SCR

101

SFIN

FILE

SCR 101

was referred to the Senate Finance Committee

Hearing(s) were held

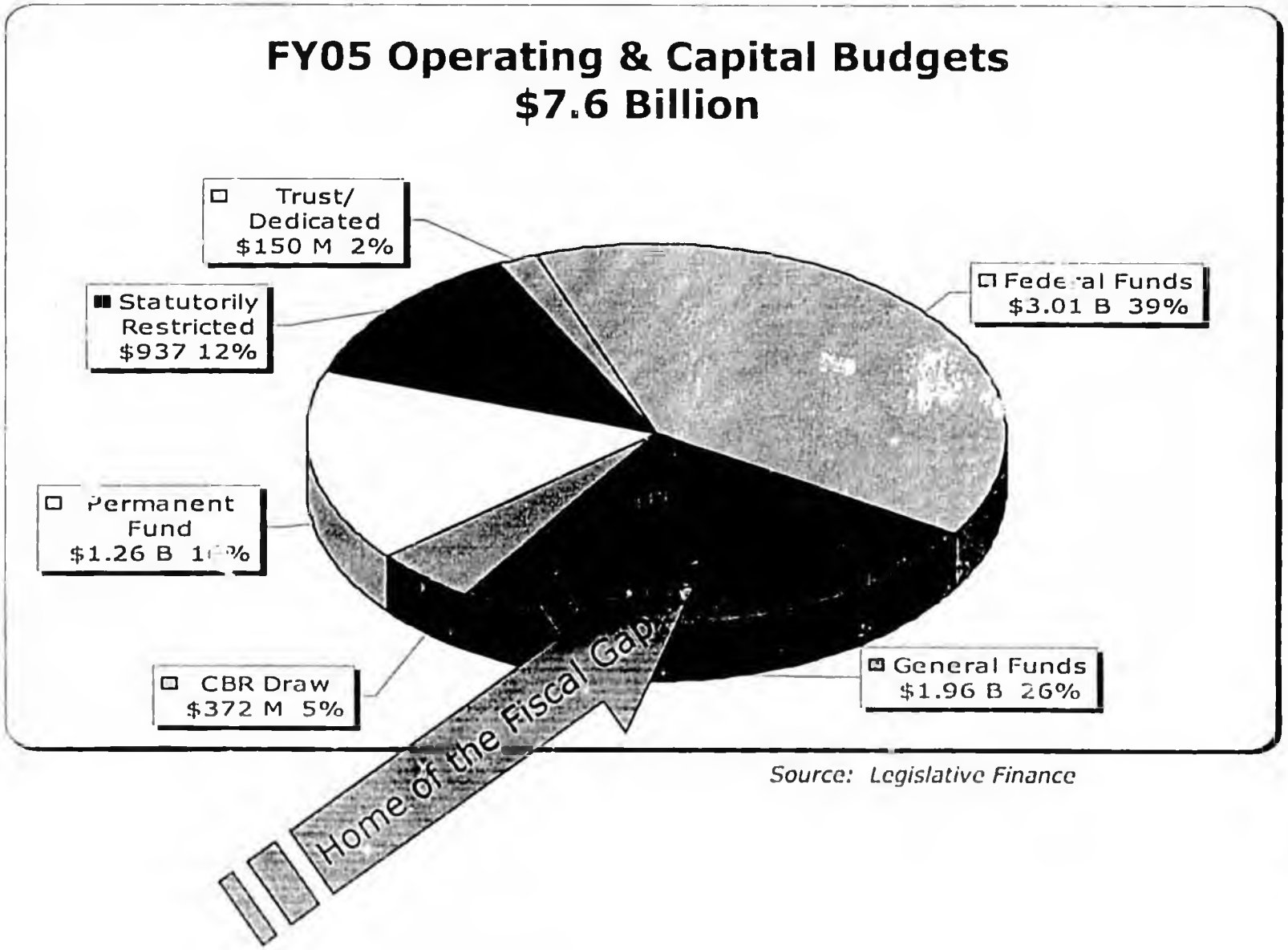
The bill did not move from Committee

Building the Bridge

The Power of Earnings

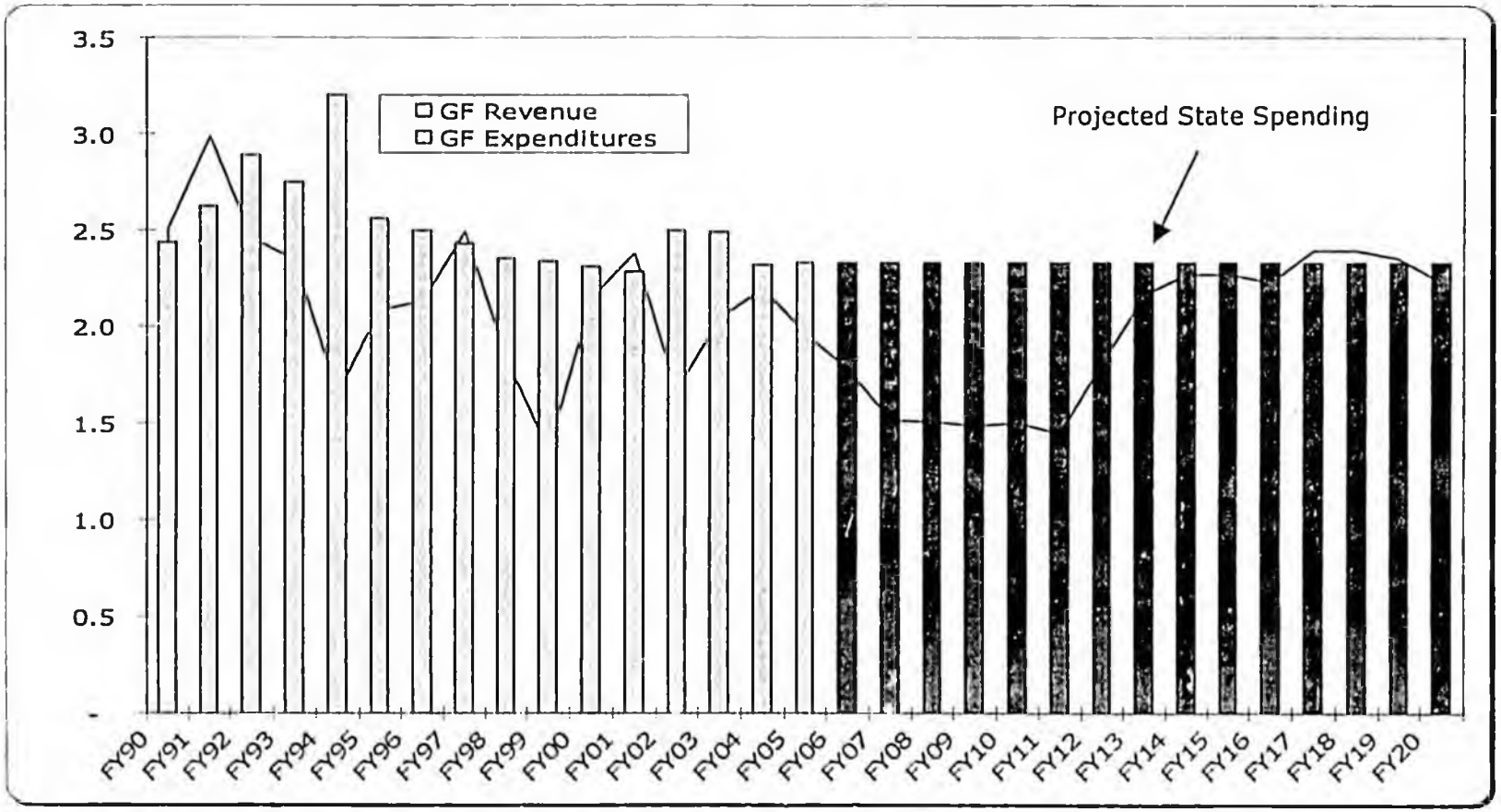
An Alternate Solution

So, where's the problem?



Source: Legislative Finance

. . . and what's the problem?

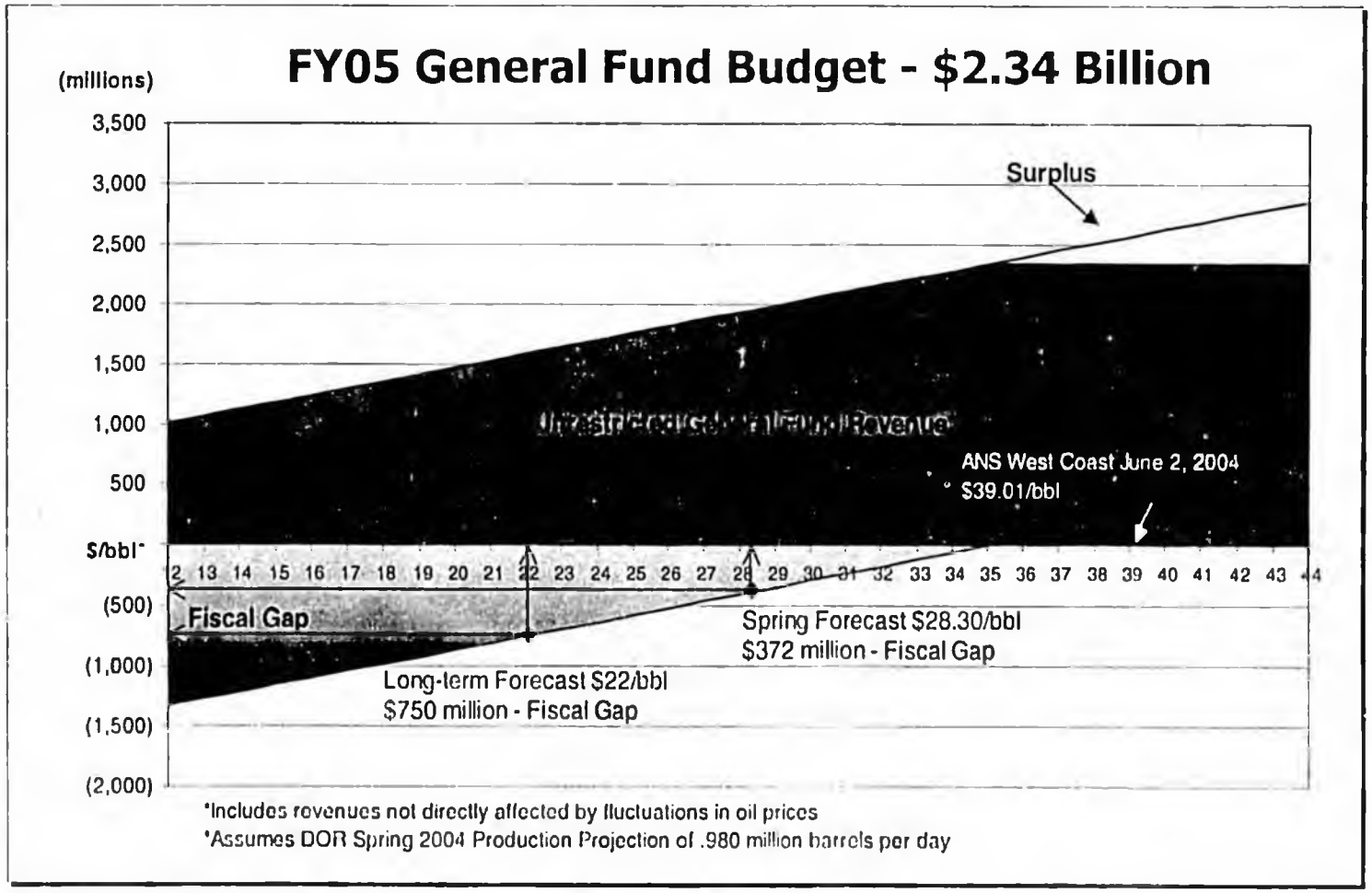


Source: Legislative Finance

General Fund revenue is less than General Fund expenditures.

. . . but things can change quickly

"For the Good or for the Bad"



Source: Legislative Finance

. . . and they have

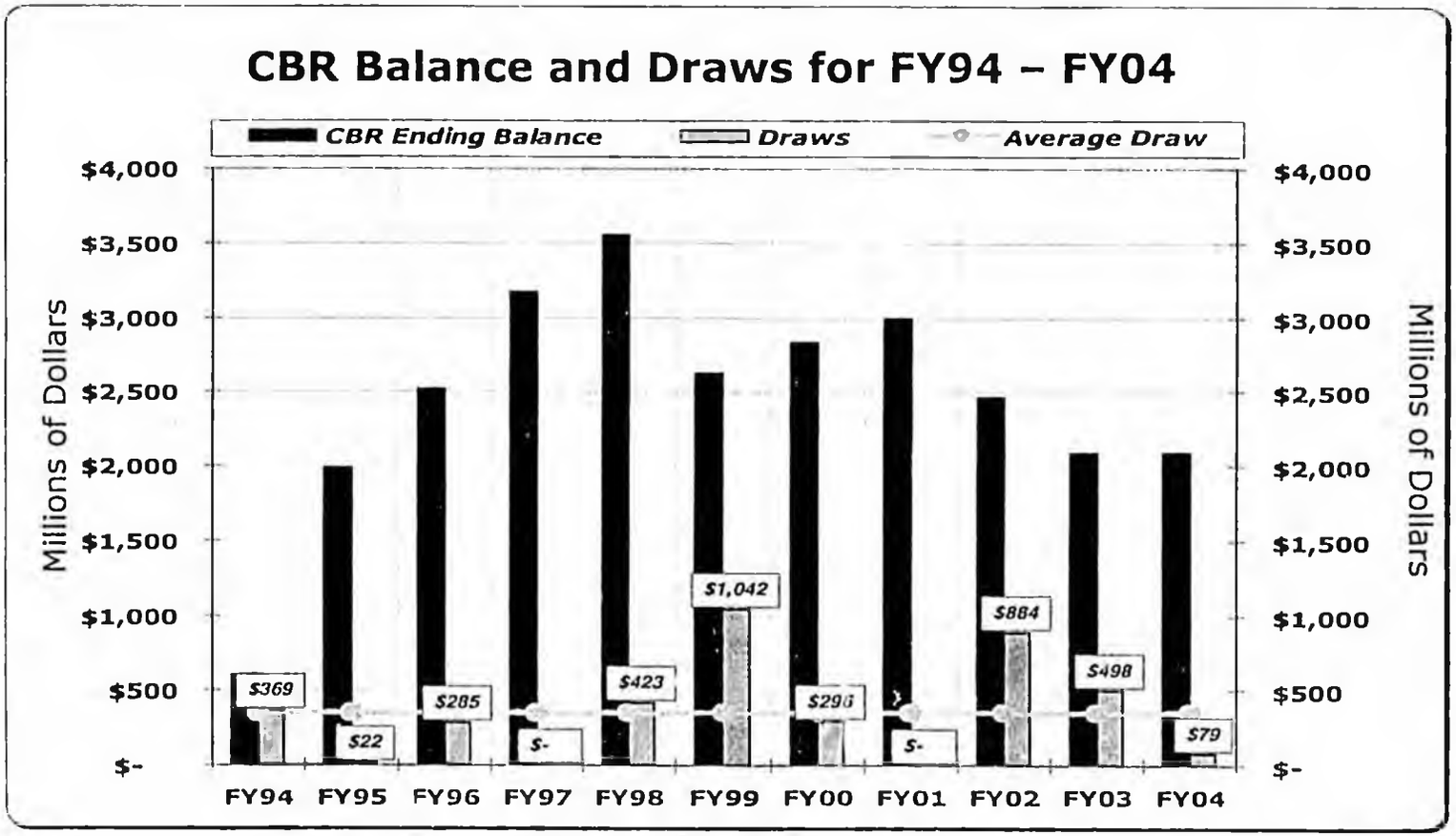
ALASKA CONSTITUTION
ARTICLE IX

Section 17. Budget Reserve Fund (a) There is established as a separate fund in the State treasury the budget reserve fund. Except for money deposited into the permanent fund under Section 15 of this article, all money received by the state after July 1, 1990, as a result of the termination, through settlement or otherwise, of an administrative proceeding or of litigation in a State or federal court involving mineral lease bonuses, rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments of bonuses, or involving taxes imposed on mineral income, production, or property, shall be deposited in the budget reserve fund. . . . Money may be appropriated from the fund only as authorized under (b) or (c) of this section.

Voters approved amendment in 1990.

- The CBR has been used to fill the fiscal gap.
- Approximately $5.5 billion has been withdrawn.
- The state has deposited $5.6 billion and earned $2 billion in interest.

. . . for example



Source: Legislative Finance

- Draw 9 out of 11 years
- Average draw $350 M
- Current balance $2.1 B

. . . but Alaska is a resource state

"Alaska has about 22 percent of the nation's "known" oil reserves and 19 percent of the country's known natural gas."
Governor Murkowski, 12/14/2003

"TransCanada submits application to state, says 2012 start-up possible"
Petroleum News, 6/6/04

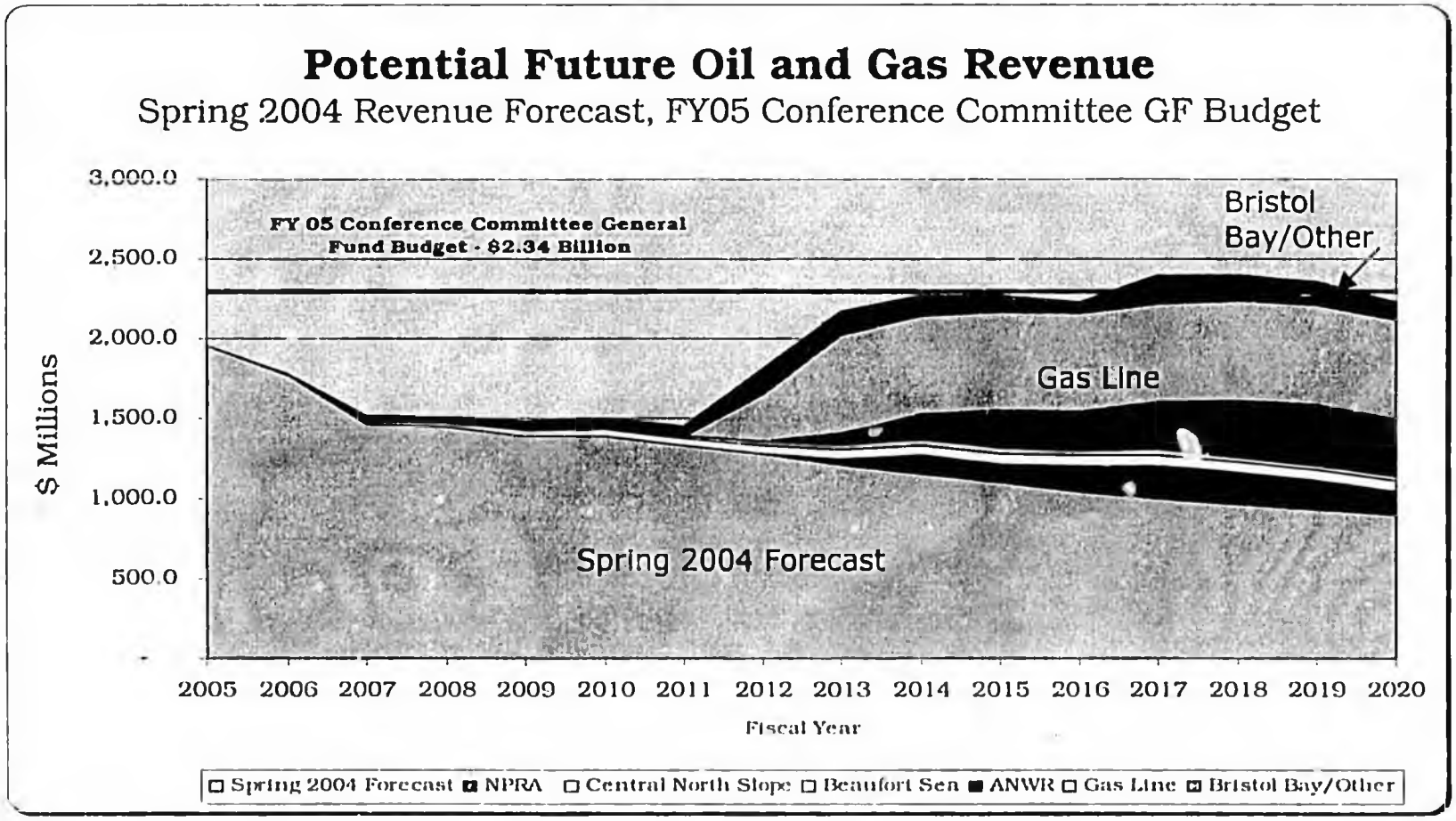
"Alaska officials consult bankers on gas pipeline"
Bond News, May 27, 2004

"$53.9 million in NPR-A bids offered"
Fairbanks Daily News-Miner, 6/3/04

Federal land managers proposed giving oil drillers access to a forbidden chunk of the North Slope national petroleum reserve."
Anchorage Daily News, 6/10/04

. . . and a bridge is needed

From Today to Development



Source: Office of Management and Budget

Several Pots of Money

Reduce State Spending
(Save a $$, Earn a $$)

Income Tax
($600 M)

Corporation Tax
($50-$100 M)

Permanent Fund Earnings

$1.5 B realized earnings
($740 M after PFDs and Inflation Proofing)

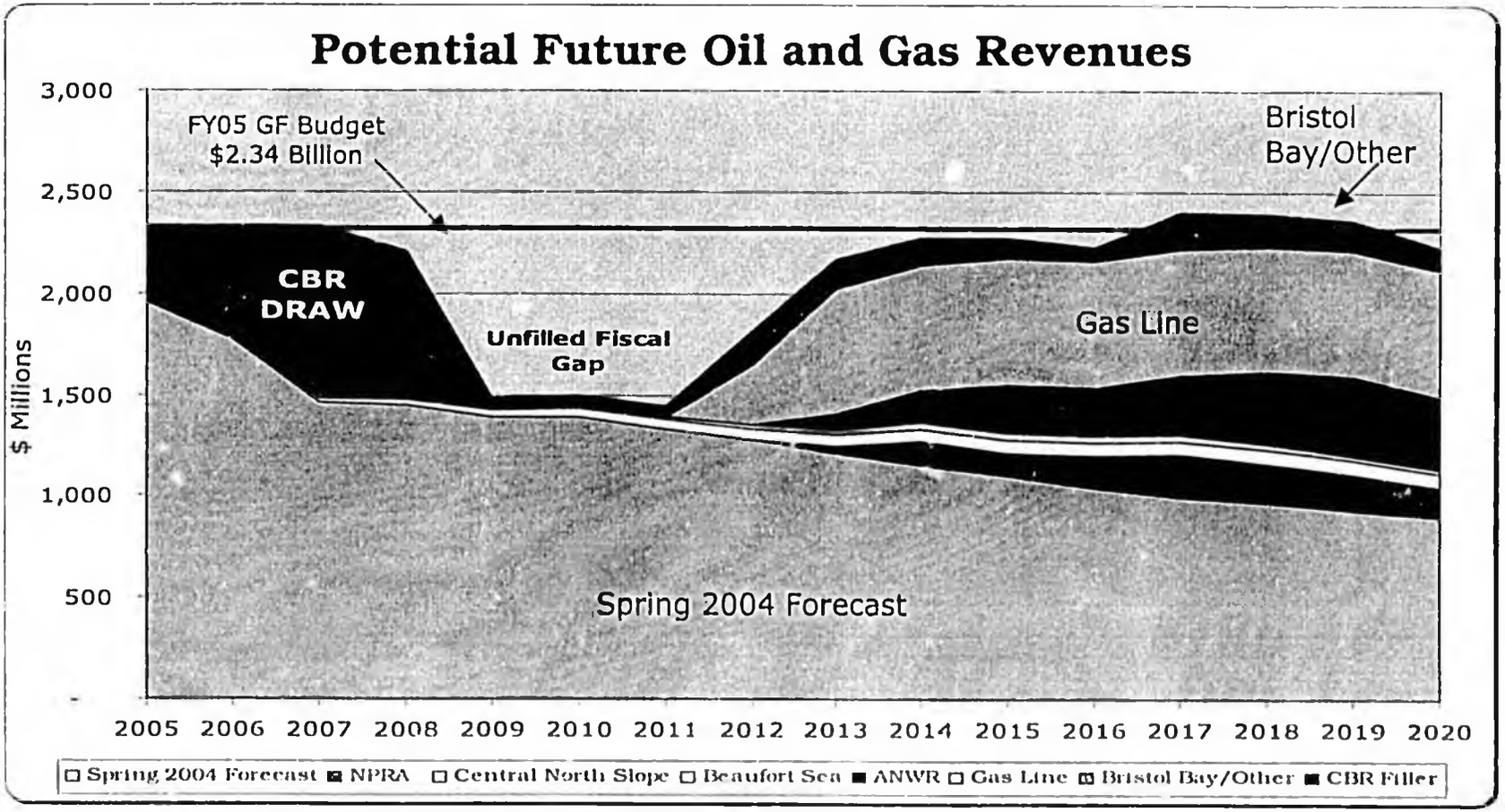
Other Revenue
(varies)

Sales Tax
($200-$300 M)

Alaska Perm Fund Financial Projections
April 30, 2004

CBR
($2.1 B)

. . . and why not just the CBR?

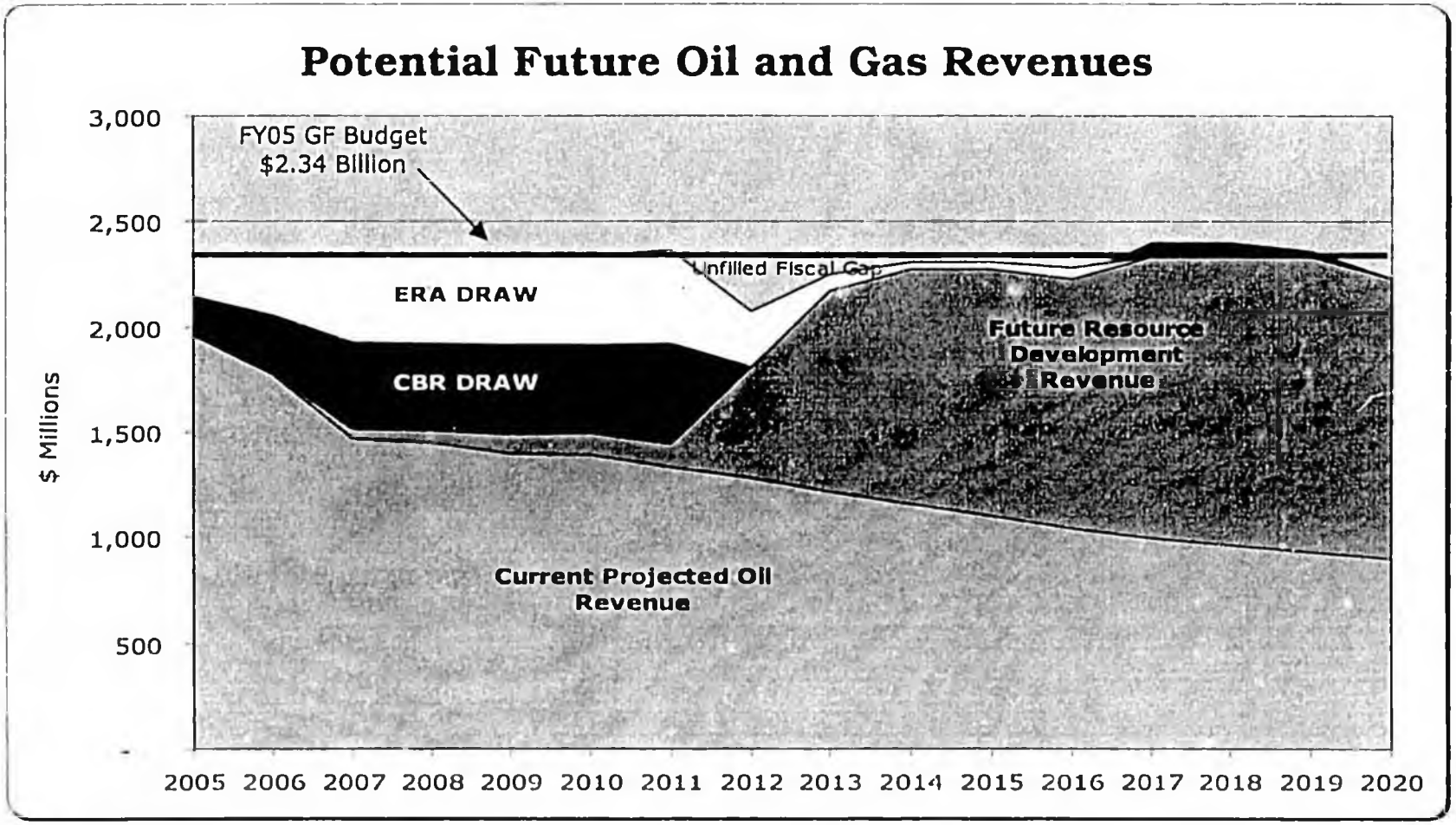


Source: Legislative Finance and OMB (Based on Spring 2004 Revenue Forecast)

. . . but what if . . .

The Legislature splits the future fiscal gaps with equal contributions from the Constitutional Budget Reserve and the Earnings Reserve Account?

. . . and we build a bridge



Source: Legislative Finance and OMB (Based on Spring 2004 Revenue Forecast)

. . . but can we?

An Alaskan's Guide to the Permanent Fund

The Fund would help create an investment base to continually generate future income. When oil ran out, Alaska would still have a major source of state revenues. Alaskans could use these revenues to pay the costs of basic government services, or for whatever purposes future generations of Alaskans decided.

Each year, the Fund would channel a significant portion of the oil revenues away from the legislature. Less state income reduces the opportunity for excessive state spending.

The Fund would transform non-renewable oil wealth into a renewable source of wealth for future generations of Alaskans.

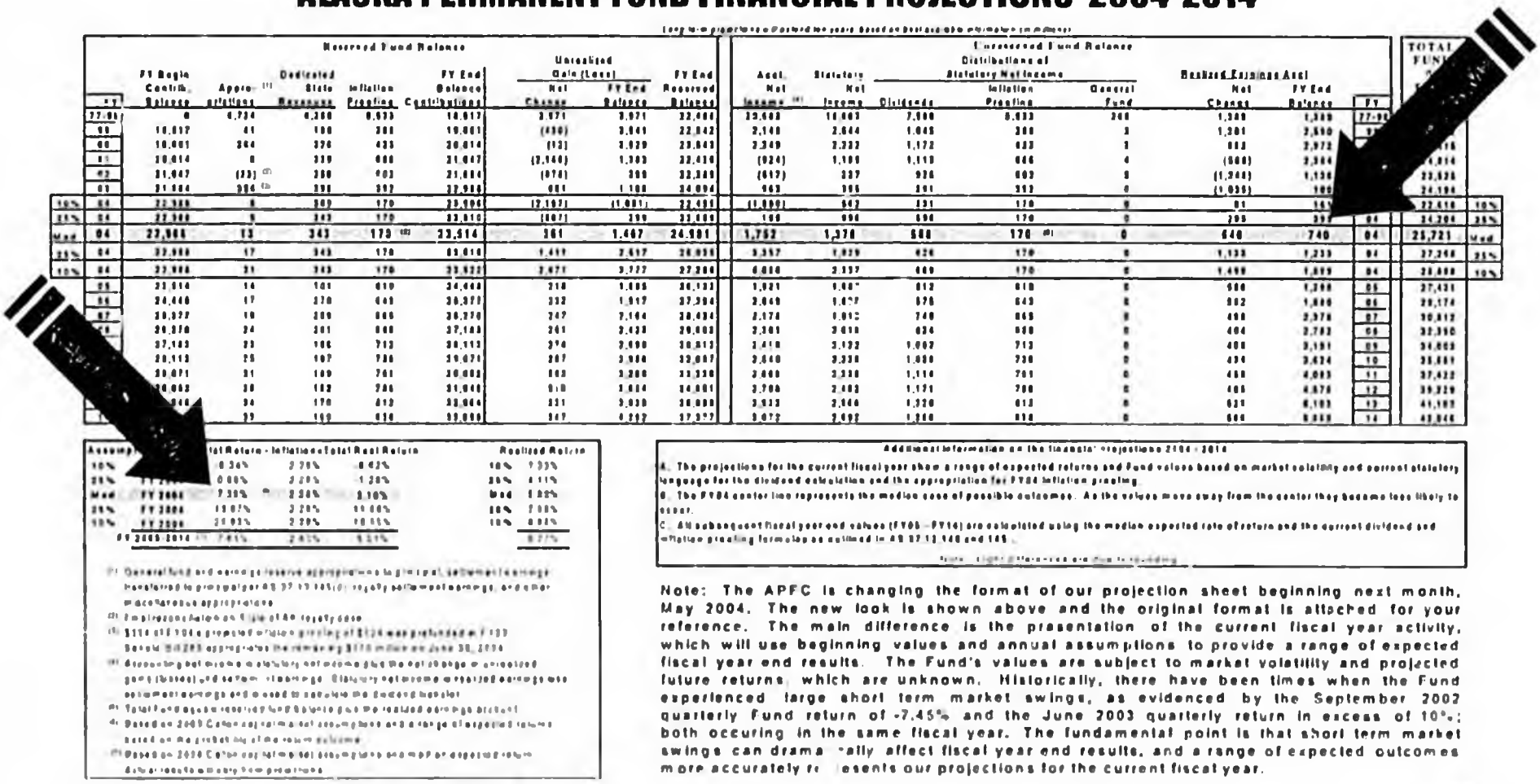
Alaska Permanent Fund Corporation
9th Edition, 1998, Pages 1 & 2

Yes, We Can!!!!!

The Earnings Reserve Account, a result of wise investment of our Permanent Fund, has been and is still available to the legislature by a majority vote of 21-11.

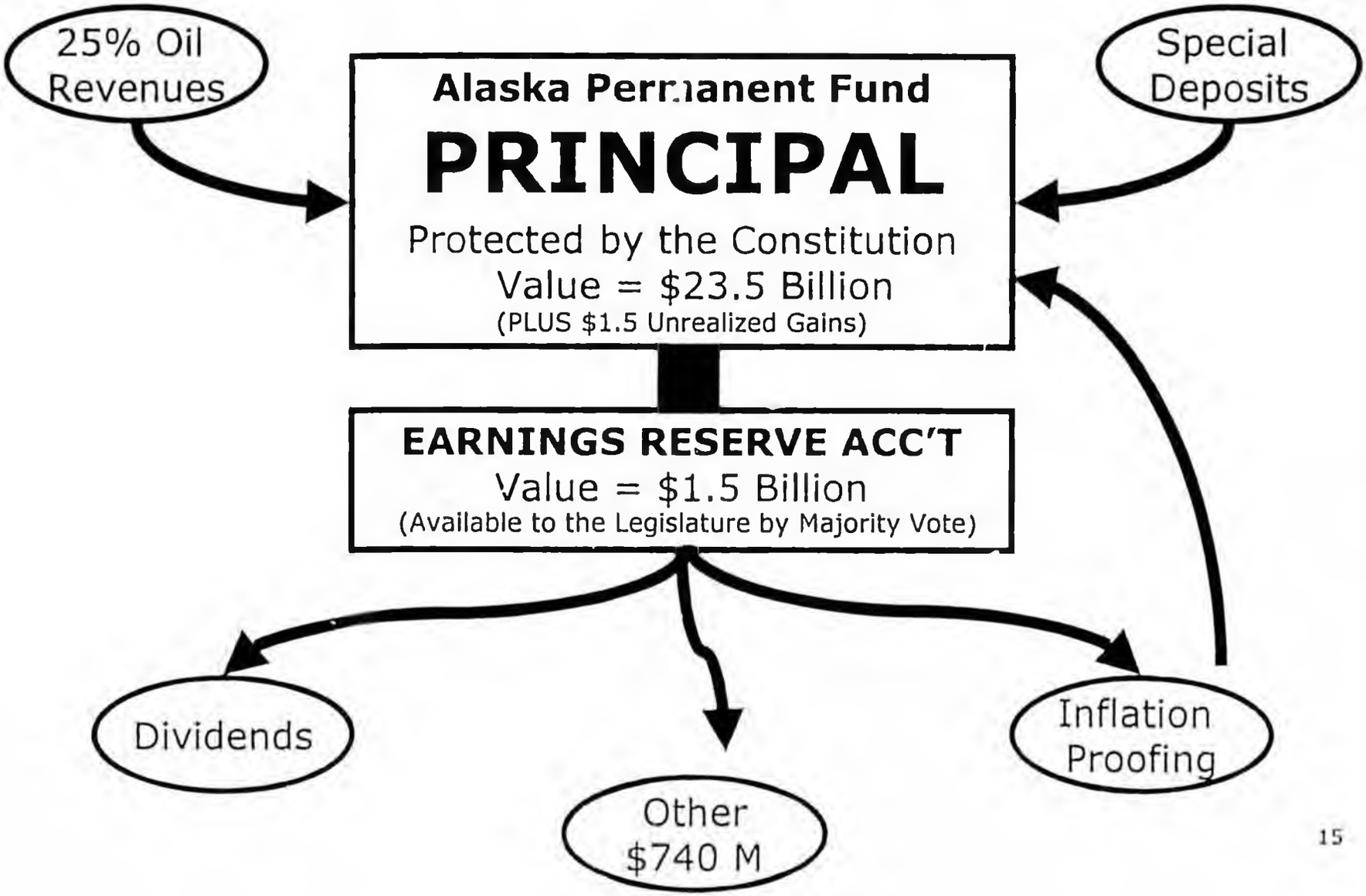
PF financial projections say . . .

ALASKA PERMANENT FUND FINANCIAL PROJECTIONS 2004-2014



Note: The APFC is changing the format of our projection sheet beginning next month, May 2004. The new look is shown above and the original format is attached for your reference. The main difference is the presentation of the current fiscal year activity, which will use beginning values and annual assumptions to provide a range of expected fiscal year end results. The Fund's values are subject to market volatility and projected future returns, which are unknown. Historically, there have been times when the Fund experienced large short term market swings, as evidenced by the September 2002 quarterly Fund return of -7.45% and the June 2003 quarterly return in excess of 10%; both occuring in the same fiscal year. The fundamental point is that short term market swings can drama tally affect fiscal year end results, and a range of expected outcomes more accurately r esents our projections for the current fiscal year.

. . . our Fund and our Earnings



. . . the Earnings Reserve

"the Crown Jewel of Alaska's Fiscal Future"

- Only legislature in America deciding how to manage $27 billion for 640,000 people

- Every minute, every hour, every day, the world helps build Alaska by
  - Investing in corporate America
  - Investing in America's society
  - Investing in America's future

- The Earnings Reserve Account is an abutment to our Bridge to Development

. . . but what about my check

If you use the Earnings Reserve?

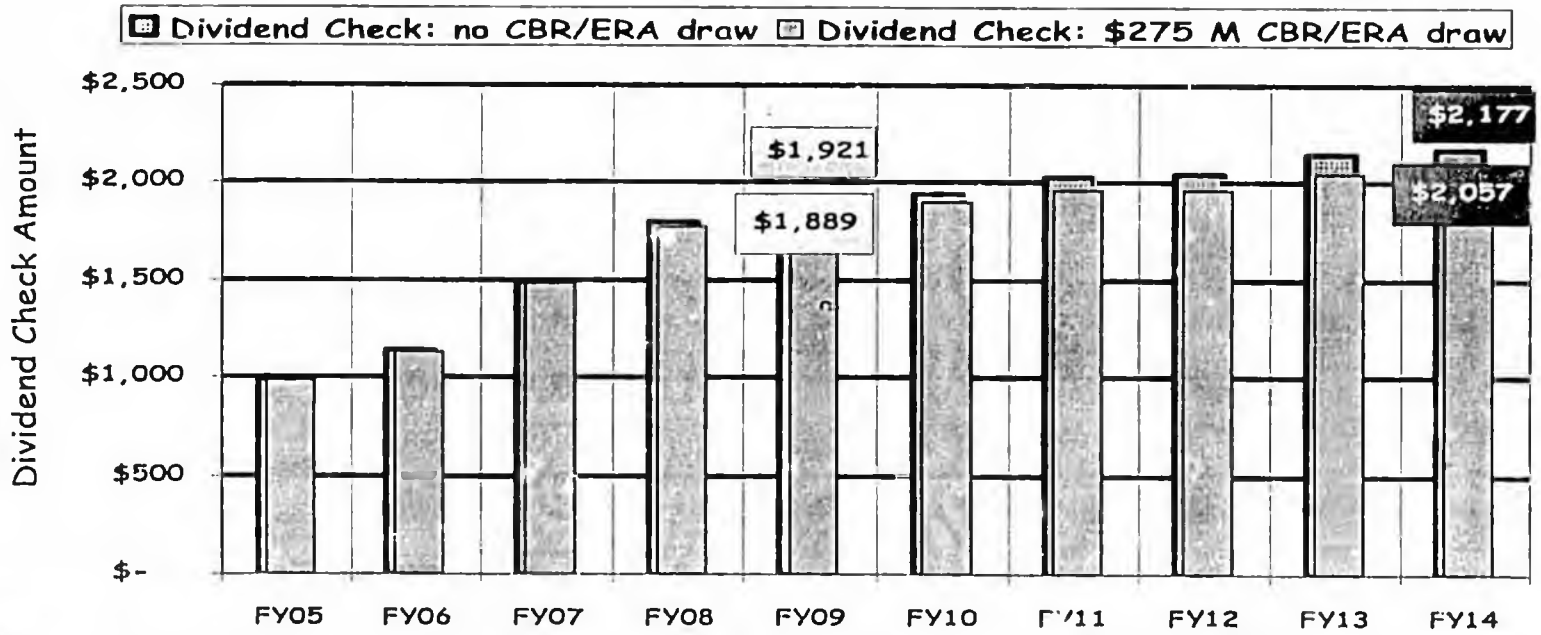
Fiscal Gap (millions)	ERA Draw (millions)	*Fiscal Years Ahead*									
		1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
$ 200.0	$ 100.0	$ -	$ 1	$ 3	$ 7	$ 12	$ 18	$ 24	$ 30	$ 37	$ 44
$ 300.0	$ 150.0	$ -	$ 2	$ 5	$ 10	$ 18	$ 27	$ 36	$ 46	$ 55	$ 66
$ 400.0	$ 200.0	$ -	$ 2	$ 7	$ 14	$ 24	$ 36	$ 48	$ 61	$ 74	$ 87
$ 500.0	$ 250.0	$ -	$ 3	$ 9	$ 17	$ 29	$ 44	$ 60	$ 76	$ 92	$ 109
$ 550.0	$ 275.0	$ -	$ 3	$ 10	$ 19	$ 32	$ 49	$ 66	$ 84	$ 102	$ 120
$ 600.0	$ 300.0	$ -	$ 3	$ 10	$ 21	$ 35	$ 53	$ 72	$ 91	$ 111	$ 131
$ 700.0	$ 350.0	$ -	$ 4	$ 12	$ 24	$ 41	$ 62	$ 84	$ 106	$ 129	$ 153
$ 800.0	$ 400.0	$ -	$ 5	$ 14	$ 28	$ 47	$ 71	$ 96	$ 122	$ 148	$ 175
$ 900.0	$ 450.0	$ -	$ 5	$ 16	$ 31	$ 53	$ 80	$ 108	$ 137	$ 166	$ 197
$1,000.0	$ 500.0	$ -	$ 6	$ 17	$ 35	$ 59	$ 89	$ 120	$ 152	$ 185	$ 218

Source: Legislative Finance (Based on 7.6% rate of return, Perm Fund Financial Projections, April 30, 2004)

Given a projected draw, what is the reduction to your PFD?

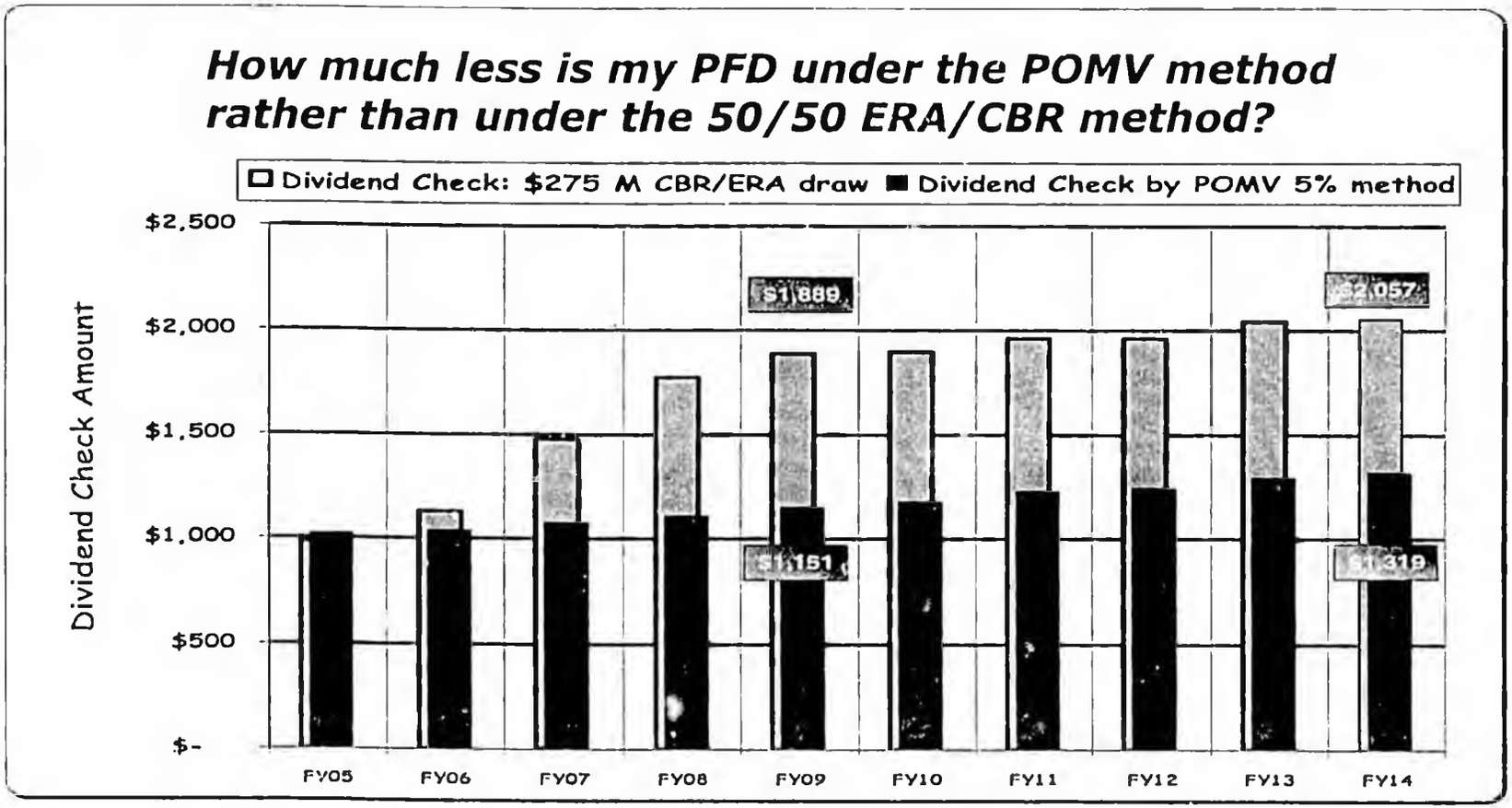
. . . how does this compare to the status quo?

How much less is my PFD if the Legislature draws $275 M (1/2 the average annual fiscal gap) from the ERA every year for 10 years?



Answer: In five years, it's 32 less.
In ten years, it's $120 less.

. . . and to the suggested POMV method?



Answer: In five years, it's $738 less.
In ten years, it's $748 less.

. . . but is this the best way?

Let's compare other revenue sources.

Married, Two Children

Income Tax
Raise $275 Million
Cost $1,059
($57,000 Adj. Gross Income)

Source: Department of Revenue

Married, Two Children

Sales Tax
Raise $275 Million
Cost $1,035
($57,000 Adj. Gross Income)

Source: Department of Revenue (2.75% Sales Tax)

Married, Two Children

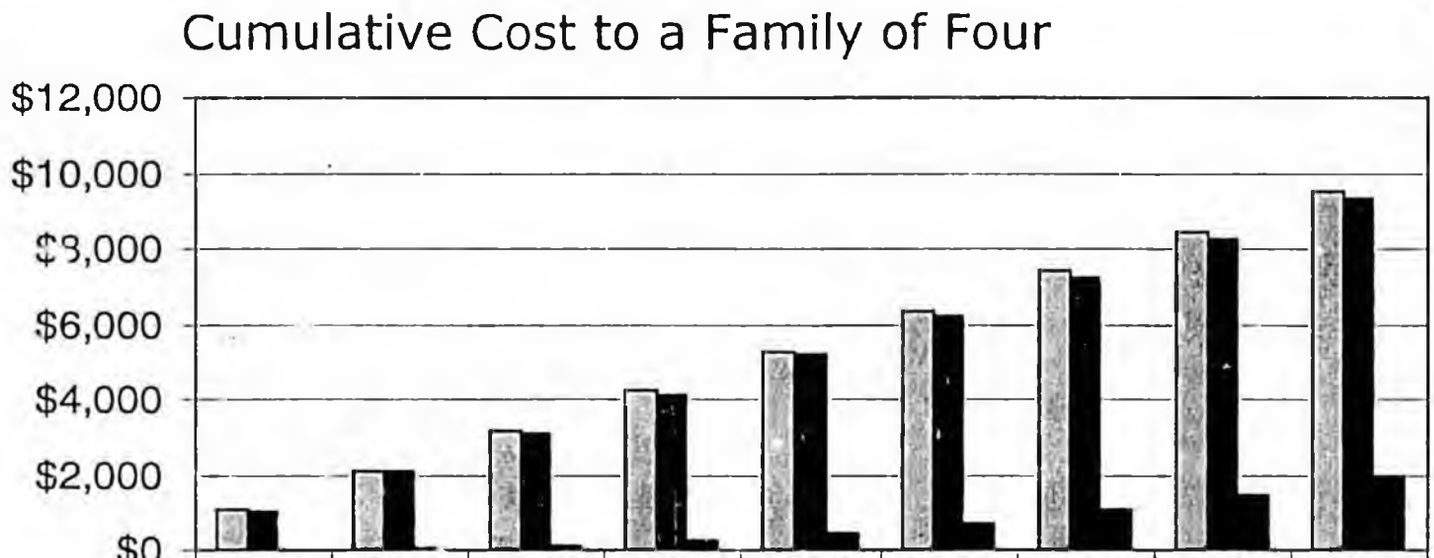
Earnings Reserve
Raise $275 Million
Cost $12

Source: Legislative Finance

Under the Build the Bridge Plan, all Alaskans share the Power of Earnings.

Information is based on the second year of implementation.

. . . and what about over time?

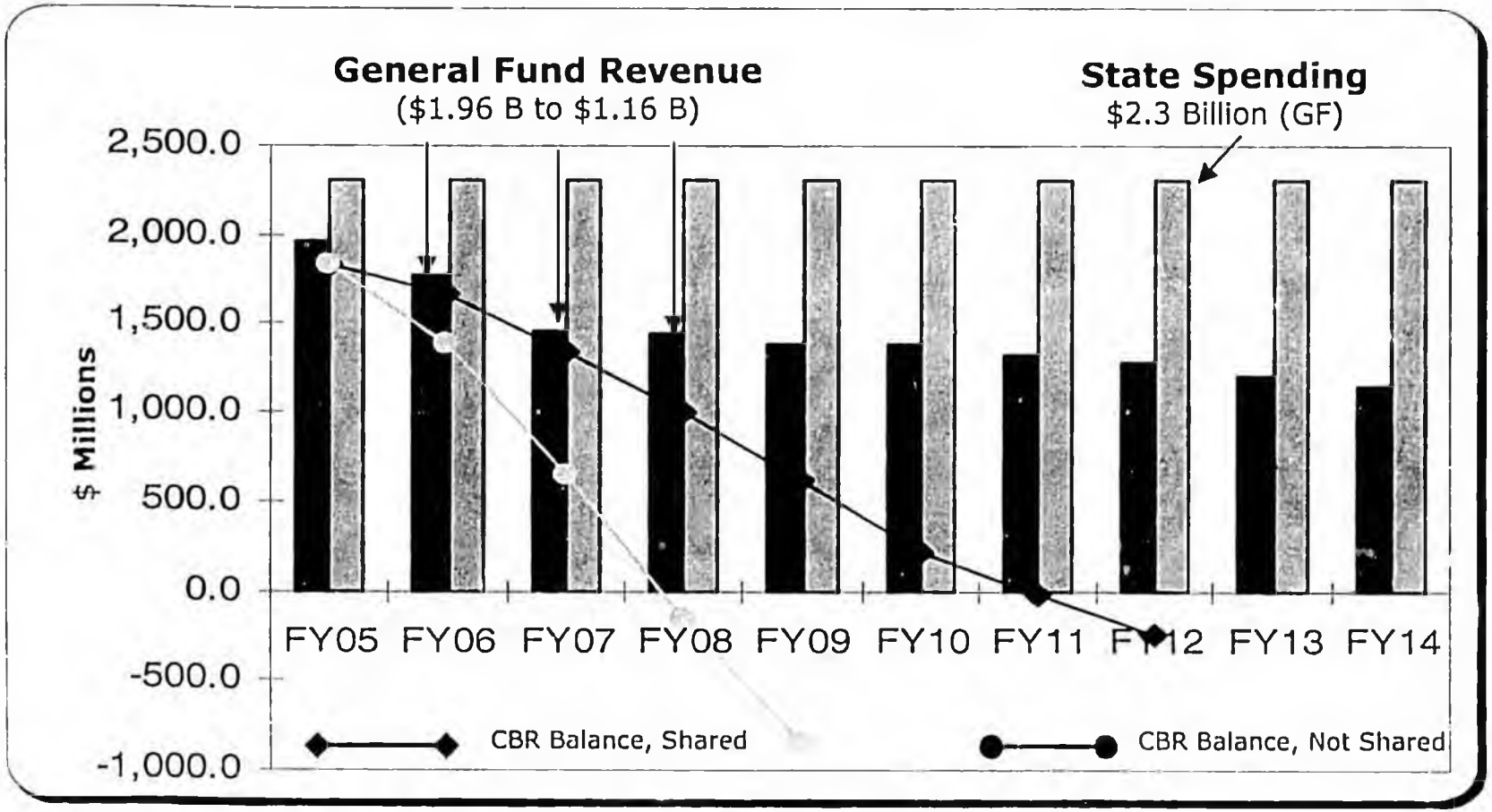


	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Income Tax	$1,059	$2,118	$3,177	$4,236	$5,295	$6,354	$7,413	$8,472	$9,531
Sales Tax	$1,035	$2,070	$3,105	$4,140	$5,175	$6,210	$7,245	$8,280	$9,315
Earnings Reserve	$12	$52	$128	$256	$452	$716	$1,052	$1,460	$1,940

Source: Department of Revenue and Legislative Finance

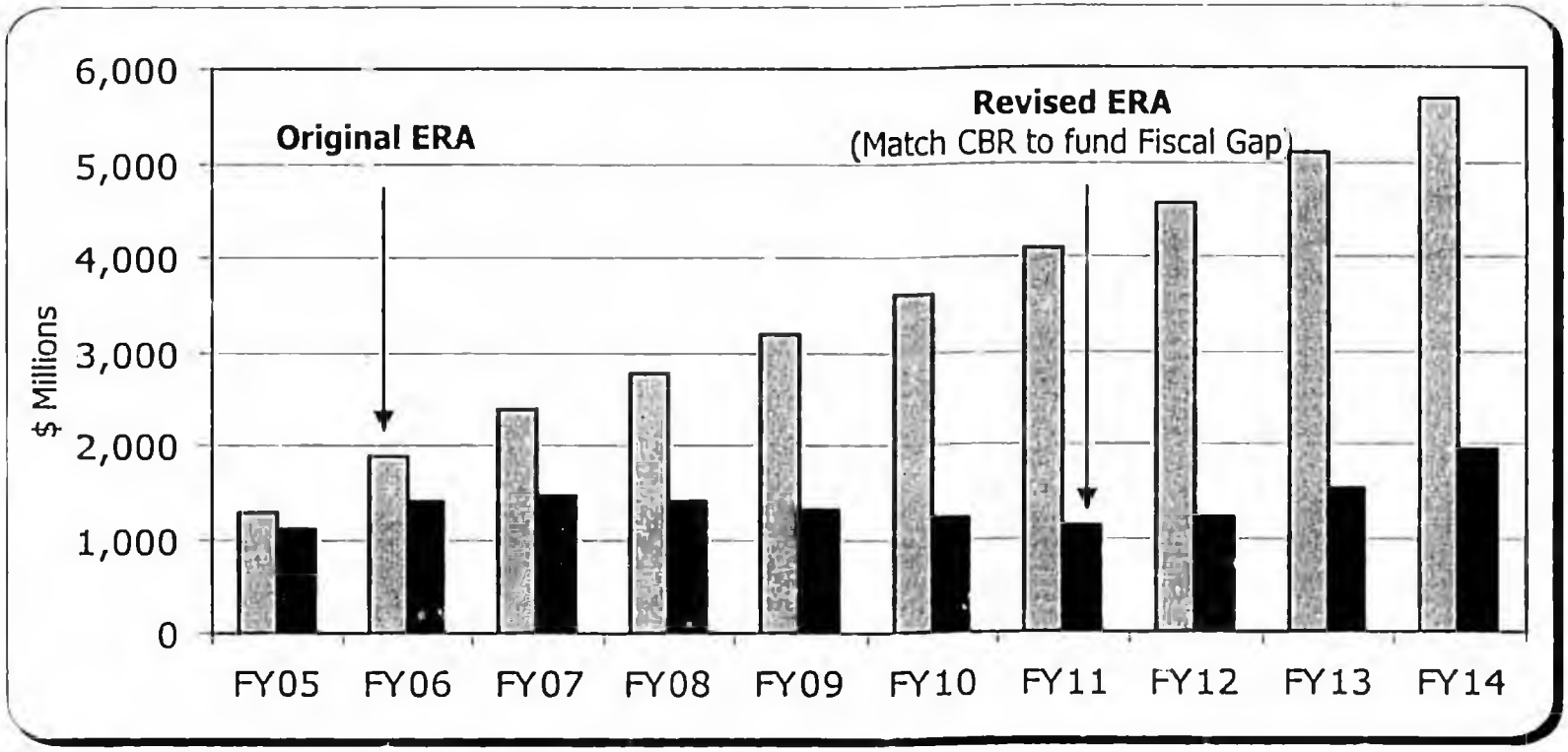
Cost to fill $550 fiscal gap: $275 M from CBR and $275 M from one of three options.

. . . but does this help the CBR?



Source: Legislative Finance - expected CBR return @ 4.7% plus expected settlements

. . . and what about the ERA?



Source: Permanent Fund Financial Projections, April 30, 2004

- Balance after dividends & inflation proofing
- After funding state services, the ERA maintains a steady, even growing balance.

. . . A brief comparison...

POMV Method	Build the Bridge
1. Amount of PFD more predictable	1. Amount of PFD follows the market
2. More negative impact on your PFD	2. Less negative impact on your PFD
3. Perm Fund principal may be impacted	3. Perm Fund principal protected
4. Perm Fund draw for state services is automatic	4. Earnings used only if necessary for state services

. . . let's use it only when we need it...

- Build the Bridge Plan demands spending accountability because . . .
- the Earnings Reserve Account is the people's money and . . .
- each legislator must answer to the public on how much was spent from the Earnings Reserve to fund state services.
- For example . . .

. . . let's summarize . . .

The Build the Bridge Plan

- Recognizes Alaska's natural resource potential and opportunity for jobs
- Recognizes the power of the Earnings Reserve – *the crown jewel of a fiscal plan*
- Bridges the State of Alaska revenue needs until development can occur
- Establishes accountability by forming a spending partnership with all voters

. . . and now the challenge

to our Governor and to the Legislature

- It's time to recognize the power of the Earnings Reserve.
- It's time to have the courage, when needed, to use the Earnings Reserve.
- We're elected to work hard, get smart, and make the right decisions for the people of Alaska,
  - *That's why we're here. . .*

Thank you
Gary Wilken

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Opinion

(Published: June 14, 2004)

Stick with democracy

State fiscal fix needs to happen; constitutional juggling doesn't

Democracy is both hard to do and worth the trouble. It works, when it's applied. So why not trust it?

That's the question to ask about proposals to find a series of constitutional amendments that would buy off enough votes in the Alaska Senate for a state fiscal plan -- but at the price of less democracy and accountability.

All this comes up in the effort to round up votes and ideas before next week's legislative special session. Some people just can't resist trying to rig Alaska's democracy their way -- by demanding permanent constitutional protection for something that ought to be a continuing policy decision.

Here are the general outlines of a deal being pursue .: The governor would get his 5 percent of market value plan for managing the Alaska Permanent Fund and new revenues for government. Democrats would get a 60-40 split enshrined in the constitution to provide generous dividends as close to forever as government can provide. Republicans would get a constitutional spending limit intended to prevent a future spending spree.

What's wrong with all that? Only that putting it in the constitution is unnecessary, that it assumes this crop of politicians is smarter than all future ones, and that it would be a classic case of legislative overreach.

Why not use the constitution we already have? Why not insist this Legislature use its existing authority to solve a problem everyone understands just fine -- rather than usurp the authority of future legislatures to address problems nobody can predict?

Republicans make a mistake by seeking a spending limit that inevitably would distort future decisions. Democrats make a mistake by demanding enshrinement of a particular split for dividends versus state services. Both would be better off to resist the urge to clutter up the constitution and just do their work: restoring balance to state finances. Then they could go home with the satisfaction of a job well done.

BOTTOM LINE: Fix the fiscal gap, but leave the constitutional juggling act out of it.

Provided by Gary Wilken

Subject: **Anchorage Daily News**
Date: Wed, 23 Jun 2004 09:00:09 -0800
From: "Walter J. Hickel" <wjhickel@gci.net>
To: Senator_Gary_Wilken@legis.state.ak.us

Good morning Senator Wilken:

I totally agree with your statement as reported in today's Anchorage paper. A solution to the state's current budget problems does not belong in the constitution.

The legislature was empowered by the constitution and given the legal standing in statute to make these decisions. Nor do they require a vote of the people.

God Bless.

Wally

Provided by Gary Wilken