund in the Department of Community and Economic Development; **retains legislative powers of annual appropriation:** sets out the qualifications of municipalities for eligibility and minimum municipal entitlements (\$45,000); creates the road maintenance entitlement (\$2,000/mile) and per capita supplement (\$10/head); sets out the formula for the fire and emergency medical services entitlement (\$20/head for fire AND \$20/head for EMT); allows for public education on fire and safety matters of up to 55% of the fire/EMT entitlement; establishes the entitlement for police protection services (\$20/head); creates the hospital and health services entitlement for municipalities which provide these services; establishes the minimum entitlement for unincorporated communities (\$10,000); and provides for payments for VPSO services (\$15/head).

BILL SECTION 8: Adds minimum entitlement provisions of AS 29.60.690 (in Bill Section 7), to the unincorporated community capital matching grant fund program.

BILL SECTION 9: Amends the Municipal Capital Project Matching Grant Program by adding the Public Safety Foundation Program as a source of the local share funding for municipalities.

BILL SECTION 10: Amends the Municipal Capital Project Matching Grant Program by adding the Public Safety Foundation Program as a source of the local share funding for unincorporated communities.

BILL SECTION 11: Adds new subsection to AS 37.13.145 to provide for the transfer of funds from the earnings reserve account to the new Municipal Dividend Fund, calculated and limited to \$150 per each individual PFD distributed the previous year. This happens after AS 37.13.145 (b), the set-aside for individual dividend payments, and (c), the set-aside for inflation-proofing.

BILL SECTION 12: Technical provision which prorates payments under the road maintenance entitlement, for circumstances where a municipality may receive other funds for road maintenance upon roads it may not own, but for which it may have maintenance responsibility.

BILL SECTION 13: Repeals currently-established Revenue Sharing and Safe Communities programs.

BILL SECTION 14: Continues eligibility of unincorporated communities to receive state aid for FY 02 once the program conversion takes place.

BILL SECTION 15: Revisor's technical note.

BILL SECTION 16: Establishes an effective date of June 30, 2001.

HB 20 / Rp. Carl E. Moses (staff: tim benintendi / 6591) 3-15-01

HB 20 - Municipal Dividend

- ◆ **Major step toward a long-range fiscal plan**
Would mesh well with a variety of plan components or alternative plans
- ◆ **Frees up approximately \$50 million in General Funds**
By shifting the funding source away from GF, many corresponding programs could be reduced to avoid duplicating services.
- ◆ **Repeals Municipal Assistance / Revenue Sharing programs**
Eliminates one of the most contentious annual funding debates
- ◆ **Retains legislative powers of appropriation**
Annual review opportunity of specific allocations to police, education, and fire services, plus EMS, roads, and health facilities.
- ◆ **Enhances community security**
Improves public safety services, including community EMS, Police, and Fire.
- ◆ **Puts more money in the pockets of Alaskans**
Provides \$150 per capita per year which could offset local property taxes by providing essential local services. The long-term impact on the PFD is negligible.
- ◆ **Helps avoid subjecting the Permanent Fund to IRS taxation**
Strengthens the Permanent Funds' "public purpose" objective by directly supporting local education and public safety.

Municipal Dividend - House Bill 20

What is a municipal dividend? A responsible approach to get more money into local communities by transferring a measured amount of funding from the excess earnings of the Permanent Fund equal to \$150 per PFD recipient to a Public Safety Foundation account. Those funds would then be distributed to cities and boroughs to pay for police, fire, emergency medical services, road maintenance and capital improvements. Inflation-proofing of the Permanent Fund and payment of individual PFD checks would be accomplished before the calculation and distribution of the Municipal Dividend.

The legislation repeals Revenue Sharing and Municipal Assistance, thus potentially saving the General Fund approximately \$50 million. This would allow the state legislature to:

1. Make responsible GF reductions;
2. Divert saved GF funds to other priorities if desired;
3. Help municipalities provide specific, essential, local government services while returning local prioritizing and decision-making to communities;
4. Allow for reducing commensurate, state-provided services.

Who should support a municipal dividend?

1. Those developing a long-range fiscal plan
2. Local taxpayers
3. Rural communities
4. Public Safety and Public Health organizations
5. Road Service Area boards and members
6. Schools, PTA's, School Boards

How does the municipal dividend program work?

The formula: $HB\ 20 = \$150 \times \text{the number of PFD recipients (after inflation-proofing and individual PFD checks are paid)}$ deposited into the Public Safety Foundation Fund.

Distribution from the Public Safety Foundation Fund to Alaska's cities and boroughs according to the following schedule:

- \$20 per person served for police protection
- \$20 per person served for fire protection
- \$20 per person served for emergency medical services
- \$167 per bed in hospital facilities or \$360 per bed in health facilities
- \$2000 per road mile plus \$10 per capita for use volume
- \$45,000 minimum entitlement for the smallest communities
- \$10,000 minimum for an unincorporated community for public purposes
- \$7.5 million (approximately) for the statewide VPSO program



Analysis of HB 20 Alaska Permanent Fund Corporation

Based on December 2000 APFC Financial Projections
(\$ in millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TOTALS
Payout per HB 20	1,252	1,257	1,212	1,184	1,200	1,286	1,342	1,402	1,464	1,529	1,595	14,723
Municipal Dividend (\$150 per person)	88	89	90	91	92	93	94	95	96	97	98	1,026
Distribution for PFD Fund	1,164	1,168	1,122	1,093	1,108	1,192	1,248	1,307	1,368	1,431	1,496	13,697
Payout Status Quo (all PFD Fund)	1,164	1,168	1,124	1,097	1,116	1,205	1,265	1,329	1,396	1,464	1,535	13,862
Difference in annual payout. (HB 20 - Status Quo)	88	89	88	87	84	81	77	73	69	64	60	860
Retain for Inflation - HB 20	687	695	727	759	792	825	858	893	928	964	1001	9,128
Retain for Inflation - Status Quo	687	695	727	759	792	825	858	893	928	964	1,001	9,128
AK Permanent Fund value in 2011 - HB 20											41,118	
Principal											31,796	
Earnings Reserve											9,322	
AK Permanent Fund value in 2011 - Status Quo											42,476	
Principal											31,796	
Earnings Reserve											10,680	
Per Person Dividend HB 20	\$1,930.00	\$1,910.00	\$1,810.00	\$1,740.00	\$1,750.00	\$1,870.00	\$1,930.00	\$2,000.00	\$2,080.00	\$2,150.00	\$2,230.00	\$21,400.00
Per Person Dividend Status Quo	\$1,930.00	\$1,910.00	\$1,820.00	\$1,750.00	\$1,760.00	\$1,890.00	\$1,960.00	\$2,040.00	\$2,120.00	\$2,200.00	\$2,280.00	\$21,660.00

These projections represent only our best estimate of the median case rate of return; actual annual performance will vary with market volatility.
Distributions shown for the Dividend Fund and the Municipal Dividend are calculated and booked as payable at fiscal year end and actually paid out the following fiscal year.
Slight differences due to rounding.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TOTALS
Payout per HB 20	1,281	1,286	1,242	1,213	1,229	1,313	1,369	1,428	1,489	1,551	1,616	15,017
Municipal Dividend (\$200 per person)	118	119	120	122	123	124	126	127	128	130	131	1,368
Distribution for PFD Fund	1,164	1,167	1,121	1,092	1,106	1,189	1,243	1,301	1,360	1,421	1,485	13,649
Per Person Dividend HB 20	1,930	1,910	1,810	1,740	1,750	1,860	1,930	1,990	2,060	2,140	2,210	21,330
Payout per HB 20	1,311	1,316	1,271	1,242	1,257	1,341	1,396	1,453	1,513	1,574	1,637	15,311
Municipal Dividend (\$250 per person)	147	149	150	152	154	155	157	159	161	162	164	1,710
Distribution for PFD Fund	1,164	1,167	1,121	1,090	1,104	1,186	1,239	1,294	1,352	1,412	1,473	13,602
Per Person Dividend HB 20	\$1,930	\$1,910	\$1,810	\$1,740	\$1,740	\$1,860	\$1,920	\$1,980	\$2,050	\$2,120	\$2,190	21,250

4 proposals could fill fiscal gap

Four proposals before the Legislature deal with the fiscal gap. Each has merit; yet all will likely fall flat if they attempt to stand on their own. They are:

1) The governor's proposal that should the Constitutional Budget Reserve be reduced to \$1.5 billion a state income tax is triggered;

2) Rep. Bill Hudson's proposal that when that reserve falls to \$1.5 billion some Permanent Fund earnings could be used for state spending;

3) Sen. Gary Wilken's bill to compel greater equity in taxing property for education, and

4) Rep. Carl Moses' proposal for "community dividends" as suggested by former Gov. Walter Hirkel.

To curry support I believe the governor's income tax must be flexible. It should only generate enough revenue to replenish the amount the Budget Reserve has been drawn down beneath \$1.5 billion. Also, for those who say they don't mind losing dividends but resent being taxed to assure dividends for "the great unwashed," perhaps it should cost no Alaskan more than that year's dividend check.

Hudson's proposal realistically and (in light of vehement voter opposition to use of dividend dollars for state spending) courageously recognizes that if the Constitutional Budget Reserve is exhausted, prospective dividend dollars will be the *only* dollars available to balance the books.

Unfortunately, most Alaskans seem unaware of this and oppose imposition of sufficient taxes to span that fiscal gap before dividends plunge into it. While most legislators know this to be true, few wish to jeopardize re-election by directly confronting the issue.

Current circumstances provide an ideal opportunity to do so *indirectly*. Oil prices are up; the budget gap at the moment is not yawning, and prospects of a gas pipeline and increased oil production spark a rosy glow on our economic horizon. What better time to put in place a plan that may never have to be implemented, but will ensure that if required it will be as painless as possible?

Wilken's bill will run into opposition from those in the unorganized borough who fear it will force them into organized

JAY
HAMMOND

COMMENT



boroughs. The bill's premise is that if Alaskans in organized boroughs must fund some educational costs through local property taxes, those in unorganized boroughs who now receive free educational services also should pick up part of the bill.

While the equity argument is apparent, achieving it by forcing property taxes on those now exempt would as well incur other administrative and legal costs.

Moreover, property values in much of the unorganized borough are so low assessment and collection costs might exceed tax money gleaned. Of course, since the Legislature by law sits as the Unorganized Borough Assembly it *could* already impose an unorganized borough property tax. For some 30 years it has declined doing so, fearing the political flak attending such action.

The governor's income tax proposal coupled with Hudson's bill to protect dividends and Sen. Wilken's to more fairly fund education could provide three solid legs for a chair upon which Alaskans could sit back and quit fretting about fiscal gaps, unfair or excessive taxation and devastation of dividends. However, that chair will not likely stand without one more leg.

Moses' Community Dividend could provide it: A per capita dividend would be dispersed to all communities to be used as they saw fit. An appropriate source of funding could be the amount of Permanent Fund earnings that Hudson's bill would break loose. If no more than 10 percent of the fund's earnings reserve were dispersed in community dividends this could amount to hundreds of millions annually without reducing the existing *personal* dividend by one dollar.

Those four "legs" would undergird such a chair and place it on firm fiscal

ground. In the process, runaway spending would be constrained; excessive taxation prevented; dividends *increased* and greater, more equitable funding for education obtained with no additional expense whatsoever to those who wish to remain in a property tax-free unorganized borough.

It's how: Pass legislation providing that should the Constitutional Budget Reserve be reduced to less than \$1.5 billion an income or other statewide tax would be imposed at the level required to bring the reserve back up to \$1.5 billion. At the same time a portion of the Permanent Fund's Earning's Reserve not required for inflation-proofing or to fund individual dividends would be dispersed in a "community dividend" on a per-capita basis.

For greater equity in education funding, communities not currently property taxed for educational purposes could have their community dividends reduced by an amount equal to the average statewide per capita property tax gathered in organized boroughs for education. An even simpler means might be to have the state retain the community dividends of each school-age child residing within the unorganized borough as "tuition."

If I've learned anything after more than 20 years of bobbing and weaving within the political arena, it is that a light jab is far more easily absorbed than an uppercut. All Alaskans are now crowded into a ring where, unless we engage in some aggressive fancy footwork and accept that light jab, dividends will be decked, our tax brackets bloodied and essential state programs pummeled.

Of course, no plan of attack is any good unless the alternative's worse. Be assured nothing will prompt politicians to do anything more than shuffle their feet and backpedal, awaiting that inevitable uppercut until voters understand that unless they prompt legislators to confront and fend off an assailant which each round will get bigger and stronger, those who wish to retain dividends might as well throw in the towel.

■ Jay Hammond was governor of Alaska from 1975 to 1983.

ADN, WED. 3-7-01

Dividend plan could solve state money woes

By REP. CARL MOSES

The current state budget situation presents us with yet another chance to collectively review in detail the structure of our governmental financing customs and hopefully make some needed and beneficial changes.

Because we do not forward-fund our state budget, that is, basing next year's expenditures on this year's revenues, I see no alternative but to make substantial changes in the way we currently plan expenditures, given current low oil prices and the likelihood of continued declining production.



Moses

If we accept the fact that there is a genuine budget shortfall this year of approximately \$1.2 billion

(with likely more of the same in the foreseeable future), and if we acknowledge the fact that there exist several possible recommendations to solve the problem, then we can focus on solutions.

No potential solution or combination of remedies identified to date will suit everyone. However, it is incumbent upon interested parties to participate in the public discussion and ultimate legislative action to keep Alaska on a sound, fair and practical fiscal path into the new millennium.

Recognizing a budget shortfall and yet little public enthusiasm for taxes or changes in the Permanent Fund structure, but also rec-



ognizing the difficulty in making large and substantial cuts to the state operating budget, what are we to do?

There is at least one idea with merit that has not received its due attention in the debate over the past few years, and that idea is the concept of a Municipal Dividend program. It is a proposal that can address as many or as few of the budget problems as may be desired. The key characteristics of this program are equity and fiscal responsibility, because it confines itself to passing from the state to local government units, responsibility and funding for services we in the Legislature continually hear are not being adequately met by the state.

If you are familiar with the individual Permanent Fund Dividend program, then you have an idea of how the Municipal Dividend program would work. Based upon strict criteria and local population figures, undistributed earnings from the Alaska Permanent Fund would be available for appropriation to Alaska municipalities, large and small, after providing for inflation-proofing the fund and for calculating individual Permanent Fund dividends.

There ultimately would be some impact on the size of the individual dividend. But any plan advanced to address our budget shortfall will cost individuals in one way or another.

That's why I emphasize that the time is upon us to make responsible, major changes in the way we devise our annual budget.

The focus of the idea is to provide municipalities funds with which to perform basic governmental services, some of which have been unfortunately reduced or eliminated in recent years by state government. Anyone who ever grumbled about the poor condition of local streets, lack of maintenance for schools or inadequate recreational facilities, for example, should embrace this plan as a way to address such problems with the focus of local prioritizing. Even the cynics who would frown upon the idea of giving more money to local politicians would not have to look twice to see the potential benefits of this plan for their cities and towns.

Another value of the Municipal Dividend program, and one addressing the immediate state fiscal shortfall, would be the reduction or elimination of some programs within the state operating budget funded with general fund dollars. Shifting responsibility away from state to local government, and shifting funding away from the general fund to the Permanent Fund's undistributed earnings, would reduce the fiscal gap and enhance local government objectives.

In the continual debate over what purpose to finally put earnings of the Alaska Permanent Fund to work, this proposal could give the fund a concrete objective, that of helping provide basic services to citizens of the state, through their local government.

I doubt there is a municipality in this state that would refuse a more stable and pre-

dictable stream of income such as the proposed Municipal Dividend program would provide.

The common perception of the fund was for it to eventually offset the decline of revenue from our oil resources. That time has certainly arrived. In addition, it is well known that the Internal Revenue Service will eventually look to tax the Permanent Fund directly if no clear public purpose is officially determined for the fund. With the individual PFD already being federally taxed via personal income taxes, this Municipal Dividend proposal could likely thwart any such proposal for taxation of the earnings of the fund.

Concerning the current fiscal challenge before us, a Municipal Dividend program could be part of a solution that may include some operating budget cuts, some new or increased taxation or a combination of both. It does offer the chance to reduce general fund spending, and provide a more reliable way of funding many essential local government operations in a time when assistance to local governments has been haphazardly diminished.

It will not adversely impact the economy and can be managed in such a way as to avoid dramatic infusions of funding into local governments. I believe the time has come to simultaneously address several statewide fiscal issues in great need of being brought to finality, with a plan which could be a positive component of a long-range fiscal policy.

Rep. Carl Moses, D-Anchorage, serves on the House Finance Committee.

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 20
 () Publish Date: _____

Revision Date/Time (Note if correction): 03/12/2001 10:55a.m. Dept. Affected: DCED
 Title: Aid to Municipalities and others BRU: Comm. Asst & Econ. Dev.
 Component: Community & Business Development
 Sponsor: Representative Moses
 Requester: House Community & Regional Affairs Component Number: 2486

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
 This bill has no fiscal impact on this department.

Prepared by: Pat Poland, Director Phone (907) 269-4580
 Division: Community and Business Development Date/Time 03/16/2001 10:50a.m.
 Approved by: Commissioner Deborah B. Sedwick Date 3/16/2001
 Agency: Department of Community & Economic Development

For distribution information, call the Governor's Legislative Office