

HB

125

HFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSHB 125(W&M)
(H) Publish Date: 3/5/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue 04
Title: Long Range Fiscal Plan RDU: Taxation and Treasury
Component: Tax Division
Sponsor: House Ways and Means
Requester: House Ways and Means Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
-------------------------------	-----	-----	-----	-----	-----	-----

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	*	*	*	*	*	*

Estimate of any current year (FY2007) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See attached.

Prepared by: Nels Tomlinson Phone (907) 465-5636
Division: Tax Date/Time: _____
Approved by: Jerry Burnett Date: 2/13/2007
Agency: Department of Revenue

FISCAL NOTE #1

STATE OF ALASKA
2007 LEGISLATIVE SESSION

BILL NO. CSHB 125(W&M)

ANALYSIS CONTINUATION

Bill Language: This bill would require the governor to provide a long range financial plan for the state, covering projected sources " ... of funds during the succeeding 10 fiscal years. The long range fiscal plan must include sufficient details to identify significant sources of funds [Section 1 (b)(1)(A)]."

The bill also would permit the governor to include recommendations to raise revenue for operation of state government while maintaining a stable tax environment [Section 1 (b)(4)].

Revenues: This bill will have no effect on revenues.

Expenditures: The additional expenditures associated with this bill are indeterminate. After consulting with the governor's Office of Management and Budget, we believe that the projections required by Section 1 (b)(1)(A) of this bill could be provided by a minor extension of our current revenue forecasts. The Department of Revenue currently produces semi-annual revenue forecasts, and the succeeding two years' detailed revenue forecasts are published in the Revenue Sources Book. The Department also publishes the succeeding ten years' forecasts of Total Unrestricted General Purpose Revenue. If the new projections can be fitted into our current framework of revenue projections, there would be no significant additional costs associated with this bill. Whether we can fit the required forecasts into our existing forecasting framework will depend upon the governor's eventual decision as to the level of accuracy and detail required.

The forecasts of potential taxes which might be required under Section 1 (b)(4) are outside of the current scope of our forecasts. Detailed forecasts of the revenues and economic impacts of new taxes would require additional expenditures.

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: CSHB 125(W&M)
(H) Publish Date: 3/7/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Governor
Title: Long-range State fiscal plan RDU: OMB
Component: OMB
Sponsor: House Special Committee on Ways and Means
Requester: House Special Committee on Ways and Means Component No. 2144

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services	102.6	102.6	102.6	102.6	102.6	102.6
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	102.6	102.6	102.6	102.6	102.6	102.6

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	102.6	102.6	102.6	102.6	102.6	102.6
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	102.6	102.6	102.6	102.6	102.6	102.6

Estimate of any current year (FY2007) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill would amend the Executive Budget Act to require the Governor's Office to prepare an annual 10 year long-range fiscal plan.

While the Office of Management and Budget routinely provides fiscal information on various topics to the legislature, preparation of a formal annual 10 year fiscal plan would require additional staff. At one time, OMB had a research and planning staff of 13 people to conduct this type of work. However, budget reductions over the years have reduced the research and planning staff to two positions, which cover a broad range of duties.

Prepared by: John Boucher, Senior Analyst
Division: Office of Management and Budget
Approved by: Karen J. Rehfeld, Director
Agency: Office of Management and Budget

Phone: 465-4677
Date/Time: 3/6/07 10:15 AM
Date: 3/6/07

FISCAL NOTE #2

STATE OF ALASKA
2007 LEGISLATIVE SESSION

BILL NO. CSHB 125(W&M)

ANALYSIS CONTINUATION

We expect this work to require one new full time position. The total cost for this position at a Range 21A, including benefits, would be \$102.6 thousand per year.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 15, 2007

SUBJECT: Budget planning and fiscal plan (CSHB 125(FIN),
Work Order No. 25-LS0546L)

TO: Representative Mike Chenault
Representative Kevin Meyer
Co-chairs of the House Finance Committee
Attn: Sharlene Smith

FROM: Tamara Brandt Cook
Director *TBC*

Here is the final committee substitute with changes as requested. One of these changes is the addition of the phrase "but not limited to" after "including" at page 2, line 9. Please be aware that we try to avoid adding the phrase to the Alaska statutes. AS 01.10.040(b) states: "When the words 'includes' or 'including' are used in a law, they shall be construed as though followed by the phrase 'but not limited to.'"

TBC:lmb
07-055.lmb

Enclosure

Amended
Pg 2

CS FOR HOUSE BILL NO. 125(W&M)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FIFTH LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

Offered: 3/5/07
Referred: Finance

Sponsor(s): HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to budget planning and a fiscal plan for the State of Alaska."

2 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 * Section 1. AS 37.07.020(b) is amended to read:

4 (b) In addition to the budget and bills submitted under (a) of this section, the
5 governor shall submit a capital improvements program [AND FINANCIAL PLAN]
6 covering the succeeding six fiscal years. Except during the first year of the
7 governor's first term of office, the governor shall also submit a fiscal plan with
8 estimates of significant sources and uses of funds for the succeeding 10 fiscal
9 years. The fiscal plan

10 (1) must include sufficient details to identify

11 (A) significant sources of funds;

12 (B) significant uses of funds, including lump sum
13 projections of

14 (i) operating expenditures;

15 (ii) capital expenditures;

- 1 (iii) debt service expenditures;
- 2 (iv) fund capitalizations;
- 3 (v) appropriations of income of the Alaska
- 4 permanent fund (art. IX, sec. 15, Constitution of the State of
- 5 Alaska), if any;
- 6 (2) must balance sources and uses of funds held while providing
- 7 for essential state services and protecting the economic stability of the state;
- 8 (3) must include projected balances of significant funds held in
- 9 separate accounts, including ^{but not limited to} the budget reserve fund (art. IX, sec. 17,
- 10 Constitution of the State of Alaska), the public education fund (AS 14.17.300),
- 11 and the Alaska capital income fund (AS 37.05.565);
- 12 (4) may, at the discretion of the governor, also include
- 13 recommendations to
- 14 (A) encourage economic growth and stability, maintain a
- 15 high quality of life, ^{responsibly} develop the state's natural resources, educate the
- 16 children of the state, and maintain public health, safety, and welfare;
- 17 (B) provide services as efficiently as practicable and reduce
- 18 state expenditures where possible;
- 19 (C) establish policies that protect the principal of the
- 20 Alaska permanent fund over time while using the income of the fund to
- 21 (i) offset the effect of inflation on the principal of the
- 22 fund;
- 23 (ii) maintain a strong permanent fund dividend
- 24 program;
- 25 (iii) retain the legislature's flexibility to determine
- 26 the appropriate use of the remaining income of the fund;
- 27 (D) raise revenue for the operation of state government
- 28 while maintaining a stable tax environment; and
- 29 (E) provide adequate reserve funds to mitigate the
- 30 consequences of market price volatility on state revenue from resources;
- 31 (5) may include a list of reports, plans, and other materials relied

1 on in the preparation of the fiscal plan, together with a brief description of the
 2 relevance of the materials and how to obtain paper or electronic copies of the
 3 material.

4 * Sec. 2. AS 37.07.020(c) is amended to read:

5 (c) Proposed expenditures may not exceed estimated revenue for the
 6 succeeding fiscal year. The expenditures proposed in the six-year capital
 7 improvements program [AND FINANCIAL PLAN] may not exceed the estimated
 8 revenue and bond authorizations passed and proposed.

9 * Sec. 3. AS 37.07.040 is amended to read:

10 Sec. 37.07.040. Office of management and budget. The Alaska office of
 11 management and budget shall

12 (1) except during the first year of the governor's first term of
 13 office, prepare for submission to the governor an annually updated 10-year fiscal
 14 plan and assist the governor in the preparation and explanation of the [PROPOSED
 15 COMPREHENSIVE PROGRAM AND FINANCIAL] plan, including the
 16 coordination and analysis of state agency goals and objectives, plans, and budget
 17 requests;

18 (2) prepare for submission to the governor an annually updated six-
 19 year capital improvements program and the proposed capital improvements budget for
 20 the coming fiscal year, the latter to include individual project justification with
 21 documentation of estimated project cost;

22 (3) develop procedures to produce the information needed for effective
 23 policy decision making, including procedures to provide for the dissemination of
 24 information about plans, programs, and budget requests to be included in the annual
 25 budget and opportunity for public review and comment during the period of budget
 26 preparation;

27 (4) assist state agencies in their statement of goals and objectives to
 28 achieve, among other things, the legislature's mission and desired results, preparation
 29 of plans, assessments of the extent to which missions and desired results have been
 30 achieved, budget requests, and reporting of program performance; all documents
 31 forwarded by the office to a state agency containing instructions for the preparation of

1 program plans and budget requests and the reporting of program performance are
2 public information after the date they are forwarded;

3 (5) administer its responsibilities under the program execution
4 provisions of this chapter so that the policy decisions and budget determinations of the
5 governor and the legislature are implemented;

6 (6) provide the legislative finance division with the budget information
7 it may request;

8 (7) provide the legislative finance division with an advance copy of the
9 governor's budget workbooks by the first Monday in January of each year, except that
10 following a gubernatorial election year the advance copy shall be provided by the
11 second Monday in January;

12 (8) prepare the proposed capital improvements budget for the coming
13 fiscal year evaluating both state and local requests from the standpoint of need, equity,
14 and priorities of the jurisdiction; other factors such as project amounts, population,
15 local financial match, federal funds being used for local match, municipality or
16 unincorporated community acceptance of the facility, and all associated costs of the
17 facility may be considered;

18 (9) for each department in the executive branch, report to the
19 legislature by the 45th day of each regular session the amount of money appropriated
20 to the department that is expected to lapse into the general fund at the end of the
21 current fiscal year;

22 (10) establish and administer a state agency program performance
23 management system involving planning, performance budgeting, performance
24 measurement, and program evaluation; the office shall ensure that information
25 generated under this system is useful for managing and improving the efficiency and
26 effectiveness of agency operations.

27 * Sec. 4. AS 37.07.060 is amended to read:

28 Sec. 37.07.060. Governor's recommendation. (a) The governor shall
29 formulate the operating and capital budget, capital improvements program,
30 [PROGRAMS] and fiscal plan [FINANCIAL PLANS] required to be recommended
31 to the legislature by AS 37.07.020 after considering the state agency proposed

1 program and financial plans, and other programs and alternatives that the governor
2 considers appropriate. The plans must include the governor's recommended missions
3 and results, recommended strategies to implement the missions and results,
4 recommended measures for determining whether the missions and desired results are
5 achieved, including an assessment of whether prior year missions and desired results
6 have been achieved, recommended operating program for the succeeding fiscal year,
7 recommended capital improvements program for the succeeding six fiscal years,
8 recommended programs for the upgrading of public buildings and facilities prepared
9 in accordance with AS 35.10.015, and recommended revenue measures to support the
10 programs.

11 (b) The governor shall present the proposed comprehensive operating and
12 capital improvements programs, and fiscal plan if it is required under
13 AS 37.07.020(b), [FINANCIAL PLANS] in a message to a joint session of the
14 legislature before the fourth legislative day following the convening of the legislature
15 in regular session. The message must be accompanied by an explanatory report that
16 summarizes recommended goals, plans, and appropriations. The report must contain

17 (1) the coordinated program goals and objectives that [WHICH] the
18 governor recommends to guide the decisions on the proposed program plans and
19 budget appropriations;

20 (2) the governor's operating program and budget recommendations for
21 the succeeding fiscal year organized by agency as required by AS 37.07.020(a);

22 (3) the governor's capital improvements program and budget
23 recommendations for the succeeding fiscal year and capital improvements program for
24 the succeeding six fiscal years, which must include

25 (A) a description of each project, its estimated cost for the year
26 construction is to start and the estimated cost of the project adjusted for
27 inflation over the estimated period of construction, and the source of financing
28 for the project; the project description for a new building or a new facility or
29 for a major addition to a building or facility scheduled for the first three
30 years of the plan should include a site plan, preliminary drawings, and
31 architect's or engineer's total cost estimate for the project;

1 (B) a summary of projects previously authorized and not yet
2 completed;

3 (C) a summary, listed by agency, of all previously proposed
4 projects that have been deferred beyond the six years covered by the plan and
5 the year in which construction has been rescheduled to begin;

6 (D) a forecast of the debt structure of the state and the various
7 debt ratios over the life of the state's bonds outstanding, bonds authorized and
8 to be issued, and bond authorizations recommended in the plan;

9 (E) a description of additional revenue measures needed to
10 finance the plan in lieu of debt;

11 (F) bond election bills to authorize the bonds required to fund
12 the projects scheduled for the first three years of the plan;

13 (G) projections of population of the state and its regions and
14 communities;

15 (H) economic data and projections necessary for the evaluation
16 of the plan;

17 (4) a summary of state receipts in the last fiscal year, a revised estimate
18 for the current fiscal year, and an estimate for the succeeding fiscal year;

19 (5) a summary of expenditures during the last fiscal year, those
20 authorized for the current fiscal year, and an estimate for the succeeding fiscal year;

21 (6) any additional information that will facilitate understanding of the
22 governor's proposed programs and financial plans by the legislature and the public.

23 * Sec. 5, AS 37.07.070 is amended to read:

24 **Sec. 37.07.070. Legislative review.** The legislature shall consider the
25 governor's proposed comprehensive operating and capital improvements programs,
26 and fiscal plan if it is required under AS 37.07.020(b) [FINANCIAL PLANS],
27 evaluate alternatives to the plans, make program selections among the various
28 alternatives, and determine, subject to available revenues, the level of funding required
29 to support authorized state services. The presiding officer of each house may refer
30 the fiscal plan to one or more committees. If the fiscal plan is referred, the first
31 committee of referral shall hold at least one hearing on it. The operating and

1 capital budgets of each agency shall be separately reviewed. During each regular
2 session of the legislature, legislative review of the governor's supplemental
3 appropriation bills and the governor's budget amendments are [SHALL BE] governed
4 by the following time limits:

5 (1) requests by the governor for supplemental appropriations for state
6 agency operating and capital budgets for the current fiscal year may be introduced by
7 the rules committee only through the 30th legislative day;

8 (2) requests by the governor for budget amendments to state agency
9 budgets for the budget fiscal year may be received and reviewed by the finance
10 committees only through the 45th legislative day.

11 * Sec. 6. AS 37.14.003(a) is amended to read:

12 (a) The governor shall, at the time the governor presents under
13 AS 37.07.060(b) [SUBMITS] the proposed [COMPREHENSIVE OPERATING
14 AND] capital improvements program, and fiscal [FINANCIAL] plan if it is required
15 [UNDER AS 37.07.060(b)], submit to the legislature a separate appropriation bill
16 limited to appropriations for the state's integrated comprehensive mental health
17 program.

LEGAL SERVICES

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MEMORANDUM

March 15, 2007

SUBJECT: Budget planning and fiscal plan (CSHB 125(FIN),
Work Order No. 25-LS0546(L))

TO: Representative Mike Chenault
Representative Kevin Meyer
Co-chairs of the House Finance Committee
Attn: Sharlene Smith

FROM: Tamara Brandt Cook
Director *TBC*

Here is the final committee substitute with changes as requested. One of these changes is the addition of the phrase "but not limited to" after "including" at page 2, line 9. Please be aware that we try to avoid adding the phrase to the Alaska statutes. AS 01.10.040(b) states: "When the words 'includes' or 'including' are used in a law, they shall be construed as though followed by the phrase 'but not limited to.'"

TBC:lmb
07-055.lmb

Enclosure

**Amendment from
House Finance Committee
For HB 125 (W&M)**

#2029

called

3 amendment
changes

3:45 pm

3/14/07

Shaw

adopted

AMENDMENT

OFFERED IN THE HOUSE
TO: CS HB 125 (W&M)

BY REPRESENTATIVE HAWKER

- 1 Page 3, lines 12-17.
- 2 Delete all material
- 3 Insert "(1) assist the governor in meeting the requirements of AS 37.07.020 [THE
- 4 PREPARATION AND EXPLANATION OF THE PROPOSED COMPREHENSIVE
- 5 PROGRAM AND FINANCIAL PLAN], including the coordination and analysis of state
- 6 agency goals and objectives, plans, and budget requests;
- 7
- 8 Page 5, line 1, following "financial plans"
- 9 Insert "prepared in accordance with AS 37.07.050"
- 10
- 11 Page 5, line 29, following "facility"
- 12 Delete "scheduled for the first three years of the plan"
- 13
- 14 Page 7, lines 12-17
- 15 Delete all material
- 16 Insert "(a) [THE GOVERNOR SHALL, AT THE TIME THE GOVERNOR SUBMITS
- 17 THE PROPOSED COMPREHENSIVE OPERATING AND CAPITAL
- 18 IMPROVEMENTS PROGRAM, AND FINANCIAL PLAN UNDER AS 37.07.060(B)]
- 19 At the time the governor submits the report required under AS 37.07.060(b), the
- 20 governor shall submit to the legislature a separate appropriation bill limited to
- 21 appropriations for the state's integrated comprehensive mental health program."

Requested by: Council Member Greg Koskela

Adopted: February 26, 2007

Vote: Ewing, Holler, Koskela, Menard and Meliva in favor; Cox absent

**CITY OF WASILLA
RESOLUTION SERIAL NO. 07-07**

**A RESOLUTION OF THE WASILLA CITY COUNCIL URGING THE ALASKA STATE
LEGISLATURE TO DEVELOP AND ADOPT A LONG-RANGE FISCAL PLAN
DURING ITS 2007 LEGISLATIVE SESSION.**

WHEREAS, the State of Alaska has no long-range fiscal plan in place to balance revenues and expenditures; and

WHEREAS, State revenues over the past quarter century have relied on petroleum extraction revenues for over 80 percent of its total annual operating revenues; and

WHEREAS, diversified economic development requires a stable and predictable State-wide and local fiscal environment; and

WHEREAS, the continual decrease in overall State revenue sharing, including matching grants and educational funding, have led to severe stress on local municipal budgets resulting in decreased service delivery throughout the State; and

WHEREAS, the current price of oil has resulted in a temporary increase in State revenues which provides an additional short period of time for the Legislature to develop a long-term fiscal plan for the State; and

WHEREAS, future spending plans should reflect declining oil revenues, as well as projected revenues from other natural resources of the state; and

WHEREAS, House Bill 125, currently introduced in the 2007 Legislative Session provides a way to achieve fiscal responsibility in the State of Alaska.

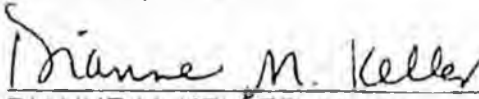
NOW THEREFORE BE IT RESOLVED, that the Wasilla City Council, urges the Alaska State Legislature to develop and adopt a Long-Range Fiscal Plan during its 2007 Legislative Session.

ADOPTED by the Wasilla City Council on February 26, 2007.

ATTEST:



KRISTIE SMITHERS, MMC, City Clerk



DIANNE M. KELLER, Mayor

[SEAL]

Amended
Pg 2

CS FOR HOUSE BILL NO. 125(W&M)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIFTH LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

Offered: 3/5/07

Referred: Finance

Sponsor(s): HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to budget planning and a fiscal plan for the State of Alaska."

2 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

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6 covering the succeeding six fiscal years. Except during the first year of the
7 governor's first term of office, the governor shall also submit a fiscal plan with
8 estimates of significant sources and uses of funds for the succeeding 10 fiscal
9 years. The fiscal plan

10 (1) must include sufficient details to identify

11 (A) significant sources of funds;

12 (B) significant uses of funds, including lump sum
13 projections of

14 (i) operating expenditures;

15 (ii) capital expenditures;

- 1 (iii) debt service expenditures;
- 2 (iv) fund capitalizations;
- 3 (v) appropriations of income of the Alaska
- 4 permanent fund (art. IX, sec. 15, Constitution of the State of
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- 7 for essential state services and protecting the economic stability of the state;
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- 9 separate accounts, including, ^{but not limited to,} the budget reserve fund (art. IX, sec. 17,
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- 11 and the Alaska capital income fund (AS 37.05.565);
- 12 (4) may, at the discretion of the governor, also include
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- 14 (A) encourage economic growth and stability, maintain a
- 15 high quality of life, ^{responsibly} develop the state's natural resources, educate the
- 16 children of the state, and maintain public health, safety, and welfare;
- 17 (B) provide services as efficiently as practicable and reduce
- 18 state expenditures where possible;
- 19 (C) establish policies that protect the principal of the
- 20 Alaska permanent fund over time while using the income of the fund to
- 21 (i) offset the effect of inflation on the principal of the
- 22 fund;
- 23 (ii) maintain a strong permanent fund dividend
- 24 program;
- 25 (iii) retain the legislature's flexibility to determine
- 26 the appropriate use of the remaining income of the fund;
- 27 (D) raise revenue for the operation of state government
- 28 while maintaining a stable tax environment; and
- 29 (E) provide adequate reserve funds to mitigate the
- 30 consequences of market price volatility on state revenue from resources;
- 31 (5) may include a list of reports, plans, and other materials relied

1 on in the preparation of the fiscal plan, together with a brief description of the
 2 relevance of the materials and how to obtain paper or electronic copies of the
 3 material.

4 * Sec. 2. AS 37.07.020(c) is amended to read:

5 (c) Proposed expenditures may not exceed estimated revenue for the
 6 succeeding fiscal year. The expenditures proposed in the six-year capital
 7 improvements program [AND FINANCIAL PLAN] may not exceed the estimated
 8 revenue and bond authorizations passed and proposed.

9 * Sec. 3. AS 37.07.040 is amended to read:

10 Sec. 37.07.040. Office of management and budget. The Alaska office of
 11 management and budget shall

12 (1) except during the first year of the governor's first term of
 13 office, prepare for submission to the governor an annually updated 10-year fiscal
 14 plan and assist the governor in the preparation and explanation of the [PROPOSED
 15 COMPREHENSIVE PROGRAM AND FINANCIAL] plan, including the
 16 coordination and analysis of state agency goals and objectives, plans, and budget
 17 requests;

18 (2) prepare for submission to the governor an annually updated six-
 19 year capital improvements program and the proposed capital improvements budget for
 20 the coming fiscal year, the latter to include individual project justification with
 21 documentation of estimated project cost;

22 (3) develop procedures to produce the information needed for effective
 23 policy decision making, including procedures to provide for the dissemination of
 24 information about plans, programs, and budget requests to be included in the annual
 25 budget and opportunity for public review and comment during the period of budget
 26 preparation;

27 (4) assist state agencies in their statement of goals and objectives to
 28 achieve, among other things, the legislature's mission and desired results, preparation
 29 of plans, assessments of the extent to which missions and desired results have been
 30 achieved, budget requests, and reporting of program performance; all documents
 31 forwarded by the office to a state agency containing instructions for the preparation of

1 program plans and budget requests and the reporting of program performance are
2 public information after the date they are forwarded;

3 (5) administer its responsibilities under the program execution
4 provisions of this chapter so that the policy decisions and budget determinations of the
5 governor and the legislature are implemented;

6 (6) provide the legislative finance division with the budget information
7 it may request;

8 (7) provide the legislative finance division with an advance copy of the
9 governor's budget workbooks by the first Monday in January of each year, except that
10 following a gubernatorial election year the advance copy shall be provided by the
11 second Monday in January;

12 (8) prepare the proposed capital improvements budget for the coming
13 fiscal year evaluating both state and local requests from the standpoint of need, equity,
14 and priorities of the jurisdiction; other factors such as project amounts, population,
15 local financial match, federal funds being used for local match, municipality or
16 unincorporated community acceptance of the facility, and all associated costs of the
17 facility may be considered;

18 (9) for each department in the executive branch, report to the
19 legislature by the 45th day of each regular session the amount of money appropriated
20 to the department that is expected to lapse into the general fund at the end of the
21 current fiscal year;

22 (10) establish and administer a state agency program performance
23 management system involving planning, performance budgeting, performance
24 measurement, and program evaluation; the office shall ensure that information
25 generated under this system is useful for managing and improving the efficiency and
26 effectiveness of agency operations.

27 * Sec. 4. AS 37.07.060 is amended to read:

28 Sec. 37.07.060. Governor's recommendation. (a) The governor shall
29 formulate the operating and capital budget, capital improvements program,
30 [PROGRAMS] and fiscal plan [FINANCIAL PLANS] required to be recommended
31 to the legislature by AS 37.07.020 after considering the state agency proposed

1 program and financial plans, and other programs and alternatives that the governor
2 considers appropriate. The plans must include the governor's recommended missions
3 and results, recommended strategies to implement the missions and results,
4 recommended measures for determining whether the missions and desired results are
5 achieved, including an assessment of whether prior year missions and desired results
6 have been achieved, recommended operating program for the succeeding fiscal year,
7 recommended capital improvements program for the succeeding six fiscal years,
8 recommended programs for the upgrading of public buildings and facilities prepared
9 in accordance with AS 35.10.015, and recommended revenue measures to support the
10 programs.

11 (b) The governor shall present the proposed comprehensive operating and
12 capital improvements programs, and fiscal plan if it is required under
13 AS 37.07.020(b), [FINANCIAL PLANS] in a message to a joint session of the
14 legislature before the fourth legislative day following the convening of the legislature
15 in regular session. The message must be accompanied by an explanatory report that
16 summarizes recommended goals, plans, and appropriations. The report must contain

17 (1) the coordinated program goals and objectives that [WHICH] the
18 governor recommends to guide the decisions on the proposed program plans and
19 budget appropriations;

20 (2) the governor's operating program and budget recommendations for
21 the succeeding fiscal year organized by agency as required by AS 37.07.020(a);

22 (3) the governor's capital improvements program and budget
23 recommendations for the succeeding fiscal year and capital improvements program for
24 the succeeding six fiscal years, which must include

25 (A) a description of each project, its estimated cost for the year
26 construction is to start and the estimated cost of the project adjusted for
27 inflation over the estimated period of construction, and the source of financing
28 for the project; the project description for a new building or a new facility or
29 for a major addition to a building or facility scheduled for the first three
30 years of the plan should include a site plan, preliminary drawings, and
31 architect's or engineer's total cost estimate for the project;

1 (B) a summary of projects previously authorized and not yet
2 completed;

3 (C) a summary, listed by agency, of all previously proposed
4 projects that have been deferred beyond the six years covered by the plan and
5 the year in which construction has been rescheduled to begin;

6 (D) a forecast of the debt structure of the state and the various
7 debt ratios over the life of the state's bonds outstanding, bonds authorized and
8 to be issued, and bond authorizations recommended in the plan;

9 (E) a description of additional revenue measures needed to
10 finance the plan in lieu of debt;

11 (F) bond election bills to authorize the bonds required to fund
12 the projects scheduled for the first three years of the plan;

13 (G) projections of population of the state and its regions and
14 communities;

15 (H) economic data and projections necessary for the evaluation
16 of the plan;

17 (4) a summary of state receipts in the last fiscal year, a revised estimate
18 for the current fiscal year, and an estimate for the succeeding fiscal year;

19 (5) a summary of expenditures during the last fiscal year, those
20 authorized for the current fiscal year, and an estimate for the succeeding fiscal year;

21 (6) any additional information that will facilitate understanding of the
22 governor's proposed programs and financial plans by the legislature and the public.

23 * Sec. 5. AS 37.07.070 is amended to read:

24 Sec. 37.07.070. Legislative review. The legislature shall consider the
25 governor's proposed comprehensive operating and capital improvements programs,
26 and fiscal plan if it is required under AS 37.07.020(b) [FINANCIAL PLANS],
27 evaluate alternatives to the plans, make program selections among the various
28 alternatives, and determine, subject to available revenues, the level of funding required
29 to support authorized state services. The presiding officer of each house may refer
30 the fiscal plan to one or more committees. If the fiscal plan is referred, the first
31 committee of referral shall hold at least one hearing on it. the operating and

1 capital budgets of each agency shall be separately reviewed. During each regular
2 session of the legislature, legislative review of the governor's supplemental
3 appropriation bills and the governor's budget amendments are [SHALL BE] governed
4 by the following time limits:

5 (1) requests by the governor for supplemental appropriations for state
6 agency operating and capital budgets for the current fiscal year may be introduced by
7 the rules committee only through the 30th legislative day;

8 (2) requests by the governor for budget amendments to state agency
9 budgets for the budget fiscal year may be received and reviewed by the finance
10 committees only through the 45th legislative day.

11 * Sec. 6. AS 37.14.003(a) is amended to read:

12 (a) The governor shall, at the time the governor presents under
13 AS 37.07.060(b) [SUBMITS] the proposed [COMPREHENSIVE OPERATING
14 AND] capital improvements program, and fiscal [FINANCIAL] plan if it is required
15 [UNDER AS 37.07.060(b)], submit to the legislature a separate appropriation bill
16 limited to appropriations for the state's integrated comprehensive mental health
17 program.



25th Alaska State Legislature

House Special Committee on Ways & Means

Chair:

Rep. Mike Hawker
Capitol Room 502
465-4949

Vice-Chair:

Rep. Anna Fairclough
Capitol Room 411
465-3777

Members:

Rep. Bob Roses
Capitol Room 416
465-4939

Rep. Paul Seaton
Capitol Room 102
465-2689

Rep. Peggy Wilson
Capitol Room 403
465-3824

Rep. Sharon Cissna
Capitol Room 420
465-3875

Rep. Max Gruenberg
Capitol Room 110
465-4940

Committee Aides:

Juli Lucky
465-6587 direct
465-4979 fax

House Bill 125

Sponsor Statement

Short Title: Long-Range Fiscal Plan

House Bill 125 clarifies the existing duty imposed on the Governor by the Executive Budget Act (EBA) to annually prepare a "financial plan." The EBA contains no further definition of the financial plan.

Perhaps due to the vagueness of the EBA, the financial plan has not been prepared in recent years, if ever. The Director of the Office of Management and Budget (OMB) reports that "OMB has not prepared a formal plan for some time..."

HB 125 requires that, in addition to the annual budget, the Governor shall submit a fiscal plan consisting of estimates of significant sources and uses of funds for the succeeding 10 fiscal years. A newly elected governor would not be required to submit a plan during his or her first year in office. The fiscal plan must include only enough detail to identify significant sources of funds and lump-sum projections of significant uses of funds, such as for operating expenditures and capital expenditures. The plan does not require or imply adoption of any policy, only the estimation of future cash flows and identification of means to keep sources and uses of funds in balance over time.

The plan must also include projected balances of significant funds held in separate accounts, such as the constitutional budget reserve, the public education fund and the Alaska capital income fund.

HB 125 also allows, but does not require, the Governor to include fiscal policy recommendations in the fiscal plan. The presiding officers of the legislature may refer the plan to committees for public hearing. The purpose of HB 125 is to require a simple and efficient process that puts the broadest picture of state expenditure and revenue trends in perspective and stimulates the discussion and development of specific long range fiscal policies.

The baseline fiscal analysis provided under HB 125 is the necessary prerequisite for long range fiscal decision making as well as a device to put current budgets in context, encouraging short-term discipline and responsibility.



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Changes between HB 125 And CS HB 125 (W&M)

Amendments adopted in the House Special Committee on Ways & Means did the following:

- Exempted a newly-elected governor from preparing a fiscal plan during his or her first year of office.
- Outlined a legislative response – the presiding officers may refer the plan to one or more committees, which would then hold a public hearing on the plan.
- Added language allowing the Governor to include reference to the materials used to formulate the plan and information on how to obtain the materials.
- Where appropriate, deleted the term “financial plan” or replaced it with the term “fiscal plan.”
- Removed “long-range” wherever it appeared before “fiscal plan.”
- Adopted new language to clarify what is expected in the plan.

Requested by: Council Member Greg Koskela
Adopted: February 26, 2007
Vote: Ewing, Holler, Koskela, Menard and Metiva in favor; Cox absent

**CITY OF WASILLA
RESOLUTION SERIAL NO. 07-07**

**A RESOLUTION OF THE WASILLA CITY COUNCIL URGING THE ALASKA STATE
LEGISLATURE TO DEVELOP AND ADOPT A LONG-RANGE FISCAL PLAN
DURING ITS 2007 LEGISLATIVE SESSION.**

WHEREAS, the State of Alaska has no long-range fiscal plan in place to balance revenues and expenditures; and

WHEREAS, State revenues over the past quarter century have relied on petroleum extraction revenues for over 80 percent of its total annual operating revenues; and

WHEREAS, diversified economic development requires a stable and predictable State-wide and local fiscal environment; and

WHEREAS, the continual decrease in overall State revenue sharing, including matching grants and educational funding, have led to severe stress on local municipal budgets resulting in decreased service delivery throughout the State; and

WHEREAS, the current price of oil has resulted in a temporary increase in State revenues which provides an additional short period of time for the Legislature to develop a long-term fiscal plan for the State; and

WHEREAS, future spending plans should reflect declining oil revenues, as well as projected revenues from other natural resources of the state; and

WHEREAS, House Bill 125, currently introduced in the 2007 Legislative Session provides a way to achieve fiscal responsibility in the State of Alaska.

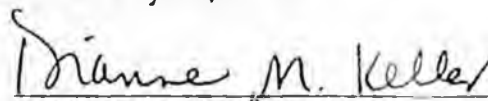
NOW THEREFORE BE IT RESOLVED, that the Wasilla City Council, urges the Alaska State Legislature to develop and adopt a Long-Range Fiscal Plan during its 2007 Legislative Session.

ADOPTED by the Wasilla City Council on February 26, 2007.

ATTEST:



KRISTIE SMITHERS, MMC, City Clerk



DIANNE M. KELLER, Mayor

[SEAL]

February 14, 2007

Representative Mike Hawker, Chair
House Ways & Means Committee
State Capitol
Juneau, AK 99801

Dear Representative Hawker,

The Alaska State Chamber of Commerce strongly supports HB 125. State Fiscal Planning has been a top priority of the State Chamber for many years. We believe the state needs stability in budget planning as volatile state revenues create unforeseeable budget gaps and revenue excesses. Any smart business plans for future years through detailed planning of revenues and expenditures, with adjustments made each year.

Amending Alaska Statutes regarding the Executive Budget Act, HB 125 assigns a long-term fiscal plan requirement to the Governor's duties of providing yearly budgets. Under HB 125, the Governor's fiscal plan reaches forward 10 years into the future, showing legislators and the public what to expect in lean years and in years of excess. HB 125 may fall short of enacting an actual fiscal plan; however, HB 125 will provide for a constantly evolving framework-a fiscal plan, for the legislature and the public to follow as budgets are enacted from year to year.

With new legislators every two years, a volatile oil market, a PFD citizenry, and a new governor every four years, HB 125 hurdles many of the states political quagmires that may prevent adopting a long-term fiscal plan. Simply, requiring that a plan be submitted each year along with a budget, creates a first in Alaska, fiscal planning. The Alaska State Chamber strongly advocates for HB 125 and we hope the bill will move quickly through the legislature.

Yours in economic prosperity,



Wayne A. Stevens
President/CEO



February 19, 2007

The Honorable Mike Hawker, Chair
House Special Committee on Ways and Means
Alaska State Capitol, Room 502
Juneau, AK 99801-1182

RE: HB 125 (House Special Committee on Ways and Means)--Support

Dear Chair Hawker:

On behalf of the members of AARP in Alaska, we encourage you and your colleagues on the House Special Committee on Ways and Means to support your Committee bill HB 125.

HB 125 is a significant effort in establishing a long-range fiscal plan for Alaska.

HB 125 is an ambitious bill which, we hope, will provide some economic stability and guidance for our elected officials and our citizens.

When AARP considers our state budget, we follow a set of basic principles:

- Budget policy should promote economic growth and stability.
- Fairness across generations should be an important goal in formulating budget policy.
- Government should strive for balance during both economic expansion and contraction.
- Flexibility should be maintained and vulnerable populations (of any age) should be protected.
- Budget policymakers should be mindful of how their decisions impact other levels of government.

AARP believes that states should provide localities with the funding they need to meet their obligations. Passing responsibilities down to lower levels of government should be undertaken primarily to place services closer to the people being served and to maximize administrative efficiencies, not as a way to reduce costs. We do not support placing unfunded mandates on local government.

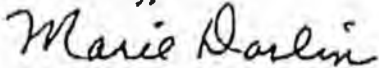
Many AARP members lived in Alaska when we had a state income tax. Many of our members live in communities that currently have a sales tax. Many have lived in other states that had both income and sales taxes. We understand that Alaska's fiscal situation, without a state income tax or a state sales tax, has often been subject to oil revenue going up and down. Hopefully HB 125 will help our elected officials and our citizens have a more accurate reading of Alaska's fiscal status and what to expect in the future.

AARP recommends an "AYE" vote on HB 125.

Should you have any questions about our position, please feel free to contact me (586-3637) or Patrick Luby, AARP Advocacy Director (907-762-3314).

Thank you for your consideration.

Sincerely,



Marie Darlin, Coordinator
AARP Capital City Task Force
415 Willoughby Avenue, Apt. 506
Juneau, AK 99801
586-3637 (voice)
463-3580 (fax)

CC: Vice-Chair Anna Fairclough
Representative Bob Roses
Representative Paul Seaton
Representative Peggy Wilson
Representative Sharon Cissna
Representative Max Gruenberg

**Alaska State Chamber of Commerce
2007 Priority
Fiscal Plan**

The Alaska State Chamber of Commerce urges the Legislature to adopt a comprehensive fiscal policy. The State Chamber recognizes that the first problem in adopting a comprehensive fiscal policy is to have a common definition of what is a fiscal policy. While the State Chamber recognizes that no policy can bind future legislatures, the policy should reflect long-term sustainability and the best combination of the following considerations.

- Economic development and business opportunities need some level of fiscal certainty. That certainty can only be accomplished with a comprehensive fiscal plan which addresses state spending in times of shortfall and defines essential priorities
- A comprehensive fiscal policy should determine what constitutes a basic budget of essential services in times of revenue short-falls
- A comprehensive fiscal policy should seriously consider a two-year budget cycle based on funding these essential government services
- A comprehensive fiscal policy shall recognize the complex dependency of locally delivered services that are funded through state revenue sharing and factor that into the policy
- A comprehensive fiscal policy should address the PERS/TERS issue making this state obligation actuarially sound
- A comprehensive fiscal policy should include the utilization and sustainability of the Constitutional Budget Reserve
- A comprehensive fiscal policy should adopt the percent-of-market (POMV) management tool for the Alaska Permanent Fund;
- A comprehensive fiscal policy should reasonably anticipate scenarios of growth predicated on realistic resource development and its affect on budgets
- Forge a plan for implementation of a program to privatize state services that could be competitively provided by the private sector
- A comprehensive fiscal policy should not preclude the continuation of the Alaska Permanent Fund Dividend program
- No additional business taxes should be enacted by the legislature until a fiscal plan is developed. Further, the State Chamber reiterates that fiscal discipline and legislative accountability must precede any new taxes.



PRESIDENT'S MESSAGE



GLEN "KNICK" KNICKERBOCKER
President

New year, new governor, new legislators – same priorities

Another election season has recently passed and our state Legislature will soon be convening to conduct our business. We have a new governor and several new faces in the Legislature but, based upon past experience, and in spite of all of the campaign rhetoric, we must question whether anything will really change or will it just be more of the same.

For several years AGC of Alaska has established a list of legislative priorities. These are not just priorities important to the construction industry, but are of importance to every business and individual in the state. As I review this list in preparation for our annual "Legislative Fly-In," it strikes me how little this list changes each year. Does this lack of change mean that those who we have supported and sent to Juneau to act on our behalf forget about what we deem important once the elections are over?

- **Long-term fiscal plan** – AGC, as well as numerous other groups and individuals, have repeatedly called upon our state Legislature and the administration to develop a fiscal plan based upon realistic revenues rather than continuing to spend based upon windfalls from temporary high oil prices and dreams of mega projects to come. This plan should also address such huge unfunded liabilities as deferred maintenance on public facilities and the public employee's retirement plan.

- **Privatization of work done by the state** – We have repeatedly called upon the Legislature and the administration to identify and privatize state-owned assets.

...and to identify and privatize state-owned assets.

...and to identify and privatize state-owned assets.

- **Funding for vocational/technical education** – AGC has repeatedly called upon the Legislature and the administration to identify and privatize state-owned assets.

To paraphrase Albert Einstein, one definition of insane behavior is doing things the same way over and over and expecting different results. How many times are we going to go to Juneau with the same list and hope that maybe this time it will be different?

with our public education system, at all levels, to encourage vocational and technical education. We are proud and pleased with the few changes we have helped to bring about. But the fact remains that within two years of high school almost 80 percent of our young people enter the job market grossly ill-equipped. What does it say about our education system when it is 99 percent geared toward preparing 20 percent of high school graduates to attend college and offers comparatively little training for the 80 percent who will enter directly into the workforce?

- **State of Alaska transportation system** – There is little doubt that our influence at the federal level will suffer set-backs with our representatives now in the minority in both the House and the Senate. Unless you have had the opportunity to visit Washington, D.C. lately, it is hard to comprehend the damage Alaska has suffered due to the "Bridges to Nowhere" controversy. The days

of enjoying a return from the federal government of more than \$5 for every \$1 contributed by the state are numbered. We need a long-range plan to continue to fund the much needed improvements to our transportation infrastructure. We cannot afford to let our roads in the sand until lack of funding becomes a crisis to which we must react.

To paraphrase Albert Einstein, one definition of insane behavior is doing things the same way over and over and expecting different results.

...and to identify and privatize state-owned assets.



Associated General Contractors of Alaska Legislative Priorities 2007

Long-term fiscal plan

It is in the best interests of the state of Alaska that the Legislature and administration adopt a long-term fiscal plan that deals with the issue of declining petroleum production, appropriate levels of taxation, utilization of the Alaska Permanent Fund and incentives to encourage new economic growth. In addition the serious problems that currently exist in the state retirement programs demand a long-term solution.

The long-term fiscal plan should also include an approach to the maintenance and enhancement of the capital assets of the state. Frequently capital budgets trumpet the addition of new facilities but fail to address the necessary maintenance and upkeep of existing facilities. Good stewardship requires that appropriate maintenance of existing facilities be incorporated within the operating budget while the expansion or enhancement of facilities can be accomplished in a capital budget.

The capital budget should also deal with the issue of utilizing the bonding capabilities of the state to address existing capital deficiencies. Repayment of general bonds however competes annually with operating funds so the quantity of bonded projects should not exceed the state's ability to fund the required annual payments. Undoubtedly a level exists at which the bonded debt optimizes the growth of the state without penalizing future operations or opportunities. The goal should be to use bonded debt up to that level but care should be exercised not to exceed the threshold.

State of Alaska transportation system

To realize its potential, Alaska needs a transportation system that considers all modes of transportation. As part of the mix to finance the construction of the system, the state should consider a combination of taxes and revenue bonds. Carve Bonds should be used judiciously since they add no new money to Alaska's highway program, they merely accelerate expenditures of anticipated future receipts. Given the likelihood that Alaska's share of the "highway trust fund pie" will decrease in the future, Carve Bonds represent an opportunity to spend non-existent dollars, thereby gradually diminishing the money available to maintain and expand the infrastructure of Alaska.

Further, the current transportation infrastructure of Alaska is inadequate and requires continued planning, upgrades and expenditures to assure the citizens of Alaska are provided with essential services. There is little doubt that the economic benefit derived from the investment in Alaska's transportation infrastructure far exceeds the matching funds required to secure the federal matching funds. Accordingly, the state is encouraged to not only continue providing full funding of

the federal highway matching funds but also start a consistent program of investment by the state in the program.

Privatization of work done by state

Each year, state workers undertake considerable work that could more efficiently be performed by the private sector. The governmental employees involved in these activities should be transferred to more traditional governmental roles and the work should be performed by the private sector.

From projects such as the reconstruction of airport roads to major maintenance work on transportation projects, the state of Alaska is employing state workers to perform work normally undertaken by the private sector. The justification that the state can perform the work more cost effectively ignores cost accounting realities. Perhaps the most condemning aspect of this endeavor is that legitimate work is withdrawn from a myriad of small Alaska businesses that depend on it. Without such work, the viability of these firms is threatened.

Funding for vocational/technical education

A majority of Alaska's high school graduates do not go to college yet the state's high school curriculum is oriented to college preparation. The state should adopt a more balanced funding approach to better prepare those students not pursuing post-secondary education for the world of work. The Workforce Investment Board has recently prepared a long-term strategy for meeting the projected shortfall in construction laborers. The strategy calls for increased funding for vocational training at the secondary level and a renewed emphasis at the post-secondary level to capture those who do not have the opportunity to receive such training at the secondary level.

In 2006, the Legislature took the first step and funded a pilot program at the King Career Center in Anchorage. The program represents a true public/private partnering effort and initial indications are that the model will help address the long-term labor needs of the construction industry. The program should be expanded to other schools in the state and the funding increased appropriately.

Currently, the state of Alaska has one and one half positions in the Department of Education and Early Development devoted to the students not pursuing a post-secondary education. As a consequence, these students are ill prepared for the world of work, have little idea of the opportunities available to them, and are not prepared to contribute to the economic growth of Alaska. The educational system of the state of Alaska is failing these students, their future employers, and constraining the growth of the state by not focusing on the needs of this valuable group of Alaskans.

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It is about time for a fiscal plan

(Published: February 5, 2007)

Pardon us for pointing out the obvious, but this state still has no real fiscal plan despite years of talking the subject nearly to death. Admittedly, the Legislature may have a lot on its plate this year, but figuring out how to fund government in the future and ensure Permanent Fund dividends is no small matter, especially for those of us who revile the notion of an income tax.

Times are good now. High oil prices are keeping the wolves from the door, but with declining production, and a gas line a decade or so away, it would seem prudent to begin looking at exactly where state government will draw revenues when times are tougher and its emergency stash, the Constitutional Budget Reserve, a repository for windfall profits from royalty and tax settlements, dries up.

Another problem. Continued and repeated draws on the CBR in the past to stem the flow of red ink made bond-rating agencies nervous and that could cost the state in the long run.

So far, the best prospect has been some version of the Percent of Market Value, or POMV, approach that would take some percentage of the \$36.9 billion Permanent Fund each year, say 5 percent, and divide that amount between government operations and dividend checks.

The small percentage used would cushion the fund from radical, short-term swings in the national economy and allow the fund to grow. It is a method used by large institutional funds across the nation, and one designed to protect those pots of money.

There will always be problems with trying to craft such a plan here, first from those who have enshrined the Permanent Fund and view any use of its earnings as a "raid," to those who would think it a nefarious plot of some kind to resurrect former Gov. Frank Murkowski.

As it stands now, using the Permanent Fund's earnings has become a political third rail, despite the 1976 constitutional amendment that stipulates the earnings be placed in the general fund to run government. Most politicians would rather take a beating than suggest such a thing.

A POMV would avoid some of that, and, over the years, there have been various plans and formulas for such a program. Some would have used the money for education and dividends; others, only dividends; and still others, to run state government.

But, for one political reason or another, nothing has been done. Now, while oil prices are high, is the perfect time to begin talking rationally about a POMV or some other vehicle to fund government and fuel dividends in the future. There is little pressure and lots of time.

History shows us it will not always be this way.

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2007 Policy Statement



Approved by
AML Membership
November 2006

Alaska Municipal League
217 Second Street, Suite 200
Juneau, Alaska 99801
Phone (907) 586-1325
Fax (907) 463-5480

reduce local taxpayer subsidization of state lands and facilities. Based on the above criteria, local taxpayers are currently subsidizing state government by approximately \$75 million per year. These subsidies should be funded with a PILT.

2. State Funding for Education:

- a. The League supports continued long-term full funding of the education foundation program, school debt reimbursement and construction. The foundation formula should be adjusted annually to compensate for inflation (See Part II, Education A.4. for a full discussion on the state's constitutional mandate to provide schools).
- b. The League strongly encourages amending the education foundation formula so it is equitable to local governments and does not take unfair advantage of changes in local assessed values.

3. Municipal Capital Matching Grants:

- a. The League supports full funding for the Municipal Capital Matching Grant Program, using earnings of the Amerada Hess Account for local capital infrastructure needs at not less than the historical funding level of \$ 28 to 32 million level per year, adjusted for inflation since inception of the program during the Hickel Administration (See also A.1. in Public Works and Infrastructure section). The purpose of the Municipal Capital Matching Grant Program was to allow communities to meet their top infrastructure needs most efficiently while shielding them from the political legislative allocation process.
- b. **State and Municipal Facilities and Infrastructure:** Funding for the maintenance of state and municipal facilities and infrastructure should be provided on a timely and consistent basis.
- c. **Deferred Maintenance:** The existing program to provide ongoing funding for deferred maintenance for state and municipal public facilities and infrastructure should be expanded using revenue sources other than local taxation for state mandated facilities.
- d. **Governmental Accounting Standards Board (GASB) Statement Number 34:** State support should be at a level at which municipalities can implement a deferred maintenance program and establish necessary reserves sufficient for future maintenance in order to comply with GASB 34.

4. Long-Range State Financial Plan:

- a. **Overall policy:** The adoption of a state operation and long-range fiscal plan is critical to a stable future for all Alaskans by promoting affordable state and local tax levels, and adequate state and local services with balanced complementary revenue sources for municipalities and the state.
- b. **Guiding Principles for a Financial Plan:** Elements that should be included in a long-range financial plan are:
 1. The plan provides financial stability
 - Annual revenues are stable, predictable, and diversified.
 - State and local taxes are predictable.
 2. The plan is sustainable
 - Revenues and expenditures are balanced.
 - Activities with a net cost to the state are funded through other state resources.
 3. Any trade-offs between taxes, dividends, and public services are balanced across households, businesses, industries, and communities.
 4. Economic activity supported with public dollars should provide financial return to state and/or local treasuries.
 5. Provides smooth transition between substantial changes in dividends, taxes, and/or public services.

- c. **Public Education and Involvement Regarding a Long Range Fiscal Plan:**
- Municipalities should assist the Legislature and the Administration in educating the public through the use of local media, public forums, resolutions, creating local fiscal coalitions with local groups such as the PTAs and Chambers of Commerce, presentations at meetings of local organizations, one-on-one discussions with citizens, etc.
 - The Administration must give Alaskans all the facts necessary to make decisions regarding a Long Range Fiscal Plan by developing written information, an interactive web site, meeting with local elected officials, etc.
 - The Legislature should educate, inform and involve all citizens in these decisions regarding both fiscal and public service impacts through local forums, meeting with local officials, determining the impact of state budget actions on local taxes and services, and providing funding for schools to implement Alaska Civics and History to give young Alaskans information on how our government works.
 - Together, municipalities, the Governor, and the Legislature should engage the public in a dialogue over the levels of public services that should be provided.
- d. **Legislative Open Meetings:** To increase public understanding and support for legislative policy decisions, the legislature should hold open meetings to consider solutions for a Long Range Fiscal Plan.
- e. **Community and Local Control Issues:**
- Revenue sharing or a Community Dividend is a component of the plan to maintain viable local communities with stable local taxes and services.
 - Currently 102 of 163 municipalities depend on a sales tax of 1% - 7%. The League vigorously defends sales tax as a local option to maintain control over this key local revenue source. Imposition of a State sales tax would jeopardize local economies and cause a reduction in municipal sales tax.
- f. **Components of the Long Range Fiscal Plan:**
There are two components that create a fiscal gap: revenue and spending.
1. **Spending:**
- a. **State Spending Limit:** It is important to recognize that a balanced financial plan must respond to the public's concern to control state expenditures targeting long term financial stability. To this end, the League supports a spending limit that provides such restraint, but also includes the flexibility to respond to changing conditions including population, inflation, loss of federal funds, federal mandates, and emergencies.
 - b. **Sound Fiscal Policy:** The supplanting of general fund dollars with federal funds should only be done when it does not impair the effectiveness of a program in achieving its intended results, or its long-term viability should those federal funds at some point cease to supplant general fund dollars. Arbitrary replacement of state funds will serve as a disincentive to programs to diversify their sources of funding.
 - c. **Accountability:** A strong emphasis should be placed on the efficient use and accountability of public funds.
2. **Revenue:** Consider both revenues and equitable resource use with a goal to create a revenue package that is sufficient to fund the state's needs and to allow for the adoption of a sound based fiscal plan.
- a. **Income Tax:** Some form of a state income tax should be considered as part of an overall state fiscal plan. An income tax should include all wages earned in the State of Alaska regardless of residency.
 - b. **Permanent Fund Earnings:** The League supports investment and payout policies that provide a consistent financial return, with a Percent of Market Value (POMV) endowment plan, that results in payment of stable dividends to citizens and revenue to support state and local government services.

- c. **Keep Sales Tax Local:** A state sales tax is strongly discouraged because it would jeopardize local economies, reduce municipal sales tax revenue, and interfere with the evolution of municipal sales tax codes and exemptions, which have been refined and tailored to individual communities.
- d. **Natural Resource Revenues**
 - **North Slope Natural Gas Pipeline:** The League strongly endorses the construction of an all Alaskan natural gas pipeline from the North Slope, including regional spurs as proposed by the Alaska Gas Pipeline Port Authority. The program should be structured in such a way to include a provision for a PILT program or other guaranteed mechanism for local municipalities to levy local taxes.
 - **Arctic National Wildlife Refuge (ANWR):** (Note: Also in Section Part IV Land Use, Resources, and Economic Development) The League urges the Congress of the United States to open the Coastal Plain of the Arctic oil reserve, including the Alaska Native Claims settlement lands, to environmentally responsible oil and gas exploration, development, and production and upon collaboration with the local residents. The League also strongly supports the 90-10 split of revenues as required by the Statehood Act. The League also urges the State of Alaska to redistribute federal mineral revenue sharing funds to local governments.

B. ADMINISTRATION OF MUNICIPAL GRANTS AND ENTITLEMENTS

1. Regulation of Grants and Entitlements

- a. The League supports simple and standardized grant and entitlement programs. The League opposes the addition of special conditions or regulations to grants and entitlement programs by state departments administering the grants when such conditions are not contained in the appropriation or the authorizing legislation. Further, legislatively authorized grant award time frames should not be reduced due to administrative grant management policies.
- b. The League further supports the reduction of all administrative fees deducted by state departments administering the grants programs, and supports direct expenditures for those services.
- c. The League opposes any restriction on the grantees' retention or use of interest earned on grant funds.

2. Maintaining the Integrity of Objective Project and Program Ranking Processes.

The League supports maintaining the integrity of objective state grant ranking processes, developed in cooperation with the legislature, municipalities and school districts. Such objective ranking processes include Capital Project Matching Grants, School Construction Grants, and Water and Sewer Construction Grants. Rather than substitute projects at the legislative level, the League supports revision of the prioritization criteria, as appropriate, to best reflect the needs of Alaskans.

C. LOCAL TAXES

1. Tax Levying Authority:

The League opposes any action that would diminish the existing statutory authority of local governments to raise needed revenues through the levy of taxes. The League opposes any efforts by the state that would reduce local tax bases or adversely affect the marketability of municipal bonds. The League supports legislation to remove the prohibition in AS 4.21.010. (c) that prevents local voters from approving a special tax on alcohol.



25th Alaska State Legislature House Special Committee on Ways & Means

CS House Bill 125 (W&M) Sectional Analysis

Chair:

Rep. Mike Hawker
Capitol Room 502
465-4949

Vice-Chair:

Rep. Anna Fairclough
Capitol Room 411
465-3777

Members:

Rep. Bob Roses
Capitol Room 416
465-4939

Rep. Paul Seaton
Capitol Room 102
465-2689

Rep. Peggy Wilson
Capitol Room 403
465-3824

Rep. Sharon Cissna
Capitol Room 420
465-3875

Rep. Max Gruenberg
Capitol Room 110
465-4940

Committee Aide:

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Short Title: Long-Range Fiscal Plan

- Section 1:** Makes changes to the governor's responsibilities in the Executive Budget Act (EBA). Deletes reference to a "financial plan" which isn't currently prepared and requires submission of a "fiscal plan" concurrently with the budget, except during a governor's first term in office. Describes what is required in the fiscal plan and provides guidelines for optional recommendations and components of the plan.
- Section 2:** Conforming amendment to AS 37.07.020(c).
- Section 3:** Conforming amendment to AS 37.07.040, relating to the duties of the office of management and budget.
- Section 4:** Conforming amendment to AS 37.07.060, relating to the governor's budget recommendations and presentation; clarifies what should be included in a first three years of the six year capital plan for a new building, new facility or major addition.
- Section 5:** Outlines the legislative response to the fiscal plan: the presiding officers of each house may refer the plan to one or more committees, which would then hold at least one public hearing on the plan.
- Section 6:** Conforming amendment to AS 37.14.003(a), relating to the mental health budget.

AMENDMENT 1

Adopted
3/14/07

OFFERED IN THE HOUSE

BY REPRESENTATIVE HAWKER

TO: CS HB 125 (W&M)

1 Page 3, lines 12-17,

2 Delete all material

3 Insert "(1) assist the governor in meeting the requirements of AS 37.07.020 [THE
4 PREPARATION AND EXPLANATION OF THE PROPOSED COMPREHENSIVE
5 PROGRAM AND FINANCIAL PLAN], including the coordination and analysis of state
6 agency goals and objectives, plans, and budget requests;

7

8 Page 5, line 1, following "financial plans"

9 Insert "prepared in accordance with AS 37.07.050"

10

11 Page 5, line 29, following "facility"

12 Delete "scheduled for the first three years of the plan"

13

14 Page 7, lines 12-17

15 Delete all material

16 Insert "(a) [THE GOVERNOR SHALL, AT THE TIME THE GOVERNOR SUBMITS
17 THE PROPOSED COMPREHENSIVE OPERATING AND CAPITAL

18 IMPROVEMENTS PROGRAM, AND FINANCIAL PLAN UNDER AS 37.07.060(B)]

19 At the time the governor submits the report required under AS 37.07.060(b), the

20 governor shall submit to the legislature a separate appropriation bill limited to

21 appropriations for the state's integrated comprehensive mental health program."

**2007 HOUSE FINANCE
COMMITTEE VOTE SHEET**

Failed 6-2

DATE: 3-14-07

Amendment: 2

MEMBER

Favor

Oppose

GARA	✓	
HAWKER		✓
JOULE	✓	
KELLY		✓
NELSON	✓	
STOLTZE		✓
THOMAS		✓
CRAWFORD	✓	
FOSTER <i>absent</i>		
CHENAULT		✓
MEYER		✓

4

6
4

Yea 6

Nay 4