

1/14/04

OVERVIEW:

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FILE

Taking Responsibility Today for Alaska's Tomorrow

Jobs, Hope, and Accountability

Governor Murkowski's Proposed FY 05 Budget
January 13, 2004
House Finance Committee

1

Governor's FY 05 Parameters

- Limit CBR draw to \$400 million
- Spend less than FY 04
 - Had to cover \$145 million in increased costs
 - Absorbing \$34 million in employer costs
 - Covering \$7 million in merit step increases
 - Covering \$62 million in formula programs
 - Covering \$42 million in increased debt

2

Our Overall Budget Plan

- Control spending
- Make government smaller, more effective
- Stabilize revenues over the short term
- Increase revenues over the long term

3

Our Approach to FY 05

- Policy drives spending decisions
- Ensure public value
 - Strategically align resources with mission
 - Performance targets set, results measured
- Target administrative savings first; cuts to direct services last

4

FY 05 General Fund Spending

Revenues

¹	Unrestricted GF Revenues	\$1,724
²	New revenues	\$53
⁴	Total	\$1,777

Spending

⁵	Operating Budget	\$2,143
⁶	Capital	\$40
⁷	Debt/Other	\$51
⁸	Allowance for FY05 Supps	\$13
⁹	Allowance for new legislation	\$5
¹⁰	Total	\$2,252

¹¹	Revenues v spending	(\$475)
¹²	CBR Draw	\$400
¹³	Revenue (Shortfall)/Surplus	(\$75)
¹⁴	New revenue thru legislation	\$78
¹⁵	Adj Revenue (Shortfall)/Surplus	\$3
¹⁶	FY05 spending vs FY04	(\$49)

3

FY 05 Spending - All Funds

	FY 04	FY 05	05 v 04
Spending			
General Funds	\$ 2,301	\$ 2,252	\$ (49)
Other State Funds*	\$ 1,123	\$ 1,002	\$ (121)
Subtotal	\$ 3,424	\$ 3,254	\$ (170)
Federal Funds	\$ 2,610	\$ 2,861	\$ 251
Total Spending	\$ 6,034	\$ 6,115	\$ 81
Positions	22,600	22,198	(402)

*Excludes spending of IPE earnings

6

Administrative Savings

- Consolidate Human Resources in Administration
- Enterprise-wide IT standards, coordination
- Consolidate administrative functions within department
- Reduce layers of mid-management
- Eliminate funded, but vacant positions
- Maximize charges to grants to cover admin costs

7

Missions & Measures

- Strategic framework for each department
 - Mission
 - Desired end results
 - Strategies to achieve end result
 - Performance targets
 - Measure of success in achieving target

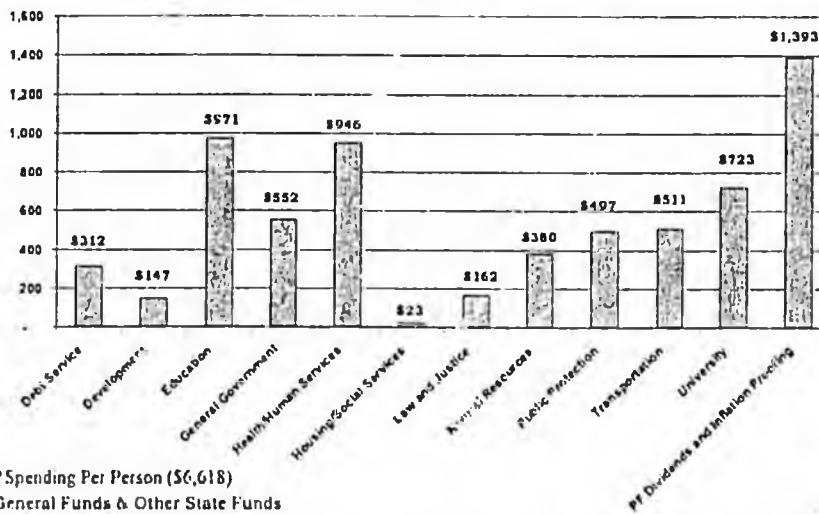
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Missions & Measures

- Ensures public value
- Strategically aligns resources with mission
- Sets targets and measure results
- Reports accountability to Legislature, citizens
- Gives managers information by which program performance can improve

9

Spending Per Capita* in FY 05 by Category



10

Investment in Public Safety

- 20 troopers, 5 court service officers
 - Located primarily in rural Alaska
- Six criminal prosecutors
- Nine civil attorneys
- Six public defenders
- 14 social workers, 7 associate social workers

11

Investment in Education

- K-12
 - Fund as provided by law
 - K-12 foundation program
 - School debt
 - Pupil transportation
- University
 - 5% (\$10.6 million) for Regent priorities

12

Investment in Resource Development

- Natural Resources
 - Oil & Gas Division new positions
 - Alaska Peninsula oil and gas lease
 - Gas pipeline
 - NPR-A
 - Coastal Management “Permit Portal”

13

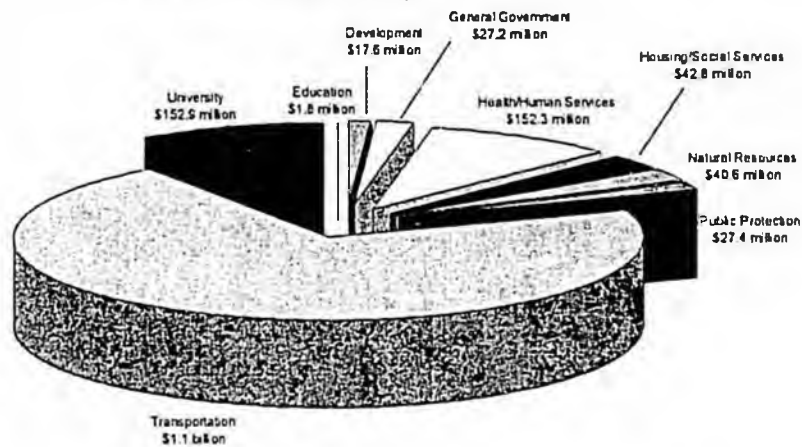
Capital Budget

- \$1.4 billion in all funds
 - \$124 million higher than FY 04
 - \$1.3 million Federal funds
 - \$215 million FF for Juneau Access
 - \$129 million for Gravina Island crossing

14

Capital Investment

FY 05 Proposed Capital Budget by Category (All fund Sources)



15

ASLC Bond Proposal

- Issue capital project revenue bonds
 - Way to return contributed capital to the state
- No impact to student loan programs
- Future loan repayments will pay debt
 - No draw on state's general treasury
- Slight reduction in future dividends

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Unrestricted GF Revenues

- Fall forecast
 - \$1,724 based on \$24.65/bbl
 - +\$200 million above Spring forecast
 - -\$299 million below FY 04
- Initial new revenue proposals
 - Transient accommodation - \$32 million
 - Tobacco - \$36 million
 - Cruise ship gambling - \$3 million
 - Pull tabs - \$2 million
 - Shore-side guided tour activities - \$5 million

17

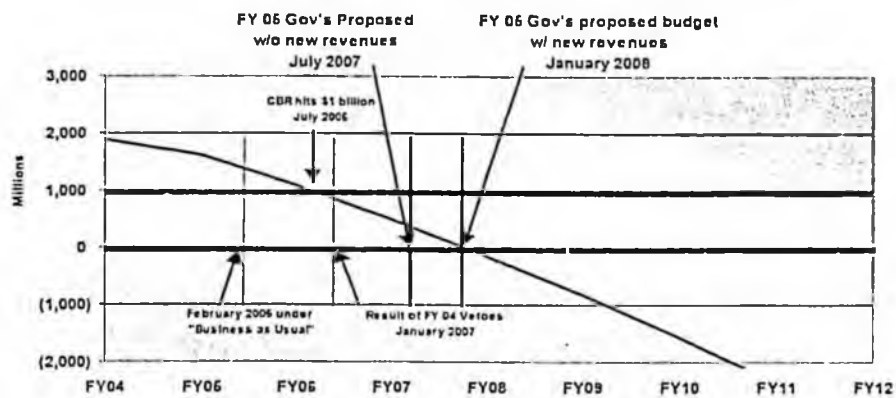
CBR Projected Balance

- FY 04 year-end: \$1,883
 - FY 04 draw of \$278 million
- FY 05 year-end: \$1,585
 - FY 05 draw of \$400 million
- Policy: \$1 billion minimum balance

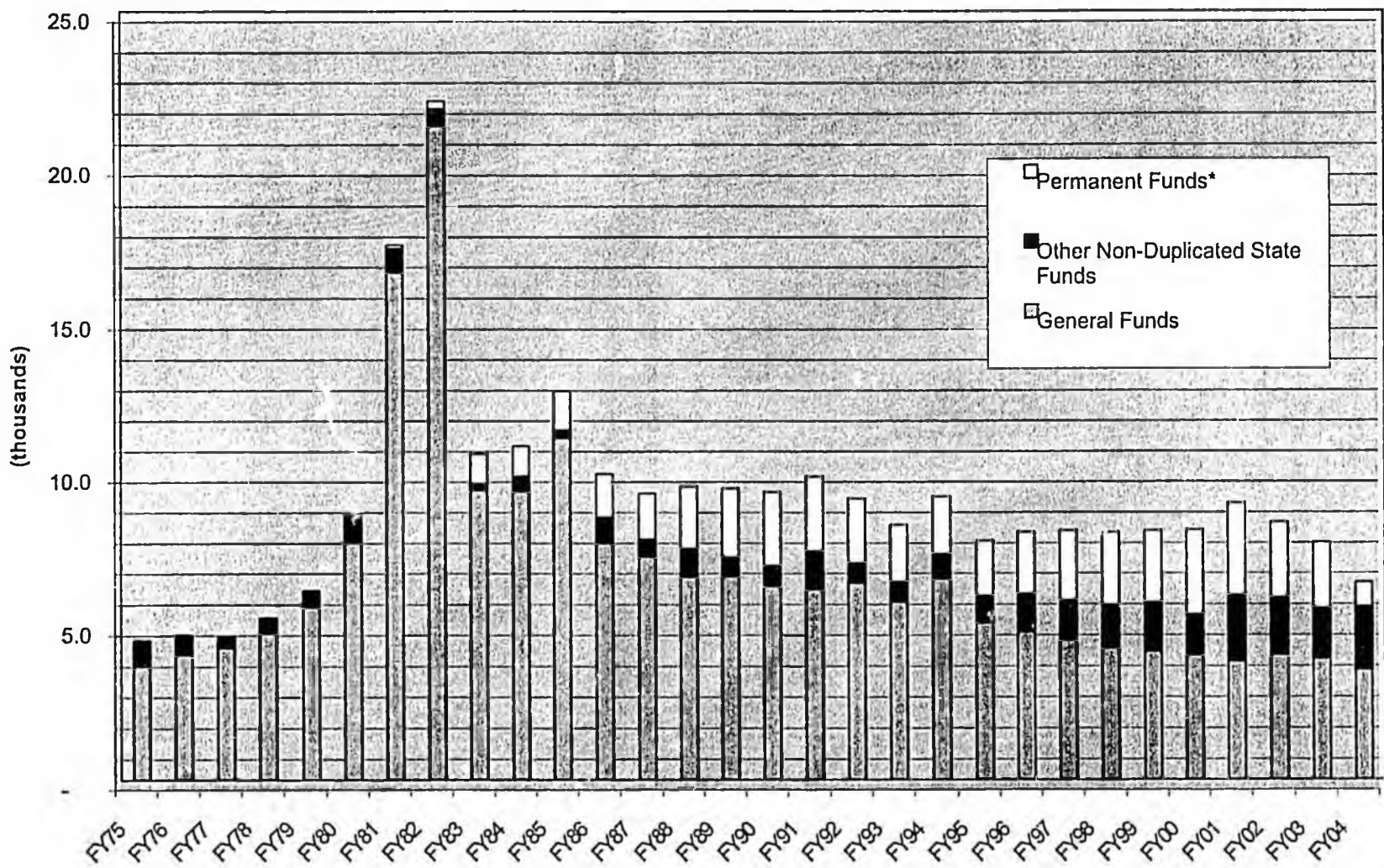
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Impact on CBR Balance Available

CBRF Balances FY 2004 - FY 2012



Real Per Capita State Appropriations (FY04 dollars)



* Dividends, inflation proofing and other approps to principal

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Anchorage, Alaska 99501
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January 6, 2004

The Honorable Pete Kott
Speaker of the House of Representatives
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Kott,

In a meeting last month of the membership and the board of directors, the Alaska State Chamber of Commerce considered the matter of the state's fiscal gap and how we would like to see it addressed. First, we want to express our appreciation for efforts you have made to date to maintain budget discipline. Without these efforts, the state would now be facing an even more serious budget deficit.

The Alaska State Chamber of Commerce agrees with the many other organizations throughout Alaska that the Legislature should be encouraged to work with the Administration during the upcoming session to develop a comprehensive, long-range fiscal plan for the state. While the ultimate decisions regarding Alaska's revenues and expenditures rest with you and your colleagues in the Legislature, the Alaska State Chamber is committed to fully participate in the debate, and pledges to help resolve this issue in a manner that will do the most good for the citizens of Alaska and Alaskan businesses over the long term. The State Chamber also recognizes that a long-range fiscal plan may need to encompass many different sources of revenue and that details of any prospective plan will no doubt be both practically and politically difficult to develop. Therefore, we encourage the Legislature to consider the following general steps as prioritized below:

- 1) **Budget Discipline:** Alaska must adjust to the reality of lower revenues just as a family or business would by controlling spending. Reasonable spending controls should be incorporated into any long-term fiscal plan. The State Chamber is most concerned that if revenues are made available first by imposing new taxes, fiscal discipline could be compromised. The State Chamber urges the Legislature to maintain fiscal discipline as the cornerstone of a fiscal plan. The Chamber encourages the Legislature to look for ways of reducing government size and spending, including rescinding unnecessary laws that add unnecessary costs and burdens.
- 2) **New Uses of Permanent Fund Earnings:** The State Chamber believes appropriating a portion of the earnings from the Permanent Fund to help support state services is a legitimate use of those funds. Using some of the Permanent Fund earnings for state government should not preclude the Alaska Permanent Fund Dividend program from continuing.

- 3) As a last resort after fully addressing the above provisions: Consider the implementation of a broad-based, statewide tax. The State Chamber is concerned that new taxes would negatively impact the competitiveness of Alaskan business, especially if incrementally increased over time. Hence, the State Chamber reiterates that fiscal discipline and legislative accountability must precede any new taxes.

The fiscal challenges facing Alaska are not new and the tools available to address the problem have been well defined. However, without a sound fiscal management plan there is a growing risk to the state's economic health with every passing year. In fact, uncertainty regarding Alaska's fiscal regime has been mentioned as a primary disincentive to private investment in the state. Fortunately, at this time, Alaska has a wide array of potential options to address this challenge.

Each of the steps outlined above encompasses a multitude of variations. In creating a fiscal package, we encourage the Legislature to incorporate elements from all three general recommendations beginning with spending controls, moving to new uses of the Permanent Fund earnings and finishing with a new broad-based tax, if necessary.

We are eager to support you in a responsible, committed effort to address this issue during the next legislative session. With leadership and courage from the Legislature, a long-term fiscal plan for Alaska can become a reality. The challenge of addressing our state's fiscal imbalance is daunting, but the successful creation of a sound management plan will provide long-term economic benefits to Alaska. Failing to address this challenge during the 2004 legislative session damages the state's business and financial reputation and assures irreparable harm to Alaskans.

Sincerely,



Pamela La Bolle
President

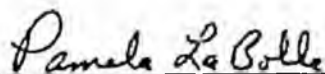
Alaska State Chamber of Commerce

2004 Priority

Alaska Permanent Fund Distribution Determination

The Alaska State Chamber of Commerce recognizes that the current "Realized Earnings" method for determining distributions from the Alaska Permanent Fund is an out-of-date system that was originally designed to calculate distributions when the Fund's principal was 100% invested in fixed-income securities. Now that the Fund has matured and its investments are distributed among fixed income, real estate, and foreign and domestic equity markets, a more modern and responsive distribution system is necessary. Therefore, the Chamber urges the Legislature to approve a Percent of Market Value (POMV) plan as a proposed amendment to the Alaska Constitution on the 2004 ballot.

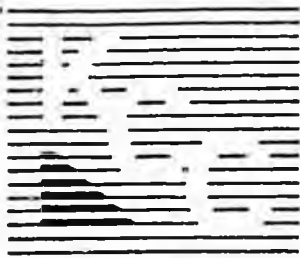
Adopted December 4, 2003



Pamela La Bolle
Pamela La Bolle, President



Pete Leathard
Pete Leathard, Chairman



**KODIAK
CHAMBER
OF COMMERCE**

100 E. Marine Way, Suite 300, Kodiak Alaska 99615 • (907) 486-5557 • FAX: (907) 486-7605
www.kodiak.org • Email: chamber@kodiak.org

October 15, 2003

Representative Mike Hawker
Co-Chair
House Ways and Means Committee
Alaska State Legislature
716 W 4th Ave Suite 620
Anchorage, Alaska 99501-2133

Dear Representative Hawker,

The Board of Directors of the Kodiak Chamber of Commerce respectfully urges your committee to provide the leadership necessary during the upcoming legislative session to develop a comprehensive, long-range fiscal plan for the state.

We recognize that the ultimate decisions regarding Alaska's revenues and expenditures rest with the Legislature and Governor Murkowski's administration. We are committed to fully participating in the debate, and we pledge to help resolve this issue in a manner that will do the most good for the greatest number of Alaskans over the long term.

Details of any prospective plan will no doubt be both practically and politically difficult to develop. Nonetheless, we believe the following general steps must be taken:

1) Budget Discipline

Alaska must adjust to the reality of lower revenues just as a family or business would — by controlling spending. Additional spending controls should be incorporated into any long-term fiscal plan. However, our organization does not believe it possible or wise to correct the entire fiscal imbalance through budget cuts alone.

2) New Uses of Permanent Fund Earnings

We believe appropriating a portion of the earnings from the Permanent Fund to help support state services is a legitimate use of those funds. Furthermore, we strongly support the creation of a "percent of market value" structure for the Permanent Fund. Using some of the Permanent Fund earnings for state government should not preclude the Alaska Permanent Fund Dividend program from continuing and growing.

Dedicated to Kodiak's Economic Future

3) Institution of a Broad-Based Tax

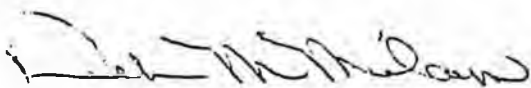
Spending controls and new uses of Permanent Fund earnings may not be enough to close the state's fiscal gap over time. In light of this fact, we believe it is appropriate for the administration and Legislature to consider the implementation of a broad-based, statewide tax. Any discussion of statewide taxes should include a thorough, public analysis of an income tax, a sales tax and any other broad-based taxes. Any discussion of sales tax should provide for mechanisms that holds harmless those communities that already have a sales tax in place.

The fiscal challenges facing Alaska are not new and the tools available to address the problem have been well defined. However, with every passing year, the lack of a sound fiscal management plan poses a growing risk to the state's economic health. In fact, uncertainty regarding Alaska's fiscal regime has been mentioned as a primary disincentive to private investment in the state. Fortunately, at this time, Alaska has a wide array of potential options to address this challenge.

Each of the steps outlined above encompasses a multitude of variations. In creating a fiscal package, we encourage the Legislature and the Administration to incorporate elements from all three general recommendations beginning with spending controls, moving to new uses of the Permanent Fund earnings and finishing with a new broad-based tax, if necessary.

We are eager to support you in a responsible, committed effort to address this issue during the next legislative session. Through strong leadership and courage from the Legislature, a long-term fiscal plan for Alaska can become a reality. The challenge of addressing Alaska's fiscal imbalance is daunting, but the successful creation of a sound management plan will provide long-term economic benefits to Alaska. Failure to address this challenge now risks irreparable harm to future generations of Alaskans.

Yours in economic prosperity,



Deborah M. Milam
President

Cc: Senator Gary Stevens
Representative Dan Ogg



**Board of Directors, Anchorage Chamber of Commerce
In Support of Economic Growth and Long-Term Fiscal Stability
Resolution 2003/04-06**

WHEREAS, the mission of the Anchorage Chamber of Commerce is to "be effective as a business leader by supporting and focusing our broad-based membership in their efforts to grow Anchorage into a Premier American City"; and

WHEREAS, the health of Anchorage's economy is significantly tied to the stability of the State of Alaska's revenues and spending; and

WHEREAS, the State of Alaska has continued to spend more money than it brings into the general fund each year, resulting in increasing expenditures from the State's Constitutional Budget Reserve Fund; and

WHEREAS, the State's financial instability has caused declines in support to education, economic development and other programs that are critical to Anchorage's ability to diversify its economy and increase its economic wealth; and

WHEREAS any vision of Alaska's future and corresponding fiscal plan will require a supportive physical and workforce infrastructure; and

WHEREAS education, both k-12 and university, constitute the major components of the preparation and expansion of the workforce infrastructure;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Anchorage Chamber of Commerce that the Board urges the Governor and Legislature to jointly develop and implement a strategy that will provide fiscal certainty for Alaska's economy and future by matching spending and recurring revenues, guided by a clear vision of what is to be achieved and how; and

AND FURTHER RESOLVED that the Anchorage Chamber of Commerce encourages the Governor and Legislature to incorporate the following elements into the long-term strategy; and

- Evaluate the effectiveness of state services within a government framework,
 - eliminate those that are inadequate, ineffective or inefficient, and
 - invest in programs that are designed to increase the diversity of Alaska's economy and enhance the competitiveness of Alaska businesses so they can successfully compete in Alaska and other markets;
- Contract with Alaska's private sector for the delivery of appropriate state services in instances where savings can be realized and/or increased productivity achieved;

- Continue to work with all state agencies to develop and implement programs that encourage maximizing purchases from Alaska-based vendors;
- Recognize that Alaska's fiscal situation is not being solved by shifting governmental costs and responsibilities from the State to the school districts and municipalities;

AND FURTHER RESOLVED that after an appropriate level of effective state services has been established, identify sufficient revenues to support government services over the long term; all potential revenue enhancement programs should be evaluated in terms of their impact on Alaska's long-term economic growth, and new revenues should be used in the following order:

1. Use a portion of the current Permanent Fund earnings,
2. Maintain an appropriate balance in the Constitutional Budget Reserve Fund and use it as a "shock absorber" against oil price fluctuations,
3. Use debt, as appropriate, to finance the State's infrastructure needs on a long-term, systematic basis, and
4. After acting under 1 - 3 above, implement broad-based consumption taxes and/or income taxes that are fair, equitable, and encourage economic development;

AND FURTHER RESOLVED that the Anchorage Chamber of Commerce urges the Governor and his administration to collaborate with the efforts of local communities to develop and implement long-term economic development initiatives like those in "Vision Anchorage";

AND FURTHER RESOLVED that the Alaska State Legislature appropriate sufficient funds to education and to the University of Alaska to cover their inflation increases while such a fiscal plan is being crafted.

AND FURTHER RESOLVED that copies of this resolution be sent to the Governor, all members of the Legislature, the Anchorage Mayor and Assemblymembers, the Alaska State Chamber of Commerce, other local chambers of commerce; and Statewide media.

APPROVED April 25, 2003



George Vakalis, 2002-2003 Chair



Stacy Schubert, President



ANCHORAGE
Convention &
Visitors Bureau

December 18, 2003

The Honorable Mike Hawker
State Representative
Co-Chair House, Ways & Means
716 W 4th Avenue Ste 620
Anchorage, AK 99501

Dear Representative Hawker: *Mike*

At the December 17, 2003, meeting of the Anchorage Convention & Visitors Bureau (ACVB) Board of Directors, the Board voted to go on record for the following:

- The ACVB Board of Directors supports the concept of a 2% visitor industry self-assessment to be used for statewide tourism marketing.
- The ACVB Board of Directors opposes Governor Murkowski's budget proposal for a 5% transient accommodations tax. This would destroy Anchorage's ability to achieve greater economic development through a larger convention center.
- * ▪ The ACVB Board of Directors supports the long-range fiscal plan submitted to State Legislators and Governor Murkowski in October 2003 by 20 business, civic and trade organizations, calling for budget discipline, a "percent of market value" structure for the Permanent Fund, and institution of a broadbased tax. This is a way for the entire state to work together towards long-term economic benefits to Alaska.

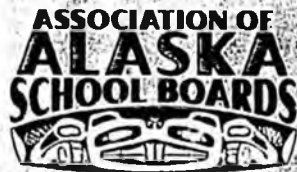
Sincerely,

Bruce Bustamante
Bruce Bustamante
President & CEO

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Advocates for Alaska's Youth

Bruce Johnson

DIRECTOR

QUALITY SCHOOLS/QUALITY STUDENTS



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Internet: <http://www.aasb.org>

316 West 11th Street, Juneau

Alaska 99801-1510

December 19, 2003

Dear Representative Hawker,

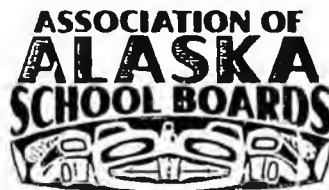
The Association of Alaska School Boards would like to thank you and your House colleagues for your efforts over the interim to explore solutions to bridge the fiscal gap facing Alaska. We agree that addressing the fiscal gap is the top priority for the Legislature in 2004.

As an Association we stand ready to assist and contribute to the solution. Our 330+ school members are prepared to lend grassroots assistance when an appropriate direction is established. Please feel free to solicit our help whenever appropriate.

Best wishes for an enriching 2004.

REGARDS,

BRUCE JOHNSON



Advocates for Alaska's Youth

RESOLUTION CALLING FOR A FULL DISCUSSION
OF A LONG-TERM FISCAL PLAN FOR ALASKA

WHEREAS, Alaska is at a critical junction in regard to its fiscal welfare, and

WHEREAS, the state is spending more than it is taking in, and

WHEREAS, budget cuts alone will not bridge the fiscal gap facing Alaska, and

WHEREAS, under the guidance of Alaska's Congressional Delegation, federal funds make up roughly 40% of Alaska's total operating budget, and

WHEREAS, in Alaska, oil revenue accounts for roughly 55% of state General Fund revenues, while the Constitutional Budget Reserve accounts for about 32% of state-generated funds, with 13% in non-oil revenues, and

WHEREAS, federal funding sources, Alaska's oil production, and the CBR are declining or are expected to decline over the long-term, and

WHEREAS, wise use of the Permanent Fund for the purpose it was intended (to help pay for state government when oil revenues decline), and the institution of a broad based tax (which represents our individual responsibility as citizens of Alaska) are potential sources of significant revenue, and

WHEREAS, failing to address this challenge now risks irreparable harm to Alaska's economy and to future generations of Alaskans,

NOW THEREFORE BE IT RESOLVED the Association of Alaska School Boards' Board of Directors joins the many other civic and trade associations, businesses and organizations, in calling for a full discussion of the critical elements of a long-term fiscal plan for Alaska.

BE IT FURTHER RESOLVED the Association of Alaska School Boards is committed to support the Alaska State Legislature and the Murkowski Administration as they work to address Alaska's fiscal imbalance.

Adopted October 6, 2003

AASB President

AASB Executive Director



FISCAL PLAN NEEDED NOW

By TADD OWENS, EXECUTIVE DIRECTOR, RESOURCE DEVELOPMENT COUNCIL
 LARRY HOULL, GENERAL MANAGER, ALASKA SUPPORT INDUSTRY ALLIANCE
 RICHARD GATTANACH, EXECUTIVE DIRECTOR, ASSOCIATED GENERAL CONTRACTORS OF ALASKA

This Edition
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ASRC Energy Services
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On behalf of the Resource Development Council, the Alaska Support Industry Alliance, and the Associated General Contractors of Alaska, three of the 19 organizations that recently signed a letter to the Governor and members of the Alaska Legislature encouraging them to develop a long-term fiscal plan, we would like to encourage all Alaskans to become engaged in this important issue.

The complete list of participating business, civic and trade associations are listed at the end of the letter which is reprinted on page three of this publication.

The cooperative work of this diverse group of Alaskans is symbolic of the work that now needs to take place in Juneau. Each organization that signed the letter took a risk by accepting a less than optimal proposal from its individual perspective in order to participate in a larger consensus.

In other words, organizations representing Alaskan businesses, communities, trade associations and educational interests compromised on details in order to achieve

a greater goal. We need our elected officials from both parties in both the executive and legislative branches to follow suit.

The tools available to solve the problem are well defined. What we need now is the fortitude to put them into action. Our group plans to work constructively with both the Murkowski administration and the legislature as they strive to solve our state's ongoing fiscal imbalance. We have asked them for leadership, we have encouraged them to work together, and we have promised them our participation and support.

One thing is clear: This is no time for politics. If every interested participant in this debate pursues the most self-centered, politically advantageous course of action, the problem will not be solved and all Alaskans will suffer. Rhetoric must be cast aside in favor of action. Poll-watching must be supplanted by

leadership. Political calculation must be replaced with statesmanship.

Resolving the state's ongoing fiscal imbalance is a challenge greater than one political party or one branch of government. The responsibility of leadership in this instance falls on a broad cross-section of Alaskans.

Republicans and Democrats in the legislature must begin to build a level of trust that will allow them to work cooperatively.

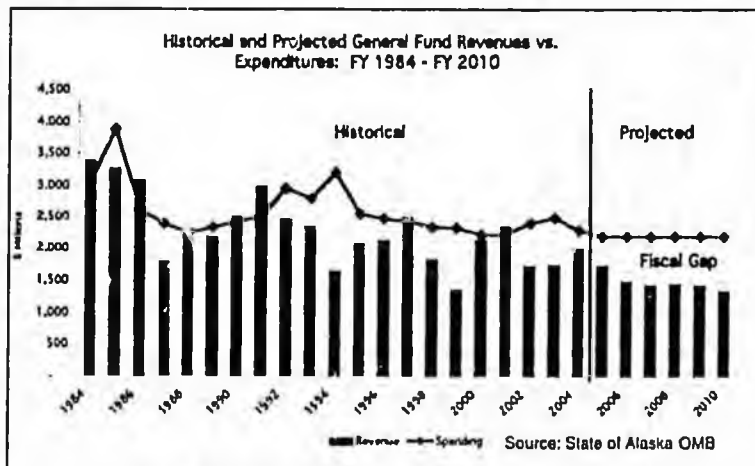
The administration must also cultivate an improved relationship with members of both parties in the legislature.

Business and civic organizations must educate their members and work cooperatively with our elected officials. The media must resist the temptation to pick at wounds from the most recent campaign season, and instead concentrate on the actions of today. Rather than look back, we must all begin to focus on the future.

As we stated in our letter, "With leadership and courage..., a long-term fiscal plan for Alaska can become a reality. The challenge of ad-

ressing our state's fiscal imbalance is daunting, but the successful creation of a sound management plan will provide long-term economic benefits to Alaska."

We have good reason to believe the legislature and the Governor are listening, and intend to work with us and other Alaskans to meet this challenge.



In eleven of the past thirteen years, the State of Alaska has drawn from its chief savings account, the Constitutional Budget Reserve (CBR), to balance its budget. Based on Governor Murkowski's FY '05 proposed budget, the CBR is projected to run dry between 2007 and 2008. RDC and other organizations will be working with the Murkowski administration and the legislature to develop a long-range fiscal plan for the state.



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KING CRAB GIFT BOXES

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Anchorage Daily News

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State politicians, show some leadership

BILL MCALLISTER

COMMENT

(Published: December 14, 2003)

On Monday, Gov. Frank Murkowski will release his proposed state budget for Fiscal Year 2005, and there will be, again, some unpopular cuts.

So let the games resume. But this time around, let's see some sportsmanlike conduct.

The first year of the Murkowski administration has been marked by a nearly unrelieved state of zealotry on both sides. There was rarely any event, proposal or action that wasn't filtered through a partisan prism, reflecting little statesmanship.

Perhaps this should be filed under the category of "Duh." But there were important bipartisan accomplishments prior to the past year, demonstrating that it doesn't have to be this way.

In 2001, the state enacted groundbreaking legislation on cruise ship pollution. The new regulations accelerated the cruise industry's move toward onboard retrofits, which have achieved a modest improvement in water and air quality wherever the ships travel throughout the world.

Last year, then-Rep. Lisa Murkowski's "dime a drink" bill narrowed the gulf between the state's alcohol-related revenues and the incredible government expenditures related to addiction and its consequences. Also in 2002, the Legislature approved the first general obligation bonds in 20 years and, with the backing of voters, launched a school construction and maintenance program that balanced urban and rural needs.

Observers of the legislative process will note that all of this was achieved after delays, flip-flops and bitter words. That goes back to the adage about not watching law or sausages while they're being made.

But the fact remains that both Democrats and Republicans can take credit for reining in polluters, making a long overdue adjustment to the tax structure and giving our children safer and better facilities for their education.

Nothing comparable came out of the 2003 session, the first in many years in which one party controlled both the executive and legislative branches.

Republicans will point out that in addition to electing a Republican as governor, voters gave the party exactly a 2-1 edge in the Legislature. But that means that Republicans constitute 66.6 percent (end-times fanatics, take note), not 100 percent. And Democrats clearly did not exercise one third of the power this past session, although it must be said that much of the time they really didn't try to, preferring instead to let Republicans twist in the harsh wind of the fiscal gap.

The Republican administration's push to streamline environmental review of development projects

completely disregarded the minority's response, including an alternative approach to achieving the stated goal of efficiency. Meanwhile, Democrats refused to entertain any revenue-raising notions floated by Republicans, thus abdicating responsibility for balancing the budget -- formerly a big concern of theirs, we were told.

Democrats more or less said the governor is a liar. The governor blamed his Democratic predecessor for presiding over eight years of alleged "malaise."

The sniping continues long after the session.

Democrats still harp on the death of the longevity bonus, a program that made indisputably arbitrary distinctions among senior citizens. True, there won't be any profiles in courage written about those Republican legislators who refuse to say how they voted in the secret ballot on whether to hold a special session to override Gov. Murkowski's veto.

But Democrats, intent on hanging Murkowski with the misleading "no new taxes" rhetoric of his 2002 campaign, won't acknowledge that the governor exercised some leadership when the Legislature refused to pass a sales tax -- the refusal, of course, being at least partly due to the minority's determination not to provide any bipartisan cover for new revenues.

Let's stop there. The list of political fouls exceeds the space available, by a considerable margin. The only point in raising these examples is to show how counterproductive it would be to let them play out any longer. The only way to move forward is with as blank a slate as possible.

After all, this is the season of hope, redemption and reconciliation. If these aren't the politicians who will bridge our divide, then where are they? If this isn't the time to bring Alaskans together, then when will it be?

To ask such questions is to risk being labeled naive, sort of like Rodney King saying "Can't we all just get along?" after the blood is already running in the streets.

But there's a flip side, an alternative tone that voters might consider if things don't change.

In hosting "Saturday Night Live" during the polarized early years of the Reagan administration, actor Bob Guillaume, in his opening monologue, said something like, "I'm a radical moderate. I want some moderation now, and if I don't get it, I'm going to start busting some heads."

Alaskans should demand no less.

Bill McAllister, a Juneau-based journalist, forgives politicians their trespasses, as he hopes they forgive his.

Print Page

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Legislators must make tough calls on fiscal gap, sooner rather than later

In short order, decisions about state finances won't be able to be put off until next year.

Soon it will be this year.

The Legislature returns to work Jan. 12 and will again confront the issue of the state's recurring annual budget shortfalls. Once legislators assemble in Juneau, talk will turn to Gov. Frank Murkowski's proposed budget and to what extent to modify it to suit the Legislature. Some will assail the governor's suggested cuts and fees. Others will try to steer the debate to a statewide tax. Discussion will, at some point, turn to a proposal to modify the way by which legislators have access to the Alaska Permanent Fund.

Those with wisdom and foresight might try to place the debate in the context of future years, not just the next fiscal cycle.

Alaskans should want their elected officials to take a wider view. And they should want them to do more than talk. The Legislature must pass measures that will put the state's finances in order for years to come. And these must be items based on substance and not hope.

One such item looming large in the coming session is the proposed change to the permanent fund. The idea, known as the Percent of Market Value, has long been sought by the fund's board of trustees as a way to stabilize the dividend at a substantial level, guarantee the fund will be guarded against inflation and provide a fairly predictable source of revenue for government spending. It has a number of legislative supporters and has the backing of the governor.

But since the idea is a constitutional amendment, it must gain voter approval. For the idea to help close the expected budget gaps soon, the amendment must be placed on the November 2004 ballot. Some say, however, that political considerations may prompt some to try placing it on the 2006 ballot instead.

Waiting two years is just another example of an unfortunate state of affairs that grips the Legislature from one session to the next. The desire for political gain, a quest of both major parties, is often placed ahead of the state's well-being, it seems. Already Alaskans hear their legislators repeatedly say that major decisions cannot be made in an election year, of which next year is one. Politics prevents it, senators and representatives say. No one wants to risk angering voters.

Perhaps, though, the rising fiscal pressure will force some hard decisions in the Legislature, regardless of the election cycle. And if those choices finally do get made and the budget problems are therefore solved, Alaskans should reward those who chose to risk their political lives.

Support grows for solving fiscal woes

COMPASS: Points of view from the community

By TADD OWENS and LARRY HOULE

(Published: November 30, 2003)

On behalf of the Alaska Support Industry Alliance, the Associated General Contractors of Alaska and the Resource Development Council for Alaska, three of the organizations that recently signed a letter to the governor and members of the Alaska Legislature encouraging them to develop a long-term fiscal plan, we would like to encourage all Alaskans to become engaged in this important issue.

Nineteen Alaska organizations signed the letter, and with every passing week additional organizations commit their support. The complete list of participating business, civic and trade associations follows:

Alaska Air Carriers Association, Alaska Coal Association, Alaska Conference of Mayors, Alaska Council of School Administrators, Alaska Fire Chiefs Association, Alaska Government Finance Officers Association, Alaska Hi-Tech Business Council, Alaska Miners Association, Alaska Municipal League, Alaska State AFL-CIO, Alaska State Home Building Association, Alaska Support Industry Alliance, Anchorage Chamber of Commerce, Associated General Contractors of Alaska, Association of Alaska School Boards, Council of Alaska Producers, Eagle River and Chugiak Chamber of Commerce, Juneau Economic Development Corporation and the Resource Development Council for Alaska.

Why is it important to acknowledge all of the participating organizations? Because the cooperative work of this diverse group of Alaskans is symbolic of the work that now needs to take place in Juneau. Each organization that signed the letter took a risk by accepting a less than optimal proposal from its individual perspective in order to participate in a larger consensus.

In other words, organizations representing Alaska businesses, communities, trade associations and educational interests compromised on details in order to achieve a greater goal. We need our elected officials from both parties in both the executive and legislative branches to follow suit.

The tools available to solve the problem are well defined. What we need now is the fortitude to put them into action. Our group plans to work constructively with both the Murkowski administration and the Legislature as they strive to solve our state's ongoing fiscal imbalance. We have asked them for leadership, we have encouraged them to

work together and we have promised them our participation and support.

One thing is clear: This is no time for politics. If every interested participant in this debate pursues the most self-centered, politically advantageous course of action, the problem will not be solved and all Alaskans will suffer. Rhetoric must be cast aside in favor of action. Pull-watching must be supplanted by leadership. Political calculation must be replaced with statesmanship.

Resolving the state's ongoing fiscal imbalance is a challenge greater than one political party or one branch of government. The responsibility of leadership in this instance falls on a broad cross-section of Alaskans.

Republicans and Democrats in the Legislature must begin to build a level of trust that will allow them to work cooperatively. The Murkowski administration must also cultivate an improved relationship with members of both parties in the Legislature.

Business and civic organizations must educate their members and work cooperatively with our elected officials. The media must resist the temptation to pick at wounds from the most recent campaign season and instead concentrate on the actions of today. Rather than look back, we must all begin to focus on the future.

As we stated in our letter, "With leadership and courage, a long-term fiscal plan for Alaska can become a reality. The challenge of addressing our state's fiscal imbalance is daunting, but the successful creation of a sound management plan will provide long-term economic benefits to Alaska."

We have good reason to believe the Legislature and the governor are listening and intend to work with us and other Alaskans to meet this challenge.

Tadd Owens is executive director of the Resource Development Council for Alaska. Larry Houle is general manager of the Alaska Support Industry Alliance. Richard Cattanch, executive director of Associated General Contractors of Alaska, contributed to this piece.

Fisherman's
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Alaska Seafoods

ALASKA
KING CRAB



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Opinion

(Published: November 19, 2003)

POMV:

Time to turn the Permanent Fund into an endowment

'POMV' is getting to be the favored buzzword of policy-makers looking to fix Alaska's chronic budget mess. More and more, POMV looks like the first step to a solution.

It stands for "percent of market value," and it means turning the Alaska Permanent Fund into an endowment and using it to stabilize state finances. Local governments are the latest to get on board, with a resolution from the Alaska Municipal League at its conference last week in Nome. A growing array of business and civic groups, along with diverse editorial voices around the state, have expressed support in recent months.

A constitutional amendment would be needed to establish the POMV approach, and the Alaska Legislature should send such an amendment to voters next fall.

The POMV approach would establish -- and limit -- the draw on Permanent Fund earnings to 5 percent of its market value in a given year. This is the approach used by universities and other major endowments to provide a steady income stream without, in the long run, dissipating the value of the fund. Research shows that in a well-managed fund, over time, a 5 percent payout per year both protects value and provides maximum safe income to the owners.

The point -- and one of the reasons the Permanent Fund board of trustees has pushed POMV for years -- is to settle on 5 percent as the upper limit of any draws from the fund and thereby do what we can to make the Permanent Fund truly permanent.

At the Permanent Fund's current value, a 5 percent payout would be about \$1.3 billion per year. What to do with that amount is technically a separate question,

but the Legislature is unlikely to consider it that way. Most POMV discussions have suggested a 50-50 split between dividends to citizens and support for state government -- at current value, roughly \$650 million per year to each.

That would be convenient for elected officials struggling with state finances. First, it covers most of the current "fiscal gap" that has forced legislators to draw down reserves in 11 of the past 13 years. It wouldn't be a permanent fix unless oil prices are improbably high for a very long time, but it would go a long way.

Second, by changing the calculation of the amount of the Permanent Fund dividend, it would actually increase the projected dividend in the next few years while stabilizing it in the long run. Why? The current calculation is based on a five-year average of market results -- and the past three were down years. Changing the calculation would level out the bottom of the valley in the fund payouts -- and also keep it from rising as fast, in 2007 and beyond, as it otherwise would. Both results would be healthy, because they would smooth out fluctuations in Alaskans' incomes and economic activity.

This year the fund paid out \$691 million in dividends, which is not far from the \$650 million POMV would provide. Current calculations would lower the payout to a projected \$564 million next year and \$493 million the year after that, with commensurate drops in individual dividends.

Those things mean the timing is good. POMV would go a long way toward a solution to Alaska's fiscal woes. The Legislature would do well to embrace it -- as a rising tide of Alaska citizens and interest groups are beginning to do themselves.

BOTTOM LINE: POMV is an idea whose time has come.

Spin sin

Half-truths break the rules

House Bill 245, requested last session by Gov. Frank Murkowski and passed by the Legislature, includes a section that denies a member of the military damages from the state or a state worker for injury suffered at the hands of that worker on state duty, unless the injury is inflicted intentionally or shows complete disregard for safety.

The intent, said press spokesman John Manly, is to prevent members of state National Guard units from suing the state over incidents happening while on duty.

But that's not how the language of the bill reads.

So Reps. Les Gara and Ethan Berkowitz, along with former state Veterans Affairs director Laddie Shaw, on Veterans Day urged the governor to amend the bill. As the law reads now, a military member struck down by a careless state snowplow



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Voice of the Times

(Published: September 29, 2003)

LEGISLATURE SHOULD ENDORSE . . . Fund reform

WITH GOV. FRANK MURKOWSKI'S endorsement of a proposal to change the Alaska Permanent Fund into an endowment, another hurdle has been cleared on the road to stabilizing the fund and adding to its protection.

Under the proposal offered by the fund's board of trustees, earnings from Alaska's \$23 billion nest egg no longer would be used for inflation-proofing or to pay dividends.

Instead, the fund would be changed to a "percent of market value" endowment. That means all the earnings would be ploughed back into the fund. Each year its directors, who anticipate an average of 8 percent growth, would deposit up to 5 percent of the fund's market value into the state general fund. That could be split 50-50 - to be used for government and to pay dividends. That should be set in law.

The idea is not new, and certainly is not radical. Many of the larger funds across the nation already are "percent of market value" endowments.

Because Alaskans in 1976 wisely established the rainy day account by constitutional amendment to underwrite the costs of government when oil revenues began to diminish, any changes must be approved by voters. To get an amendment on the ballot requires a two-thirds vote of each chamber of the Legislature - and there's the rub.

The Democratic legislative leadership has been rolling its eyes and ducking about whether such a proposal has a chance in the Legislature until Republicans offer up a complete fiscal plan. What they hope Alaskans do not get is that there cannot be a credible fiscal plan without factoring in the Permanent Fund in some fashion.

As us, Republicans and Democrats alike, can agree that Alaska is at a frightening crossroads. Cutting government is reaching a point where it is counterproductive, but there likely will be something like another \$250 million in cuts required next year. Bond experts are giving our credit rating the skunk eye because of our red ink. The prospect of taxes looms large.

Unfortunately, Alaskans view the fund as the source of an annual entitlement from Juneau, when we should be looking at the long-term welfare of the state we call home. After all, the fund was not set up to give us free money, but to help pay for government.

There is little doubt that the proposed change deserves bipartisan support in the Legislature. After

all, it would protect the fund and its dividend long-term, while going a long way toward easing government's fiscal woes.

It would be sad if Democrats were so myopic that they used their leverage in the House and Senate to block meaningful, needed reform for what they see as political advantage.

Sad, indeed.

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Voice of the Times - 9/25/03
Time to use part of fund to help pay for expenses

It's encouraging to see that some legislators are giving serious consideration to a constitutional amendment that would protect permanent fund dividends and open the way for using a portion of fund earnings for state expenses.

Rep. Mike Hawker, an Anchorage Republican and co-chairman of the House Ways and Means Committee, told the Anchorage Chamber of Commerce on Monday that the time is ripe for such a change.

It is indeed, since the change could now be phased in with minimal impact on individual dividend checks. At the same time it would put the permanent fund back on track for its original purpose - funding the future cost of state government. The change could be accomplished by adopting a recommendation of the permanent fund board to use 5 percent of the total market value of the fund as earnings available for state use.

If the amendment were passed in the next legislative session and adopted in the 2004 statewide election, it could presumably become effective in 2005. And if half of that 5 percent were used for individual dividend checks and half for state expenses, the 2005 checks would be slightly larger than the \$1,010 expected that year under the existing formula.

And perhaps more importantly, the change would free up about \$625 million for state expenses. That would put a serious dent in the state's fiscal gap, making the balance more manageable with revenues from economic growth and reduced spending.

Critics of the plan maintain that the public would not accept such a change since dividend checks would otherwise be larger in the future. But unless a portion of earnings are used to fund essential government services, the public will almost certainly be facing an income tax or statewide sales tax.

Such taxes would almost certainly be more painful than phasing in the percent of market value approach at a time when dividends will be about the same as they would under the old system.

Paying larger dividend checks and then taxing them back - and more - would be a transfer of wealth that would convert the dividend program into a socialist form of welfare.

The Alaska Permanent Fund is a public asset. It is well-managed and wisely invested to produce a consistent return and continuing growth.

Making the change advanced by Hawker and others would enable the state to keep large dividend checks flowing while using a portion of earnings to pay the legitimate cost of state government.

- The Voice of the (Anchorage) Times

Sept. 25

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Anchorage Daily News

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POMV payout just another dividend raid

By JIM SYKES

(Published: December 29, 2003)

Alaska's fiscal follies will take the stage again soon because the state continues to spend more than it takes in. Gov. Frank Murkowski wants \$400 million from the Constitutional Budget Reserve and a head tax on tourists. But the tourist tax could be given away to oil companies through royalty and tax breaks proposed by the governor.

An encore act is planned by some legislators to raid Alaskans' Permanent Fund dividends. One scheme would change the structure of the Permanent Fund using a percent of market value (POMV) payout--similar to systems used by private college endowments. The plan could be good or bad depending on how the 5 percent payout is spent.

One high-profile idea would divide the payout equally -- 50 percent for the Legislature and 50 percent to dividends. It sounds fair until one examines the effects.

Dr. Sharman Haley of UAA's Institute for Social and Economic Research compared the 50/50 POMV plan with a sales tax and an income tax. (www.iser.uaa.alaska.edu/Publications/POMV&taxes2.pdf) The study indicates the 50/50 POMV payout is the worst of the three.

The impact on dividends would be about the same as the 1999 plan that Alaskans voted down by a ratio of more than 4 to 1. A 50/50 POMV payout would unfairly take a higher percentage of money from lower and middle income Alaskans.

Now, as then, Alaskans would bear the entire increased tax burden without additional contributions from tourists, guest workers or Outside companies operating in Alaska.

Most fair, according to the ISER study, is an income tax that parallels the federal tax. Lower income families would pay little or nothing and those with higher incomes would pay more, equalizing the burden across all income levels.

Alaskans probably won't support POMV or other taxes if state passes their money to oil company tax breaks at the same time. Gov. Murkowski recently endorsed oil royalty reductions that could go as low as zero on North Slope federal lands. He also enticed independent oil producers with incentives. Such "less money for more oil" incentives could reduce funds for dividends, state government and Alaska Native regional corporations.

Prudent oil and gas development should focus on state lands where we get 90 percent of the royalties, instead of 50 percent or less from federal lands. Ample supplies of oil and gas are expected to last another 30 to 40 years on state lands alone. Fortunately, the Arctic National Wildlife Refuge is not open and contains little natural gas, so no federal giveaways can be engineered.

Legislators hoping for a natural gas boom may have a long wait. The currently dead federal energy bill scuttled the risky Alaska Highway gas line proposal. Brief attention returned to the more secure and economically viable All-Alaska gas line to Valdez. The moment ended with BP's recent decision to ship its Indonesian liquefied natural gas to Baja California instead of developing Alaska LNG. It's hard to understand why the Legislature allows oil companies to hold hostage Alaska's enormous gas reserves without contributing more toward the oncoming fiscal gap.

Our state treasury would be full if the Legislature had taken repeated suggestions to enact a windfall profits tax on oil above \$18 per barrel. Equalizing corporate and state "profits" on high-priced oil would have raised about \$3 billion over the last three years -- enough to pay dividends, eliminate the deficit and create a surplus. Oil companies could have written off much of the state tax from their federal taxes.

Whatever tax plan emerges, Alaskans demand fairness. A package that includes Alaskans, tourists, Outside workers and oil companies stands the best chance of support.

People need to work together with legislators to solve our fiscal problems. If another unfair dividend raid is attempted with or without POMV, I will gladly work with the vast majority of Alaskans to stop it again.

Jim Sykes was executive director of Alaska Public Interest Research Group, Oilwatch Alaska and is currently co-chair of the Green Party of Alaska.

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CS FOR HOUSE JOINT RESOLUTION NO. 26(JUD)
 IN THE LEGISLATURE OF THE STATE OF ALASKA
 TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE HOUSE JUDICIARY COMMITTEE

Offered: 5/8/03
 Referred: Finance

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE LEGISLATIVE BUDGET AND AUDIT COMMITTEE

A RESOLUTION

1 Proposing amendments to the Constitution of the State of Alaska relating to and limiting
 2 appropriations from the Alaska permanent fund based on an averaged percent of the
 3 fund market value to protect the fund from inflation and assure that the real value of
 4 the fund will be preserved over the long term.

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

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

7 Section 15. Alaska Permanent Fund. (a) At least twenty-five per cent of all
 8 mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing
 9 payments and bonuses received by the State shall be placed in a permanent fund,
 10 Except as appropriated under (b) of this section, money in the permanent fund [,
 11 THE PRINCIPAL OF WHICH] shall be used only for those income-producing
 12 investments specifically designated by law as eligible for permanent fund investments.
 13 [ALL INCOME FROM THE PERMANENT FUND SHALL BE DEPOSITED IN
 14 THE GENERAL FUND UNLESS OTHERWISE PROVIDED BY LAW.]

15 * Sec. 2. Article IX, sec. 15, Constitution of the State of Alaska, is amended by adding a

1 new subsection to read:

2 (b) Appropriations from the permanent fund for a fiscal year may not exceed
3 five percent of the average of the market values of the fund on June 30 for the first
4 five of the six fiscal years immediately preceding that fiscal year.

5 * **Sec. 3.** Article XV, Constitution of the State of Alaska, is amended by adding a new
6 section to read:

7 **Section 30. Transition.** On the effective date of the 2004 amendment relating
8 to the Alaska Permanent Fund (art. IX, sec. 15), the unencumbered, unappropriated
9 balance of the earnings reserve account established under AS 37.13.145(a) is added to
10 the balance in the Alaska Permanent Fund.

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

Tape Log #

**House Special Committee
on Ways and Means**

**Alaska's Fiscal
Dilemma**

December 10, 2003 -

**Ways and Means Committee
Established by HR 6**

WHEREAS it is urgent that the state government bring its spending and revenue into balance to ensure that essential services are provided and to protect the economic stability of the state...

**Ways and Means Committee
Established by HR 6**

1. Consider methods to control state spending;
2. Identify ways in which state government programs may be made more efficient; and
3. Propose new measures to raise additional state revenue...

Why We Need a Fiscal Plan

- State spending exceeds revenue
- Our savings account is running out
- Revenue will not significantly increase in the near future
- Consequences of doing nothing are not acceptable

The "Fiscal Gap"

- Annual Deficit = \$400 million to \$1.1 Billion
- One dollar drop in oil price increases deficit approximately \$65 million
- ^{CBR} Budget Reserve Fund = \$1.7 billion
- ^{CBR} Budget Reserve Fund gone in 2-5 years

Alaska's Fiscal "Toolbox"

1. New resource revenue – Gas pipeline project
2. Cost cutting
3. Use of some Permanent Fund earnings
4. Taxes and fees

4258

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3502

Ways and Means Co-chairmen's Proposed Fiscal Plan

1. Control the cost and growth of government
2. Promote real economic development *Gas pipeline*
3. Manage the Permanent Fund to protect its real value over time while providing a substantial individual dividend and a contribution to the cost of public services
4. Structure the State's general revenue system to minimize taxation of individuals and to accommodate local governments' revenue systems
5. Maintain a balanced budget with a mechanism mitigating the consequences of oil price volatility

Budget Cuts in Perspective Current General Fund Budgets

Power Cost Equalization	\$ 0
Denali Kid Care	\$ 10 million
Medicaid	\$200 million
10% of General Fund	\$230 million
Dept. of Public Safety	\$ 78 million
Dept. of Transportation	\$ 96 million
University of Alaska	\$212 million
Dept. of Health and Social Services	\$527 million
Dept. of Education	\$743 million
All other departments combined	\$471 million
PF and other PF appropriations	\$1.3 billion

Department of Health and Social Services General Fund Budget

• Pioneer Homes	\$ 25 million
• Mental Health Services	\$ 75 million
• Children's Services	\$ 53 million
• General Medicaid	\$106 million
• Juvenile Justice	\$ 33 million
• Public Assistance	\$115 million
• Senior and Disabilities	\$ 93 million
• Public Health Service	\$ 22 million
• Administration	\$ 4 million
• Community grants	\$ 1 million

Permanent Fund Facts

- The Statehood Act gave Alaska resource wealth "For the purposes of furthering the development of and expansion of communities..." \$25 billion of that wealth is protected in the Permanent Fund.
- Currently, one-half of the Fund's earnings are used to pay dividends - \$680 million this year.
- Under an endowment management plan, we could continue to pay dividends while using the other half of the Fund's earnings towards balancing the budget.

Alaska Tax Facts

-Possible New Revenues in Millions -

- Motor/Marine fuel tax \$50 - \$75
- Gaming \$10 - \$100+
- Tourism taxes \$7.5 - \$75
- Broad based taxes
 - Employment head tax \$100/person = \$37
 - Income tax 1% = \$100
 - Sales tax 1% = \$50 - \$100

Alaska's Dilemma

We only need to tax ourselves to the extent we are unwilling to use part of the Permanent Fund's earnings ...

TL
4128

The Financial Issues Today

1. How much, if any, should the budget be cut and where?
2. Should we use any Permanent Fund earnings to balance the budget?
3. What, if any, other revenues are needed to balance the budget after we decide 1 and 2?
4. What do we do when oil prices drop?

**Where Do We
Go From
Here?**

Be Ever Frugal...

Mindful of the consequences of every decision on individual Alaskans

Adopt a Constitutional Spending Limit

4044

**Alaska's Highest
Economic Development
Priorities**

"In Alaska, only oil pays its own way"
UAA - ISER

- Gas Pipeline Project
- ANWR Exploration

**Adopt Endowment Management
for the Permanent Fund**

**Consider new uses of
Permanent Fund earnings**

1. Protect the value of the Permanent Fund
2. Continue paying dividends using 50% formula
3. Use non-PFD designated earnings to balance the budget today without statewide taxes

**General Revenue System
Components**

Minimize the need for broad based taxes

- Non-resident worker "commuter" taxes
- Gaming alternatives
- Targeted tourism fees or taxes
- "Head tax" designated for education
- Motor and marine fuel excise tax rates

**Continue Development
of Budget Stabilization
Legislation**

**Budget Stabilization
Objectives**

- Maintain adequate cash reserve to balance budget when oil prices drop
- Trigger a revenue mechanism to rebuild reserve if balance falls below a "floor"
- Reduce any individual taxes or increase dividends when reserves are adequate

**House Special Committee on
Ways and Means**

- Rep. Mike Hawker – Chairman
- Rep. Norman Rokeberg
- Rep. Vic Kohring
- Rep. Peggy Wilson
- Rep. Cheryll Heinze
- Rep. Bruce Weyhrauch
- Rep Carl Moses
- Rep. Max Gruenberg

121 W. Fireweed Lane, Suite 250
Anchorage, Alaska 99503

October 29, 2003

Representative Michael Hawker
716 W 4th Ave
Anchorage, AK 99501-2133

Dear Representative Hawker:

3903
The undersigned business, civic and trade associations, representing hundreds of Alaskan companies and organizations, and tens of thousands of Alaskan workers, urge the Legislature to work with the Administration during the upcoming session to develop a comprehensive, long-range fiscal plan for the state.

While the ultimate decisions regarding Alaska's revenues and expenditures rest with you and your colleagues in the Legislature, the undersigned associations commit to fully participate in the debate, and pledge to help resolve this issue in a manner that will do the most good for the greatest number of Alaskans over the long term.

Details of any prospective plan will no doubt be both practically and politically difficult to develop. Nonetheless, we believe the following general steps must be taken:

1) Budget Discipline

Alaska must adjust to the reality of lower revenues just as a family or business would — by controlling spending. Reasonable spending controls should be incorporated into any long-term fiscal plan. However, our organizations do not believe it possible or wise to correct the entire fiscal imbalance through budget cuts alone.

2) New Uses of Permanent Fund Earnings

We believe appropriating a portion of the earnings from the Permanent Fund to help support state services is a legitimate use of those funds. Furthermore, we strongly support the creation of a "percent of market value" structure for the Permanent Fund. Using some of the Permanent Fund earnings for state government should not preclude the Alaska Permanent Fund Dividend program from continuing and growing.

3) Institution of a Broad-Based Tax

Spending controls and new uses of Permanent Fund earnings may not be enough to close the state's fiscal gap over time. In light of this fact, we believe it is appropriate for the Legislature to consider the implementation of a broad-based, statewide tax. Any discussion of statewide taxes should include a thorough, public analysis of an income tax, a sales tax and any other broad-based taxes.

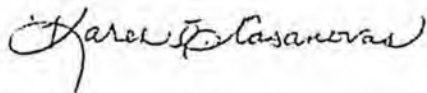
The fiscal challenges facing Alaska are not new and the tools available to address the problem have been well defined. However, without a sound fiscal management plan there is a growing risk to the state's economic health with every passing year. In fact, uncertainty regarding Alaska's

fiscal regime has been mentioned as a primary disincentive to private investment in the state. Fortunately, at this time, Alaska has a wide array of potential options to address this challenge.

Each of the steps outlined above encompasses a multitude of variations. In creating a fiscal package, we encourage the Legislature to incorporate elements from all three general recommendations beginning with spending controls, moving to new uses of the Permanent Fund earnings and finishing with a new broad-based tax, if necessary.

We are eager to support you in a responsible, committed effort to address this issue during the next legislative session. With leadership and courage from the Legislature, a long-term fiscal plan for Alaska can become a reality. The challenge of addressing our state's fiscal imbalance is daunting, but the successful creation of a sound management plan will provide long-term economic benefits to Alaska. Failing to address this challenge now risks irreparable harm to future generations of Alaskans.

Sincerely,



Karen Casanovas, Executive Director
Alaska Air Carriers Association



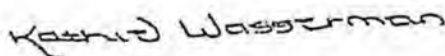
Dave Tyler, President
Alaska Fire Chiefs Association



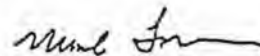
R.B. Stiles, President
Alaska Coal Association



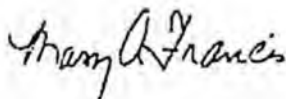
Dean Baugh, President
Alaska Government Finance Officers
Association



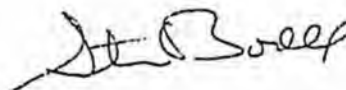
Mayor Kathie Wasserman, President
Alaska Conference of Mayors



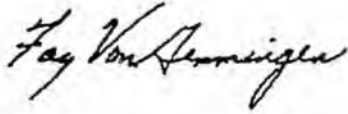
Mike Tavella, Chairman
Alaska Hi-Tech Business Council



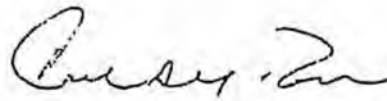
Mary Francis, Executive Director
Alaska Council of School Administrators



Steve Borell, Executive Director
Alaska Miners Association



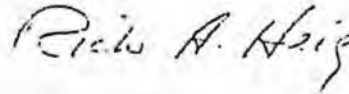
Fay Von Gemmingen, President
Alaska Municipal League



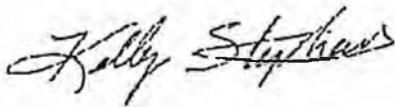
Carl Rose, President
Association of Alaska School Boards



James A. Sampson, President
Alaska State AFL-CIO



Rich Heig, President
Council of Alaska Producers



Kelly Stephens, President
Alaska State Home Building Association



George Lochner, President
Eagle River and Chugiak Chamber of
Commerce



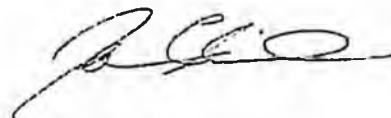
Larry Houle, General Manager
Alaska Support Industry Alliance



Lance Miller, Executive Director
Juneau Economic Development Corporation



Stacy Schubert, President
Anchorage Chamber of Commerce



John Shively, President
Resource Development Council
for Alaska, Inc.



Richard Cattanaach, Executive Director
Associated General Contractors of Alaska

Board Resolution 2003-25

Whereas, the Anchorage Economic Development Corporation recognizes the growing risk to the state's economy and the need for fiscal stability; and

Whereas, a group of community leaders combined their efforts and have asked the Board of the Anchorage Economic Development Corporation to be one of the signatories on a letter in support of fiscal stability; now

Therefore, be it resolved that the AEDC Board of Directors supports the development of a long-range fiscal plan for the state and agrees to sign on to the attached letter.

Passed and approved this 10th day of December 2003.

Kathy Porterfield, Chair

HOUSE RESOLUTION NO. 6
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE HOUSE RULES COMMITTEE

Introduced: 3/28/03
Referred: Special Order of Business

A RESOLUTION

1 **Establishing a House Special Committee on Ways and Means.**

2 **BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES:**

Tapo Log
4018

3 **WHEREAS** it is urgent that the state government bring its spending and revenue into
4 balance to ensure that essential services are provided and to protect the economic stability of
5 the state;

6 **BE IT RESOLVED** by the House of Representatives that a House Special Committee
7 on Ways and Means is established to

8 (1) consider methods to control state spending;

9 (2) identify ways in which state government programs may be made more
10 efficient; and

11 (3) propose new measures to raise additional state revenue; and be it

12 **FURTHER RESOLVED** that the Speaker of the House of Representatives shall
13 appoint the representatives to be members of the committee and shall designate a member to
14 chair the committee; and be it

15 **FURTHER RESOLVED** that the House Special Committee on Ways and Means
16 may meet during and between sessions of the Twenty-Third Alaska State Legislature and is

1 terminated on the convening of the First Session of the Twenty-Fourth Alaska State
2 Legislature.

Representative Mike Hawker
Alaska State Legislature



Session:

State Capitol
Juneau, AK 99801
907 465-4949 direct
800 478-4950 toll free
907 465-4979 fax

Interim:

716 W 4th Avenue
Anchorage, AK 99501
907 269-0244 office
907 269-0248 fax

Member:

House Finance Committee
Legislative Budget
& Audit Committee

House District 32:

Eagle River
Anchorage
Rainbow
Indian
Bird
Girdwood
Portage
Whittier
Sunrise
Hope

House Special Committee on Ways and Means

Components of a Comprehensive Fiscal Plan

1. Control the cost and growth of government
2. Promote real economic development
3. Manage the Permanent Fund to protect its real value over time while providing a substantial individual dividend and a contribution to the cost of public services
4. Structure the State's general revenue system to minimize taxation of individuals and to accommodate local governments' revenue systems
5. Maintain a balanced budget with a mechanism mitigating the consequences of oil price volatility on the general revenue system

STATEMENT IN FAVOR OF PROPOSITION NO. 2

Alaskans Should Strongly Support the Establishment of a "Permanent Fund"

TL
4422

Just as a wise and prudent family sets aside money in a savings account for the future, so should Alaska's state government set aside a rainy day fund to benefit this and future generations of Alaskans. In a "Permanent Fund", you - the voter - can prevent a major source of income from being doled out for day-to-day needs or desires of state government by placing up to 25% of all revenue generated from non-renewable resources such as mineral leases, rentals, royalties and federal mineral revenue sharing payments and bonuses into such a fund.

In recent years the state legislature has been spending \$2.00 for every \$1.00 taken in. Authorities estimate that if the present rate of spending continues, Alaska will require a budget in excess of one billion dollars by or before 1980. Establishment of this "Permanent Fund" will provide for the use of the principal for income-producing investments only and provide a businesslike approach of permitting the State to meet countless community needs.

Today, as the result of anticipated oil and gas revenues, Alaska stands on the brink of unprecedented prosperity. No one, but no one, argues that these non-renewable resources will last but for a few decades. Similarly, no one should fail to recognize that in those years ahead the cost of state government will continue to spiral upwards. Now is the time to ask ourselves the question: "When the oil and gas is depleted, where will the funds to feed our giant government come from?" The answer is: the "Permanent Fund".

While it is to be hoped that such a fund may contribute to cutting cost or, at least, holding the line on state spending, its major

value would be that it would require our elected officials to pause, reflect and research any proposal before blindly authorizing expenditure of taxpayers' monies. This would provide needed time for the press and the public to also be aware of the pending project and its merit, instead of being out of public view and hidden in the spending pattern of normal day-to-day operations. Projects invested in with sources from the "Permanent Fund" could help broaden Alaska's narrow based economy and bring more stability to our State.

We would caution the public that while a "Permanent Fund" could provide a tool for accomplishing real needs - community improvements, it will, in the final analysis, not replace our collective responsibility to elect state administrators and legislators who will use the same reason and restraint in spending the public money as they would their own funds.

Establishment of a "Permanent Fund" is an exciting concept and when approved and properly used can serve long and well the best public interest of Alaskans.

VOTE "FOR"

THE ESTABLISHMENT OF A "PERMANENT FUND"

-- Alaska State Chamber of Commerce

STATEMENT AGAINST PROPOSITION NO. 2

The drafters of the Alaska Constitution wisely prohibited the dedication of state moneys based on the experience of other states of our nation.

This is being sold on the basis that it will cut back expenditures of state government. Such is a worthy goal but a permanent fund will not obtain that result. Those who would spend large sums of money are well aware of methods of increasing taxes. In 1975 when the state apparently ran out of money, it imposed a new oil and gas reserve tax amounting to over \$200 million a year. If this amendment passes and large sums go into the fund, the legislature and administration will impose additional taxes. The only restraint that we'll ever have on the growth of the state budget will be to elect fiscally responsible people.

Various federal government revenue sharing programs must be considered. Since the federal government takes such a large share of the taxes, each state must, by necessity, look to revenue sharing to get part of that money back. If Alaska establishes a multi-billion dollar permanent fund, you can be assured that Congress will change revenue sharing formulas so that Alaska will be cut back. Congress will say other states and municipalities are having a very difficult time raising funds to meet the necessities of government while Alaska has a large permanent fund.

It is axiomatic that government should never have more money than it needs to meet its immediate requirements. Alaska ought not to have funds excess to its needs for current operating budgets and an adequate reserve for income fluctuations.

The State of Alaska will not have a surplus until about 1979. At that time we should invest our large sums in the following manner:

1. Build all new capital improvements, i.e. roads, bridges, schools and harbors with cash rather than incurring additional bonded indebtedness.
2. Pay off our existing bonded indebtedness.
3. Increase revenue sharing to local government.
4. Reduce state taxes.

The argument that we should set some money aside from non-renewable income for future generations sounds well and even has merit. I suggest that it would be more meritorious, however, to give future generations adequate school buildings, adequate roads, adequate docks and not give them a huge pile of cash and an onerous bonded indebtedness.

The supporters of this amendment have also dangled in front of the public the idea that the money will be used to make credit available for such things as home mortgages. This is a worthy goal but does not follow from the creation of a permanent fund. The drafters of this amendment had the opportunity to include language that the fund be used for credit. They chose not to include such language. Further, the State can make money available for home mortgages without the need of any permanent fund. A good example is the current Veterans Loan Program.

The public rightly is concerned about very large government expenditures. A permanent fund will not reduce them. Only a fiscally responsible governor and legislature can do that.

Tom Fink, C.L.U.
Former Member of Alaska
House of Representatives

Arguments printed on this page are the opinions of the authors and have not been checked for accuracy by any official agency.