

HB

35

22-LS0289\L
Cook
2/6/02

CS FOR HOUSE BILL NO. 35()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVE HUDSON

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the market value of the permanent fund and to distribution of the**
2 **income of the permanent fund; and providing for an effective date."**

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

4 *** Section 1. AS 37.13.140 is amended to read:**

5 **Sec. 37.13.140. Income available for distribution. The market value [NET**
6 **INCOME] of the fund includes the market value [INCOME] of the earnings reserve**
7 **account established under AS 37.13.145. The market value [NET INCOME] of the**
8 **fund shall be computed annually as of the last day of the fiscal year in accordance with**
9 **generally accepted accounting principles [, EXCLUDING ANY UNREALIZED**
10 **GAINS OR LOSSES]. Income available for distribution equals 5 [21] percent of the**
11 **average year-end market value [NET INCOME] of the fund for the last five fiscal**
12 **years, including the fiscal year just ended, but may not exceed [NET INCOME OF**
13 **THE FUND FOR THE FISCAL YEAR JUST ENDED PLUS] the balance in the**
14 **earnings reserve account described in AS 37.13.145.**

1 * **Sec. 2.** AS 37.13.145(b) is amended to read:

2 (b) **By October 1** [AT THE END] of each fiscal year, the corporation shall
3 transfer from the earnings reserve account to the dividend fund established under
4 AS 43.23.045, 50 percent of the income available for distribution under AS 37.13.140,
5 **or the balance in the account, whichever is less.**

6 * **Sec. 3.** AS 37.13.145(d) is amended to read:

7 (d) Notwithstanding (b) **and (e)** of this section, income earned on money
8 awarded in or received as a result of State v. Amerada Hess, et al., 1JU-77-847 Civ.
9 (Superior Court, First Judicial District), including settlement, summary judgment, or
10 adjustment to a royalty-in-kind contract that is tied to the outcome of this case, or
11 interest earned on the money, or on the earnings of the money shall be treated in the
12 same manner as other income of the Alaska permanent fund, except that it is not
13 available for distribution [TO THE DIVIDEND FUND], and shall be annually
14 deposited into the principal of the Alaska permanent fund.

15 * **Sec. 4.** AS 37.13.145 is amended by adding a new subsection to read:

16 (e) By October 1 of each fiscal year after the transfer under (b) of this section,
17 the corporation shall transfer from the earnings reserve account to the general fund 50
18 percent of the income available for distribution under AS 37.13.140, or the balance in
19 the earnings reserve account, whichever is less.

20 * **Sec. 5.** AS 37.13.150 is amended to read:

21 **Sec. 37.13.150. Corporation budget.** The revenue generated by the fund's
22 investments must be identified as the source of the operating budget of the corporation
23 in the state's operating budget under AS 37.07 (Executive Budget Act). The
24 unexpended balance of the corporation's annual operating budget does not lapse at the
25 end of the fiscal year but shall be treated as income **from the fund** under
26 **AS 37.13.145(a)** [AS 37.13.140].

27 * **Sec. 6.** AS 37.13.300(c) is amended to read:

28 (c) **Income or other money** [NET INCOME] from the mental health trust
29 fund may not be included in the computation of [NET] income available for
30 distribution under AS 37.13.140.

31 * **Sec. 7.** AS 37.14.031(c) is amended to read:

~~HOUSE STATE AFFAIRS~~
COPY

324 Willoughby
Juneau, AK 99801

February 25, 2002

The Hon. Ethan Berkowitz; Alaska House of Representatives
State of Alaska
Juneau, AK 99811 re: Dickens & Numbers

Thanks for the opportunity to talk to State Affairs today-- here are a few comments on Alaska's budget and growth percentages.

Dickens One of Charles Dickens' characters, Micawber, succinctly expresses the facts of budget life (paraphrased below):
"Income twenty pounds, expenditures 19 pounds, 11 shillings, 19 pence; result, happiness. Income twenty pounds, expenditures 20 pounds, 0 shillings, 1 penny; result, DESPAIR."

Irrelevant Percentages It really doesn't matter what percentage Alaska's income or expenditures increased by, whether this percentage is above or below some hypothesized ideal. All that matters is that current income be a bit MORE than current spending.

7% Seven percent, compounded for THIRTY years, results in a multiplier close to that 10.34 multiplier derived from actual population increases times inflation (consumer price index increases; using CPI gives a HIGHER number than producer price increases).

Only THREE, Not 4, doubles But using 1960 as a starting point, when actually the \$150 million was the 1969 budget figure for Alaska, is incorrect. This 9-year difference is significant because 1969-2002 would be about THREE 'doubles' at 7% {using the 'Rule of 72'} but 1960-2002 would be FOUR.

Three doubles would be: \$300, \$600, \$1,200 millions (\$1.2 billion). See accompanying "Claims & Facts", which shows a 10.34 ACTUAL multiplier: i.e., 1969 budget = \$1.551 billion in 2003.

As I told the Committee, this is of historical interest only, because the essential point is that current spending be kept below current income, regardless of historical trendlines.

Panama Canal Revelance? Whatever was spent on the Panama Canal (1895-1915?), even if of the same nominal dollar amount as Alaska's 1969 budget [UNTRUE], is irrelevant to Alaska's present situation. ["Nominal dollars" of course are radically different in real value when separated in time by perhaps 70 years, yes?].

Please keep the PFD program and Permanent Fund UNTOUCHED and UNCHANGED. Build up--and TAX--value-added manufacturing, winding down the CBR and balance State spending with State income. Yes, it can be done, probably in any of many different ways. Please do NOT involve the PFD or Permanent Fund: don't break the big piggy bank.

Sincerely & cordially,

Dr. Joe Sonneman



~~HOUSE BUDGET AFFAIRS~~
CO. 9

CLAIMS AND FACTS RE: PANAMA CANAL, ALASKA POPULATION, PRICE INDEX

by Joe Sonneman

CLAIM

FACT & SOURCE

The Panama Canal cost \$150 million.

One encyclopedia lists the cost of construction at \$380 million. Another encyclopedia does not list the construction cost, but notes that the U.S. paid Panama \$10 million to start, plus \$250,000 per year (starting in 1913), with the annual payment increased in 1936 to \$400,000 and increased again in 1955 to about \$1.9 million. {Panama always called this a "rental payment," not a purchase; hence, the return of the canal under Pres. Carter in 1978-79.}

The combination of Alaska population and inflation from 1969 [NOT 1960] to present is a compounded 7% {so it is OK to use the Rule of 72 in comparing 1969 and present Alaskan budgets]

[All numbers from the Statistical Abstract of the United States, 2001 and 1981 editions].

POPULATION of Alaska
1970: 303,000 2000: 627,000
INFLATION (national Consumer Price Index)
1982-83 = 100:
1969 = 2.726 2000 = .581

ANALYSIS: Not quite clear what kind of 'combination' is meant, additive or multiplicative, so let's take the bigger number by multiplying the differences.

$$\text{Population increase} = \frac{627,000}{303,000} = 2.069 \quad (1970 - 2000)$$

ROUNDING: let's round this up to 2.2 (1969 -2003)

$$\text{Price Index increase} = 2.726 / .581 = 4.6919 \quad \{\text{round to } 4.7\}$$

MULTIPLYING the 2.2 population increase x 4.7 price increase yields a result of 10.34, taking both population and inflation into maximum account ['maximum', because these were multiplied, not just added].

APPLYING the 10.34 multiplier to the 1969 Alaska budget total of \$150 million yields an equivalent year 2003 budget of about \$1.551 billion.

CONCLUSION: Alaska is spending far more in 2002 & 2003 than it did in 1969, even when corrections are made both for population increases and for inflation. That extra spending may be good in part--no one says the 1969 level was ideal--but the higher present level may be bad if spending continues to run ahead of income, especially if income actually declines as predicted by Dept. of Revenue (which does not have a good track record on predicting).

BACK UP MATERIALS SENT TO REP. BERKOWITZ

Sponsor Statement for CS HB 35 ()

Distribution of Permanent Fund Income

Representative Bill Hudson

"An Act relating to the market value of the permanent fund and to distribution of income of the permanent fund; and providing for an effective date."

The Permanent Fund currently provides each resident of this state a dividend. The source for that dividend depends on what we all know is an unsteady income stream: returns (or losses) from the Permanent Fund's investments. The Permanent Fund Board of Trustees has long recommended a "percent-of-value" determination for the annual payout, rather than an average of five year's income (or loss) from investments. HB 35 incorporates the Board of Trustees' recommendations to change the method used to calculate the annual distribution to the method used by most large managed funds. That is - paying out, "distributing" a percentage of the Market Value of the Fund, averaged over five years. With an expected average rate of return on the Permanent Fund's investments of 8.25%, paying out 5% ensures an annual inflation-proofing factor of around 3%.

The Board of Trustees recommends a 5% payout. HB 35 also statutorily fixes a distribution stream for that 5% payout; 50% to the dividend program, and 50% to the general fund. This will pay for approximately one-half of the \$1.0 billion dollar budget deficit each year while allowing for the continuation of the PFD. The Permanent Fund Dividend's would be reduced initially, but would continue to grow with the infusion of inflation proofing dollars. Those very inflation-proofing dollars are at risk to cover general fund spending if dramatic but effective measures are not adopted to deal with the fiscal gap.

HB 35 was introduced to give the Permanent Fund strength, security and stability far into the future, ensuring the commitment to pay dividends to Alaskans, while also allowing that the infrastructure of the state does not fall into further neglect. In fact, this bill would allow for the first major contribution for payment for essential services provided to the people of Alaska, while still preserving the continuation of the people's dividend for the foreseeable future.

Passage of HB 35 would allow the Permanent Fund Corporation to hold investments that historically need more time to mature rather than to cash them out in order to pay dividends each year. Another unique feature of the market value approach is that it produces a distribution program that is inherently more level. This is consistent with accepted methods of measuring Permanent Fund performance and with the market value accounting requirement now mandated by the Governmental Accounting Standards Board.

This bill is a major change to the status quo for the state budget, for the permanent fund dividend program, and for our personal contribution and our individual obligation for Alaskan programs that are vital parts of the economy and traditions of this state. If we don't modify the method for determining permanent fund dividends, if we don't find new sources for paying for roads, education and public safety and health programs, we will find ourselves the overseers of a weakened and poorer state. The erosion of both the CBR and, in time, the Earnings Reserve Account - ERA, (the current source for dividends and inflation proofing) is the alternative to broad-based taxes or other new revenues.

THE
FOLLOWING
DOCUMENT(S)
ARE
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P.O. Box 1417
Homer, AK 99603
October 10, 2001

Representative Bill Hudson
State Capitol, Room 502
Juneau, AK 99801

Re: Fiscal Policy Caucus

Dear Representative Hudson,

I strongly support instituting a combination of modest taxes to help bridge our fiscal gap. I attended a Fiscal Policy Caucus meeting and talked to you when I was in Juneau last April. I was impressed that you as a group agreed to sponsor town meetings across the state during the interim. I must admit that I was skeptical that these would actually take place. But to my relief, they are. I firmly believe that people will accept unwelcome responsibility when they are included in the process that determines a necessity.

I played with the Revenue Fiscal Model on the state web site and was a little disappointed at how hard it is to balance the budget. But, I am still committed to doing my share to help make it happen. I hope you will find a little residual fat to trim in order to make the taxes less painful.

In combination with this fiscal plan, I hope you will support HJR 15 to enact a 5 POMV payout limitation for the Permanent Fund. POMV payout reduces the pressure to manage the permanent fund for return over value. A 5% payout is generally recognized by large endowments as the highest sustainable payout, beyond which the real value of the fund would diminish over time.

A secondary benefit is that this methodology will provide a reasonable money stream for government if the legislature chooses to use it.

5 POMV payout combined with allocating 80% for dividends and 20% for government would preserve the status quo dividend formula with the understanding that the 20% transfer from the fund will reduce the fund's future income producing potential (as opposed to using earnings only for dividends as presently done). I would prefer no cap on the dividend and a progressive income tax.

I will be watching the fiscal plan and urge you to keep it alive and get it passed next session.

Sincerely,



Mary Griswold

Alaska State Legislature



REPRESENTATIVE BILL HUDSON
House Finance Committee

State Capitol
Juneau, Alaska
99801-1182
(907) 465-3744
Fax (907) 465-2273

MEMORANDUM

TO: Representative John Coghill, Chairman
House State Affairs Committee

FROM: Representative Bill Hudson *Bill*

SUBJECT: HB 35 Hearing Request

DATE: February 11, 2002

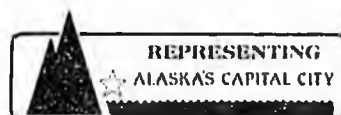
Thank you for scheduling HB 35 for hearing in the House State Affairs Committee. This letter concerns the timing of that hearing and my hope that you will consider moving the hearing date forward from February 23, 2002 to the meeting scheduled for February 19, 2002.

I believe that due to the extreme importance of this bill and the narrowing window of opportunity for public hearing, committee and floor debate of the full Fiscal Policy Caucus' recommendations that we need to treat this bill with expeditious handling. I would like to suggest that HB 35 and the other bills concerning the fiscal gap be acted on in State Affairs Committee at the earliest possible opportunity and then moved to the House Finance Committee to be bundled together with the tax measures that are already sitting in that committee.

Full and timely consideration of this series of measures needs to be considered together to determine how best to resolve the estimated \$1 billion dollar fiscal gap. Given your welcome agreement to timely hearing of the bills introduced and currently in House State Affairs Committee, I am respectfully requesting that HB 35 and HB 304 be moved up the calendar to February 19, 2002 and that if necessary they be continued to February 23, 2002.

While I appreciate the impact on the sponsors of the bills currently scheduled for that date, I believe that the advancement and public hearing on using a portion of the permanent fund to narrow the fiscal gap is of paramount importance to the purposes of this legislature and the people of Alaska.

Your consideration of this unusual request is deeply appreciated.



LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
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State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

February 11, 2002

SUBJECT: Distribution of permanent fund income and the rainy day account; summary (CSHB 35()); version L

TO: Representative Bill Hudson
Attn: Melanie Lesh

FROM: Tamara Brandt Cook
Director *TBC*

Sec. 1. Requires that the market value of the permanent fund be computed annually. Income available for distribution equals 5 percent of the average year-end market value for the last five fiscal years, but may not exceed the balance in the earnings reserve account.

Sec. 2. Requires the Alaska Permanent Fund Corporation, by October 1, to transfer from the earnings reserve account to the dividend fund 50 percent of the income available for distribution.

Sec. 3. Technical amendment.

Sec. 4. After the transfer is made to the dividend fund, requires the corporation to transfer from the earnings reserve account to the general fund 50 percent of the income available for distribution.

Secs. 5 - 9. Technical amendments.

Sec. 10. Repeals provision on inflation proofing the principal of the permanent fund.

Sec. 11. Establishes a phased in transition under which the income available for distribution is determined through the end of fiscal year 2005.

Sec. 12. Takes effect June 29, 2002.

TBC:med
02-137.med

Alaska State Legislature



REPRESENTATIVE BILL HUDSON
House Finance Committee

State Capitol
Juneau, Alaska
99801-1182
(907) 465-3744
Fax (907) 465-2273

MEMORANDUM

TO: Representative John Coghill, Chairman
House State Affairs Committee

FROM: Representative Bill Hudson *Bill*

SUBJECT: HB 35 Hearing Request

DATE: February 8, 2002

I respectfully request that you schedule HB 35 before the House State Affairs Committee at your earliest possible convenience.

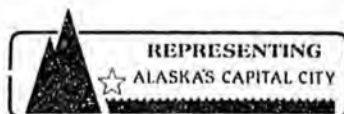
Attached are my sponsor statement and a draft committee substitute. The original introduction of HB 35 copied the last version of the Percent of Market Value Payout (POMV) concept discussed at length in the prior legislature. That bill (HB 411) died at the end of the 2000 legislative session, so I introduced HB 35 to renew this major element of the Balanced Budget Plan.

This draft committee substitute tweaks the percentage payout rates slightly to conform to the Permanent Fund Board of Trustees' recommendations contained in their version of this concept: HJR 15/SJR 13. This bill goes further in the reformatting of the permanent fund payout method in that it also contains directions to statutorily distribute the payout.

I am enclosing the sectional analysis prepared by Tamara Cook, and a projection prepared by the Department of Revenue that plots the extended life of the Constitutional Budget Reserve balance if the conditions proposed in the bill should pass.

If you have any questions regarding this request please contact my staff member handling this legislation, Melanie Lesh at 465-4230.

Thanks for your consideration.



Subject: Fiscal Gap

Date: Mon, 11 Feb 2002 10:22:23 -0900

From: "Micky A Becker" <mbecker@ppco.com>

To: Representative_John_Coghi!!@legis.state.ak.us

I'm not opposed to taxes -- having said this. I feel it is absolutely not in the best interest of anyone to start taxing people when we are sitting on a \$25 billion+ savings account.

I realize capping the permanent fund won't fix the entire gap, but please don't pass taxes until we have reasonable approached this for our "savings account" point of view!

A. S. Micky Becker
907 265-6512 ph
907 265-6922 fx
Phillips Alaska, Inc., ATO 2100

Subject: Taxes

Date: Sun, 10 Feb 2002 11:59:08 +0100

From: fairbanksak@t-online.de (Colin Wanner)

To: Representative_John_Coghill@legis.state.ak.us

Dear Representative Coghill,

In light of recent discussion of new taxes, my wife and I would like to state our support for a REDUCTION or ELIMINATION of the annual DIVIDEND checks, rather than an income tax. Much of the Dividend money flows out of state anyway, so this method would be more likely to result in having funds directed inside Alaska.

Thanks,

Colin and Dale Wanner
Beacon Rd/Box 81704
Fairbanks, AK 99708

I wish you the best in your efforts to cut state spending.

Subject: I wish you the best in your efforts to cut state spending.

Date: Thu, 7 Feb 2002 09:24:22 -0900

From: "McFarlane" <lmcfarlane@mosquitonet.com>

To: <Representative_John_Coghill@LEGIS.state.ak.us>

Dear Rep. John Coghill,

I wish you the very best in Juneau. I wish you the very best in your efforts to cut state spending. I'm sure next week will be a very busy week for you with the hearings that you will be holding. If cuts in spending are not enough to fill the billion-dollar hole in the state budget, I would rather see the permanent fund dividend cut or eliminated before a state income tax or a state sales tax would be enacted. I agree with Sen Pete Kelly's comment that the state should not give you a dividend with one hand and charge you a state income tax with the other hand. That was his thought if not his exact words.

I'm hoping for the best on the Redistricting issue. I'm looking forward to helping you in your reelection campaign this summer. I'll be remembering you in prayer.

Your friend,
Leslie McFarlane

<Representative_Carl_Moses@legis.state.ak.us>,
<Representative_Norman_Rokeberg@legis.state.ak.us>,
<Representative_Peggy_Wilson@legis.state.ak.us>

Dear Senators and Representatives of the State of Alaska-

I am an Anchorage resident. I have been following the legislature's debate of the State's fiscal gap closely, as I hope other Alaskans have. I believe the answer is very simple. You can not spend what you do not have. The state must do as all citizens and businesses do when we are in financial straits. We cut back. I have heard very little from anyone in the legislature about cutting payroll, non-essential services and travel expenditures. Shame on you Mr. Halford for the quote I read in the Anchorage Daily News: "And I think you also have to put some reductions (in state spending) on the table that people consider important enough that they are willing to contribute to avoid," Halford said. What exactly are you saying Mr. Halford? That the esteemed governmental leaders of our state are going to cut the services that are most needed in order to convince the citizens that an income tax is necessary? What are you going to tell us next Mr. Halford? Perhaps you should threaten to take our Permanent Fund Dividends away from us too. Scare tactics work good when you are trying to divert the public from the real issue, which is the State is overspending. The citizens are not getting their moneys worth. There is too much governmental waste.

Why not start with trimming the fat first? Why is it that the State has the largest number of employment ads consistently when I look at the Anchorage Daily News classifieds? Not only does the State have the most ads, but the wages are higher than any other private sector counterpart. Can anyone (this means you Senators and Legislators) please tell me what the annual payroll expenditure is for the State of Alaska? How much money would a 10% reduction be equal to? Maybe not enough to fill the so-called gap, but, hey it's a start. Then perhaps we could reduce each department budget by 20%. What kind of figure would that be?

I think you should put a panel of 12 residents together, give them red pens and let them have a look at the budget.

I was talking to an Anchorage proprietor last week whose business was directly and negatively affected by the events of September 11. The first thing he did was to cut the salary of the officers of the business. He knows that in order to meet the necessary obligations of his business, he had to make cuts. But that business is doing what it takes to survive one more year.

I obviously have the time to e-mail every senator, legislator and representative. Believe me, if nothing is done to reduce the State budget before new taxes are enacted, I will have the time to talk to the constituents in your districts. I have a feeling that I am not the only hard working Alaskan that views our budget (overspending) gap this way. The answer is not to take more money from the residents, but to live within your means, which is what the residents have not choice but to do. Thank you for your time.

Sincerely,

Rachel K. Morrison
907-349-7224

Subject: NO NFW TAXES!!! REDUCE THE BUDGET!!!

Date: Wed, 6 Feb 2002 23:46:30 -0900

From: "Rachel Morrison" <rachellak@gci.net>

To: <Senator_Rick_Halford@legis.state.ak.us>

CC: <Senator_Loren_Leman@legis.state.ak.us>, <Senator_Johnny_Ellis@legis.state.ak.us>, <Senator_Alán_Austerman@legis.state.ak.us>, <Senator_Kim_Elton@legis.state.ak.us>, <Senator_Robin_Taylor@legis.state.ak.us>, <Senator_John_Cowdery@legis.state.ak.us>, <Senator_Lyda_Green@legis.state.ak.us>, <Senator_Georgianna_Lincoln@legis.state.ak.us>, <Senator_Gene_Therriault@legis.state.ak.us>, <Senator_Bettye_Davis@legis.state.ak.us>, <Senator_Rick_Halford@legis.state.ak.us>, <Senator_Donny_Olson@legis.state.ak.us>, <Senator_John_Torgerson@legis.state.ak.us>, <Senator_Dave_Donley@legis.state.ak.us>, <Senator_Lyman_Hoffman@legis.state.ak.us>, <Senator_Randy_Phillips@legis.state.ak.us>, <Senator_Jerry_Ward@legis.state.ak.us>, <Senator_Pete_Kelly@legis.state.ak.us>, <Senator_Ben_Stevens@legis.state.ak.us>, <Senator_Gary_Wilken@legis.state.ak.us>, <Representative_Brian_Porter@legis.state.ak.us>, <Representative_Jeannette_James@legis.state.ak.us>, <Representative_Ethan_Berkowitz@legis.state.ak.us>, <Representative_Harry_Crawford@legis.state.ak.us>, <Representative_Richard_Foster@legis.state.ak.us>, <Representative_Joe_Hayes@legis.state.ak.us>, <Representative_Beth_Kerttula@legis.state.ak.us>, <Representative_Beverly_Masek@legis.state.ak.us>, <Representative_Eldon_Mulder@legis.state.ak.us>, <Representative_Drew_Scalzi@legis.state.ak.us>, <Representative_Con_Bunde@legis.state.ak.us>, <Representative_Eric_Croft@legis.state.ak.us>, <Representative_Joe_Green@legis.state.ak.us>, <Representative_Bill_Hudson@legis.state.ak.us>, <Representative_Vic_Kohring@legis.state.ak.us>, <Representative_Lesil_McGuire@legis.state.ak.us>, <Representative_Lisa_Murkowski@legis.state.ak.us>, <Representative_Gary_Stevens@legis.state.ak.us>, <Representative_Mike_Chenault@legis.state.ak.us>, <Representative_John_Davies@legis.state.ak.us>, <Representative_Gretchen_Guess@legis.state.ak.us>, <Representative_Albert_Kookesh@legis.state.ak.us>, <Representative_Kevin_Meyer@legis.state.ak.us>, <Representative_Scott_Ogan@legis.state.ak.us>, <Representative_Jim_Whitaker@legis.state.ak.us>, <Representative_Sharon_Cissna@legis.state.ak.us>, <Representative_Fred_Dyson@legis.state.ak.us>, <Representative_Andrew_Halcro@legis.state.ak.us>, <Representative_Reggie_Joule@legis.state.ak.us>, <Representative_Pete_Kott@legis.state.ak.us>, <Representative_Carl_Morgan@legis.state.ak.us>, <Representative_John_Coghill@legis.state.ak.us>, <Representative_Hugh_Fate@legis.state.ak.us>, <Representative_John_Harris@legis.state.ak.us>, <Representative_Mary_Kapsner@legis.state.ak.us>, <Representative_Ken_Lancaster@legis.state.ak.us>,

"Representative_Andrew_Halcro@legis.state.ak.us" <Representative_Andrew_Halcro@legis.st
"Representative_Reggie_Joule@legis.state.ak.us" <Representative_Reggie_Joule@legis.state.ak
"Representative_Pete_Kott@legis.state.ak.us" <Representative_Pete_Kott@legis.state.ak.us>,
"Representative_Carl_Morgan@legis.state.ak.us" <Representative_Carl_Morgan@legis.state.ak
"Representative_Bill_Williams@legis.state.ak.us" <Representative_Bill_Williams@legis.state.a
"Representative_John_Coghill@legis.state.ak.us" <Representative_John_Coghill@legis.state.ak
"Representative_Hugh_Fate@legis.state.ak.us" <Representative_Hugh_Fate@legis.state.ak.us>.
"Representative_John_Harris@legis.state.ak.us" <Representative_John_Harris@legis.state.ak.us
"Representative_Mary_Kapsner@legis.state.ak.us" <Representative_Mary_Kapsner@legis.state
"Representative_Ken_Lancaster@legis.state.ak.us" <Representative_Ken_Lancaster@legis.state
"Representative_Carl_Moses@legis.state.ak.us" <Representative_Carl_Moses@legis.state.ak.us
"Representative_Norman_Rokeberg@legis.state.ak.us" <Representative_Norman_Rokeberg@le
"Representative_Peggy_Wilson@legis.state.ak.us" <Representative_Peggy_Wilson@legis.state.

I have never written legislators or testified concerning state budget matters, but my resistance has been overcome by the posturing and lack of courage to take actions necessary to put the State on a sound fiscal course. I am copying all members of the legislature, so those characterizations may or may not fit any particular recipient of this message. Even if it fits, my intention is not so much to offend as it is to voice a challenge to be forthright in addressing the budget. For anyone who has not read "Profiles in Courage" by Jack Kennedy, I commend it to you, as it enables the reader to see that doing what is right is far and away better than doing what is popular.

I have heard the "gap" figured at around \$1 billion this year. I will forego commenting on the need to control spending, the need to create motivation at the agency and employee level to actively question how functions can be prioritized and accomplished at lesser cost (i.e., the type of motivation and response the private sector employs of necessity as it has no power to tax others), and the availability of other funding sources. Rather, I wish to challenge the legislature to address the wisdom as well as the moral and economic propriety of continuing the PFD giveaway in unabated fashion in perpetuity. I can already hear minds calculating the votes (99 constituents against touching "my" PFD for each 1 willing to give up a portion of the giveaway for the sake of fiscal solvency). Recognizing the politics involved, I have little hope that the legislature will act, but am making my comments despite the odds.

The Permanent Fund was not created for the purpose of enabling the state to hand out \$1,700 checks every year to every toddler, every mailbox bashing bored teenager, every Seattle retiree who decided to move to Alaska to be near children (or fish), every snow birding millionaire, or every member of my family. Rather, the Fund was created to provide a savings account in which revenues excess to current needs would accumulate and grow until such time as they could be tapped to cover necessary budget components for which declining oil revenues proved insufficient. Lest you think I am proposing an invasion of the Fund or a depletion of its principal, I am not. Nor am I proposing that inflation proofing end. Contributions to the Fund, and inflation proofing can continue unabated until such time as the fiscal demands are even greater than at present.

What I find unconscionable is the insistence that the State maintain the public circuses (unlimited PFD's) lest the voters revolt. Many, and possibly most citizens of Alaska were not born here, but came of their own free will because they thought it in their best interest to do so, just as others move to Seattle, Florida, Texas, or anywhere else seeking a better job, climate, life, etc. We do not need to pay everyone for moving to, or remaining in Alaska.

I have three children who receive PFD's every year. Make no mistake, it's

nice to get the money. Like most others, it goes to Costco (headquartered outside Alaska with most shareholders outside Alaska) or Alaska Airlines (Seattle), or Charles Schwab (with no meaningful benefit to Alaska) or a condo rental in Hawaii. Some small portion no doubt trickles down within the state, in theory helping to create a few more jobs (which add nothing to the State revenue base and only add more mouths at the PFD trough). It's unfortunate that the majority of people (whether in Alaska or elsewhere) seem to evaluate right and wrong, fair and unfair, largely in reliance on the impact to their personal wallet. It is equally unfortunate when elected representatives are unwilling to explain the facts of life and risk non-retention.

This year the State will take in a stream of revenues. Of those revenues, roughly \$1 billion will then be mailed out to every resident, irrespective of any need-based considerations, irrespective of any deliberate policy determination that the benefits merit such an expenditure, and irrespective of the fact that roughly \$200-300 million of those State revenues will be needlessly siphoned off to the U.S. Treasury in the form of income taxes.

The budget gap could be closed in a heartbeat if the State would close down the PFD bribe system (we pay you, you let us save some current revenue for future needs instead of wasting it all each year). The budget gap could be reduced to a modest problem if we even capped PFD's at, say \$500 (still enough of a bribe to keep folks going to the public circus). Or, if the shock is too much to bear, cap it at a tolerable level with step down decreases over 3-5 years to wean people from the trough.

Unfortunately, the political current seems to be flowing in the direction of imposing income taxes. The target, seen all too often in political spheres, is to divide the population and put the burdens on the lesser number of voters in order to ensure continued favor with the greater number of voters. As Alaskans who would like to see ANWR developed, we know what that feels like (congressional members who are adamant in opposing oil and gas development because they can count the votes in their district). Its too bad we are so quick to parrot that approach to decision making. Instead of dealing with runaway PFD outflows, an income tax will, sooner or later, be imposed. Those who drag themselves out of bed, bleary-eyed, and trudge off to work each day to earn a living, will have their pockets tapped so the State can simply give the money to others (toddlers, unemployed teens, millionaire retirees, etc.).

If the State needed an income tax in order to pay for health care, to address the scourge of poverty for those who due to circumstances are unable to have decent housing, nutrition, clothing, etc., to build out sewer and water infrastructure where it is lacking, I would be the first to step up and gladly pay an income tax (or donate to charities absent an income tax). If the State needed an income tax to create or continue any program which, on its merits, was deemed necessary, I might disagree on a case by case basis, but would defer to the collective judgment. Where I draw the line, and urge the legislature to draw the line, is when an income tax is not imposed to carry out any government function at all, but simply to redistribute income from those who earn it to those who do not (with a hefty slice going to Uncle Sam).

Is there a valid economic reason to impose an income tax and keep paying \$1 billion out in PFD's each year? No. Is there a state government need which will not be otherwise met? No. Is there a need-based rationale to take income from those who earned it and simply give everyone a check (Marx would love the concept)? No. Is there any other state government in the United States, or any national government on the face of the planet which taxes income for the sole purpose of redistributing it on a non-need based, non-program based approach? No.

There is no budget gap. The State takes in enough revenue to fund the expense side. Where we get into red ink is only after taking \$200-300

million of State revenue each year to send (indirectly) to the U.S. Treasury, and sending another \$700-1,000 million of State revenue to every person who meets minimum residency requirements and has a pulse. If the legislature is looking for a way to reduce the PFD burden without cutting PFD's, perhaps an income tax is the way to go. Those who work hard and create jobs for others will eventually move out of state (fewer PFD obligations). Of course, they might be offset by the inflow of others who want to take their vacated spot at the public trough. Thanks for reading this, and may your conscience be your guide.

Subject: Closing the Budget Gap

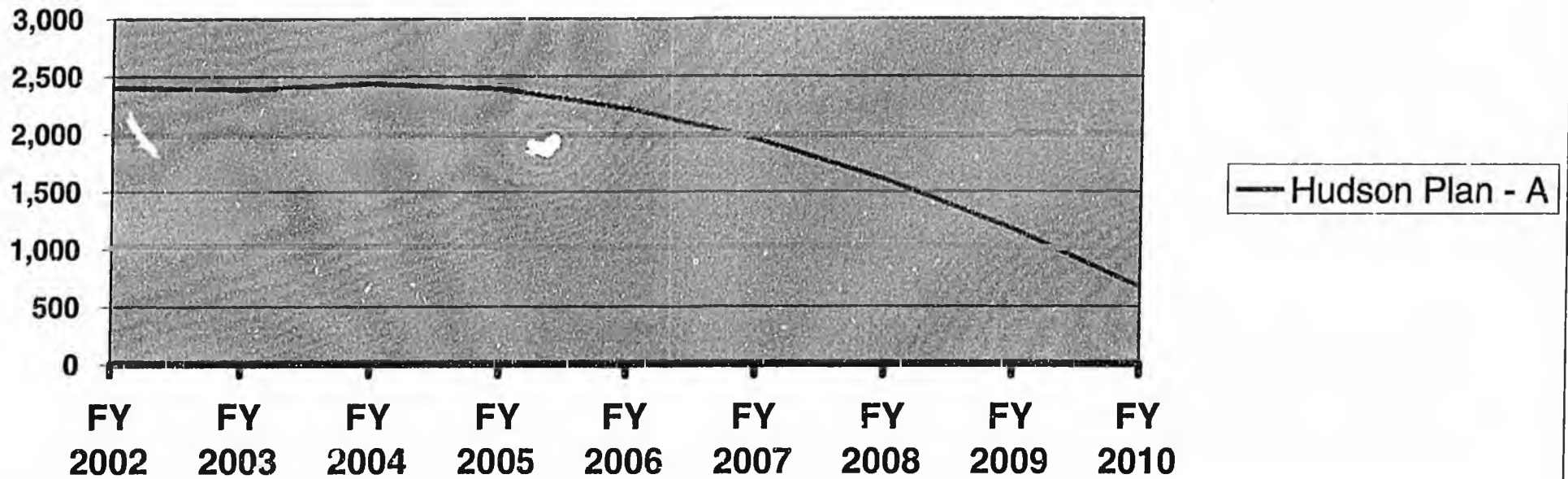
Date: Thu, 7 Feb 2002 16:09:09 -0900

From: Steve Tervooren <SST@htl.w.com>

To: "Senator_Rick_Halford@legis.state.ak.us" <Senator_Rick_Halford@legis.state.ak.us>

CC: "Senator_Loren_Leman@legis.state.ak.us" <Senator_Loren_Leman@legis.state.ak.us>, "Senator_Johnny_Ellis@legis.state.ak.us" <Senator_Johnny_Ellis@legis.state.ak.us>, "Senator_Alان_Austerman@legis.state.ak.us" <Senator_Alان_Austerman@legis.state.ak.us>, "Senator_Kim_Elton@legis.state.ak.us" <Senator_Kim_Elton@legis.state.ak.us>, "Senator_Robin_Taylor@legis.state.ak.us" <Senator_Robin_Taylor@legis.state.ak.us>, "Senator_John_Cowdery@legis.state.ak.us" <Senator_John_Cowdery@legis.state.ak.us>, "Senator_Lyda_Green@legis.state.ak.us" <Senator_Lyda_Green@legis.state.ak.us>, "Senator_Georgianna_Lincoln@legis.state.ak.us" <Senator_Georgianna_Lincoln@legis.state.ak.us>, "Senator_Gene_Therriault@legis.state.ak.us" <Senator_Gene_Therriault@legis.state.ak.us>, "Senator_Bettye_Davis@legis.state.ak.us" <Senator_Bettye_Davis@legis.state.ak.us>, "Senator_Donny_Olson@legis.state.ak.us" <Senator_Donny_Olson@legis.state.ak.us>, "Senator_John_Torgerson@legis.state.ak.us" <Senator_John_Torgerson@legis.state.ak.us>, "Senator_Dave_Donley@legis.state.ak.us" <Senator_Dave_Donley@legis.state.ak.us>, "Senator_Lyman_Hoffman@legis.state.ak.us" <Senator_Lyman_Hoffman@legis.state.ak.us>, "Senator_Randy_Phillips@legis.state.ak.us" <Senator_Randy_Phillips@legis.state.ak.us>, "Senator_Jerry_Ward@legis.state.ak.us" <Senator_Jerry_Ward@legis.state.ak.us>, "Senator_Pete_Kelly@legis.state.ak.us" <Senator_Pete_Kelly@legis.state.ak.us>, "Senator_Ben_Stevens@legis.state.ak.us" <Senator_Ben_Stevens@legis.state.ak.us>, "Senator_Gary_Wilken@legis.state.ak.us" <Senator_Gary_Wilken@legis.state.ak.us>, "Representative_Brian_Porter@legis.state.ak.us" <Representative_Brian_Porter@legis.state.ak.us>, "Representative_Jeannette_James@legis.state.ak.us" <Representative_Jeannette_James@legis.state.ak.us>, "Representative_Ethan_Berkowitz@legis.state.ak.us" <Representative_Ethan_Berkowitz@legis.state.ak.us>, "Representative_Harry_Crawford@legis.state.ak.us" <Representative_Harry_Crawford@legis.state.ak.us>, "Representative_Richard_Foster@legis.state.ak.us" <Representative_Richard_Foster@legis.state.ak.us>, "Representative_Joe_Hayes@legis.state.ak.us" <Representative_Joe_Hayes@legis.state.ak.us>, "Representative_Beth_Kerttula@legis.state.ak.us" <Representative_Beth_Kerttula@legis.state.ak.us>, "Representative_Beverly_Masek@legis.state.ak.us" <Representative_Beverly_Masek@legis.state.ak.us>, "Representative_Eldon_Mulder@legis.state.ak.us" <Representative_Eldon_Mulder@legis.state.ak.us>, "Representative_Drew_Scalzi@legis.state.ak.us" <Representative_Drew_Scalzi@legis.state.ak.us>, "Representative_Con_Bunde@legis.state.ak.us" <Representative_Con_Bunde@legis.state.ak.us>, "Representative_Eric_Croft@legis.state.ak.us" <Representative_Eric_Croft@legis.state.ak.us>, "Representative_Joe_Green@legis.state.ak.us" <Representative_Joe_Green@legis.state.ak.us>, "Representative_Bill_Hudson@legis.state.ak.us" <Representative_Bill_Hudson@legis.state.ak.us>, "Representative_Vic_Kohring@legis.state.ak.us" <Representative_Vic_Kohring@legis.state.ak.us>, "Representative_Lesil_McGuire@legis.state.ak.us" <Representative_Lesil_McGuire@legis.state.ak.us>, "Representative_Lisa_Murkowski@legis.state.ak.us" <Representative_Lisa_Murkowski@legis.state.ak.us>, "Representative_Gary_Stevens@legis.state.ak.us" <Representative_Gary_Stevens@legis.state.ak.us>, "Representative_Mike_Chenault@legis.state.ak.us" <Representative_Mike_Chenault@legis.state.ak.us>, "Representative_John_Davies@legis.state.ak.us" <Representative_John_Davies@legis.state.ak.us>, "Representative_Gretchen_Guess@legis.state.ak.us" <Representative_Gretchen_Guess@legis.state.ak.us>, "Representative_Albert_Kookesh@legis.state.ak.us" <Representative_Albert_Kookesh@legis.state.ak.us>, "Representative_Kevin_Meyer@legis.state.ak.us" <Representative_Kevin_Meyer@legis.state.ak.us>, "Representative_Scott_Ogan@legis.state.ak.us" <Representative_Scott_Ogan@legis.state.ak.us>, "Representative_Jim_Whitaker@legis.state.ak.us" <Representative_Jim_Whitaker@legis.state.ak.us>, "Representative_Sharon_Cissna@legis.state.ak.us" <Representative_Sharon_Cissna@legis.state.ak.us>, "Representative_Fred_Dyson@legis.state.ak.us" <Representative_Fred_Dyson@legis.state.ak.us>

CBRF Balances FY2002 - FY2010



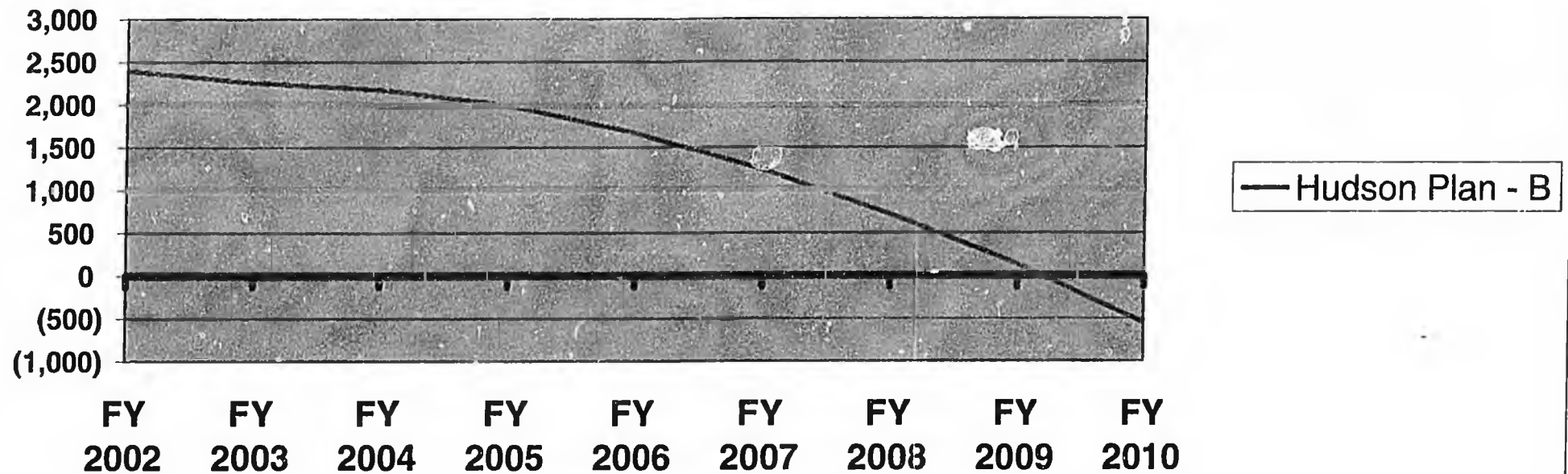
2002 Session

- * Income tax: \$258 million in FY03, \$285 million thereafter
- * \$25 per passenger cruise ship fee (\$17 million to the state): implemented January 1, 2003
- * 10 cent per drink alcohol tax (\$30 million to the state): implemented for 3/4 of FY 2003
- * POMV 5% (50% to dividend program / 50% to state government): approximately \$630 million starting FY 2003

Hudson Plan - A *	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Income Tax		258	285	285	285	285	285	285	285
Cruise Ship Tax		8.5	17	17	17	17	17	17	17
Alcohol Tax		23	30	30	30	30	30	30	30
POMV 5% (50/50)		633	630	631	638	642	660	685	712
Projected Dividend (by Calendar Year)	2002	2003	2004	2005	2006	2007	2008	2009	2010
Status Quo	1,710	1,560	1,430	1,370	1,510	1,640	1,710	1,790	1,860
Hudson Plan - A	1,016	999	990	988	985	1,001	1,030	1,060	1,090
Permanent Fund Market Value (End of Fiscal Year)									
Status Quo	24,168	25,374	26,769	28,279	29,792	31,329	32,928	34,591	36,318
Hudson Plan - A	23,940	24,822	25,797	26,814	27,879	28,987	30,127	31,299	32,499

* Assumes 1% increase in expenditures per year starting FY 2004.

CBRF Balances FY2002 - FY2010



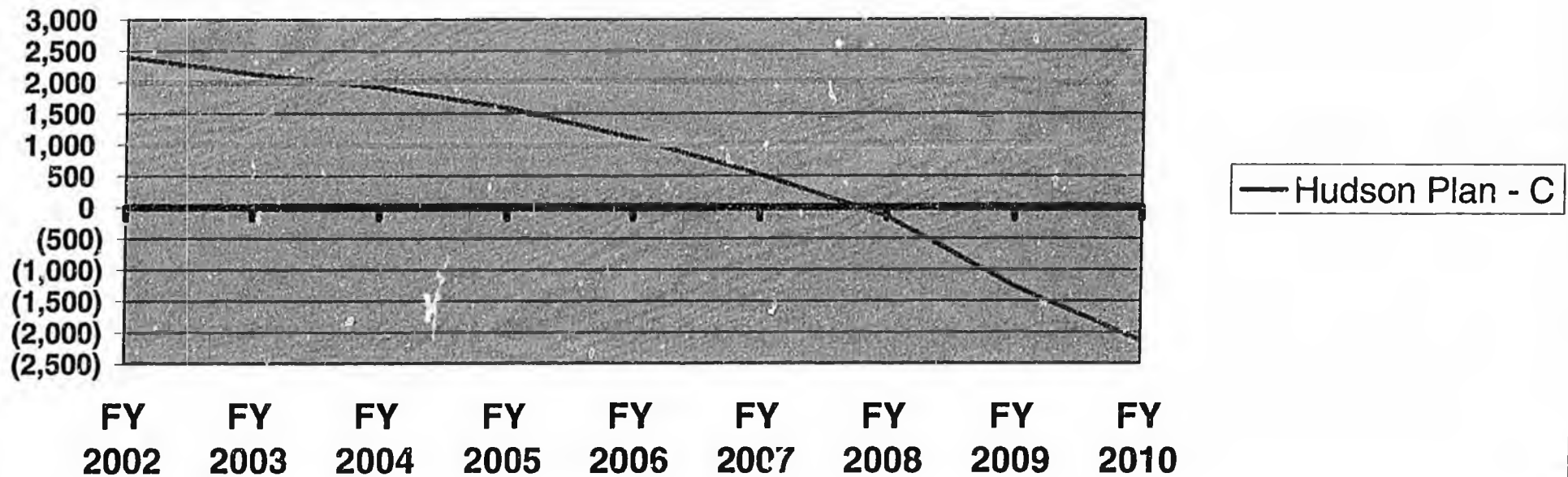
2002 Session

- * Income tax: \$258 million in FY03, \$285 million thereafter
- * \$25 per passenger cruise ship fee (\$17 million to the state): implemented January 1, 2003
- * 10 cent per drink alcohol tax (\$30 million to the state): implemented for 3/4 of FY 2003
- * POMV 5% (60% to dividend program / 40% to state government): approximately \$510 million starting FY 2003

Hudson Plan - B *	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Income Tax		258	285	285	285	285	285	285	285
Cruise Ship Tax		8.5	17	17	17	17	17	17	17
Alcohol Tax		23	30	30	30	30	30	30	30
POMV 5% (60/40)		508	506	508	513	518	532	553	574
Projected Dividend (by Calendar Year)	2002	2003	2004	2005	2006	2007	2008	2009	2010
Status Quo	1,710	1,560	1,430	1,370	1,510	1,640	1,710	1,790	1,860
Hudson Plan - B	1,237	1,217	1,207	1,207	1,204	1,224	1,260	1,296	1,334
Permanent Fund Market Value (End of Fiscal Year)									
Status Quo	24,168	25,374	26,769	28,279	29,792	31,329	32,928	34,591	36,318
Hudson Plan - B	23,940	24,822	25,797	26,814	27,879	28,987	30,127	31,279	32,499

* Assumes 1% increase in expenditures per year starting FY 2004.

CBRF Balances FY2002 - FY2010



2002 Session

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- * 10 cent per drink alcohol tax (\$30 million to the state): implemented for 3/4 of FY 2003
- * POMV 5% (70% to dividend program / 30% to state government): approximately \$380 million starting FY 2003

Hudson Plan - C *	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Income Tax		258	285	285	285	285	285	285	285
Cruise Ship Tax		8.5	17	17	17	17	17	17	17
Alcohol Tax		23	30	30	30	30	30	30	30
POMV 5% (70//30)		381	379	381	385	388	399	415	431
Projected Dividend (by Calendar Year)	2002	2003	2004	2005	2006	2007	2008	2009	2010
Status Quo	1,710	1,560	1,430	1,370	1,510	1,640	1,710	1,790	1,860
Hudson Plan - C	1,452	1,429	1,417	1,417	1,414	1,437	1,473	1,521	1,565
Permanent Fund Market Value (End of Fiscal Year)									
Status Quo	24,168	25,374	26,769	28,279	29,792	31,329	32,928	34,591	36,318
Hudson Plan - C	23,940	24,822	25,797	26,814	27,879	28,987	30,127	31,299	32,499

* Assumes 1% increase in expenditures per year starting FY 2004.

8:07 am 2/19/02

Larry Persily

Chuck - Tax Division

James - C&R

Mechanism to put

Proportion of Income

Line 52

Scott Goldsmith Prof of Economics UAA

1. If we don't do anything today we are going to throw Alaska's economy into a recession
2. Size of gap forces a combination of revenue sources
3. Not if but when we impose a tax
4. Income tax

Every dollar collected Alaskans pay 75¢
out of state's & fed government

Reduce dividends 84¢ paid by Alaska

Sales tax 93¢ ✓

5. Income tax is progressive tax - people with higher income pays higher tax than people with low income
6. 20% of 15% federal income tax is an increase of 3% in tax liability
7. Alaska disconnect - income tax generates revenues from economic growth.
8. Average federal tax liability 20%

324 Willoughby
Juneau, AK 99801

State Affairs
copy

March 1, 2002

Rep. Gary Stevens
House State Affairs Committee
& other interested Alaskans

Requested Follow-up
Letter on
re: Solving Fiscal Gap

Thank you for allowing me to testify to your Committee on why the PFD is so important to Alaskan children and others of low income, and on why you should not cut nor cap the PFD nor change Permanent Fund operations.

You asked me where to cut the budget--a different but related topic--and I promised to write you. Here's the first installment:

Severely cut the Department of Corrections budget--IN HALF--with no more than 2,000 inmates. Saves \$90? million. Here's why:

a. The catch phrase for the past decade was that "Corrections is Alaska's growth industry." If true, that's both sad and shows that Alaska is ill: the economy can not grow with so many in jail.

b. According to the Department's own website, Inmate Population chart for 1984-2000 [copy enclosed] shows that inmate pop-ulations rose over this 16-year period from about 1750 to about 4250 [about 243% increase] while Alaska's population rose from 525,000 to about 625,000 [a 19% increase].

c. A fair way to cut inmate populations while preserving Alaska's public safety is to require the Department of Corrections to increase "good time" as necessary to reach the required inmate maximum. For example, an inmate presently gets 1 day off for "good time" for each 3 days served without incident. Increasing "good time" to, say, 10 days off for each day served, will shorten sentences and require greater emphasis on preparing inmates to re-enter Alaskan society as economically productive members. Increasing "good time" rates may also induce more inmates to reform, but I am not a penologist nor criminologist (consult with them on this plan). Consult also with attorneys, so that you do not expose the State to suits from inmates or prior inmates.

d. A deputy Comm'r of Revenue says that each inmate now costs the State an average of \$40,000 per year. Each 25 inmates, or one inmate for 25 years, therefore costs the State \$1,000,000. One may suggest paying inmates \$10,000 a year NOT to commit crimes if released early, but then people might see that committing one crime pays fives times more than NOT committing crime [getting PFD of under \$2,000]--so do NOT do that, but instead increase "good time" so as to reduce inmate populations, close many prisons, and cut the Department of Corrections budget IN HALF.

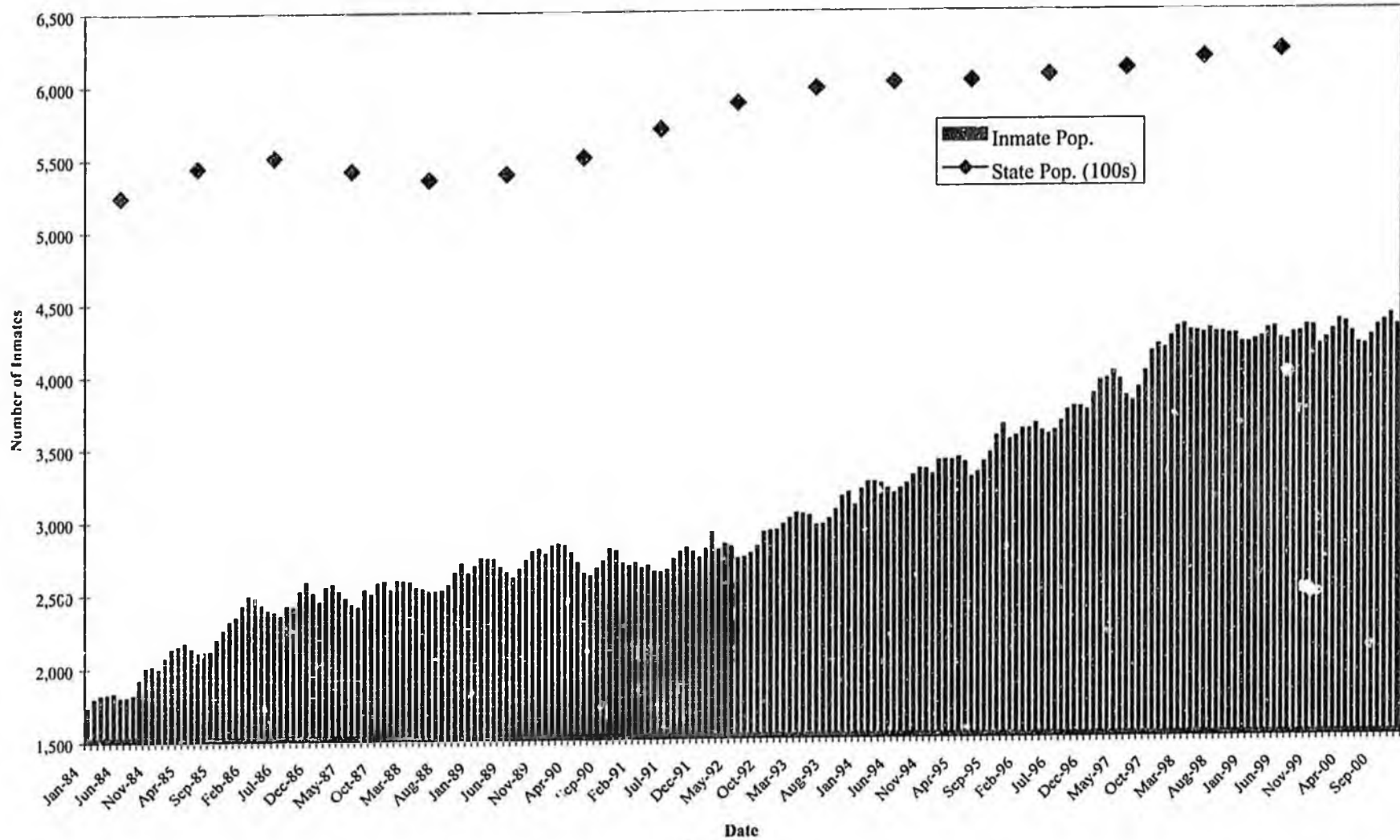
I may have other suggestions later and will write when I do. Of course, Alaska should also be tightening revenue loopholes (by ending non-tax-paying limited liability corporations and partnerships [LLCs and LLPs] by passing a progressive personal income tax [don't just copy the semi-flat Federal tax] and by making Alaska's corporate income tax more progressive.

Bring current spending in line with current revenues, using up the CBR as needed to soften the process. Then modernize Alaska's present colonial-style economy by emphasizing manufacturing and the in-state value-added processing of resources and ideas, and by taxing those you aid. Reduce imports by making those items here; increase exports of finished goods.

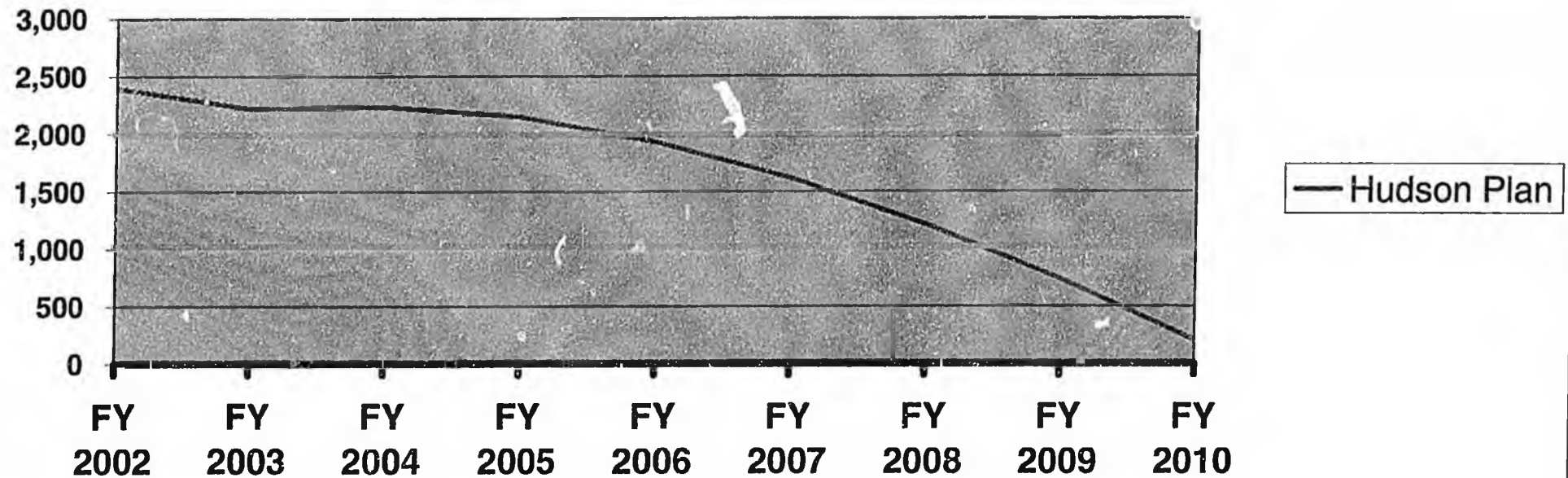
Sincerely,

Joe Sonneman
Dr. Joe Sonneman, PhD (Government)

Alaska State and Inmate Populations, 1984 - 2000



CBRF Balances FY2002 - FY2010



2002 Session

- * Income tax: \$118 million in FY03, \$285 million thereafter
- * \$25 per passenger cruise ship fee (\$17 million to the state): implemented January 1, 2003
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