

SB

134

**SENATE COMMITTEE REPORT
First Committee of Referral**

DATE: 3/21/07

FURTHER: Finance

Date of 5-Day Notice: _____
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: _____

State Affairs Committee considered SENATE BILL NO. 134

SB 134 FUNDING SHORTFALL POLICY

"An Act relating to the policy of the state regarding the state budget and the source of funding used to cover a shortfall in general fund revenue."

and recommends:

- be replaced with SCS or CS _____ (_____)
- adopt previous SCS or CS _____ (_____)
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:
<input type="checkbox"/> Same Title
<input type="checkbox"/> New Title
<hr/>
HOUSE BILL:
<input type="checkbox"/> Same Title
<input type="checkbox"/> Technical Title Change
<input type="checkbox"/> New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
GOV	3/17			✓	

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS	PRINTED LASTNAME	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>	French				✓
<i>[Signature]</i>	French			✓	
<i>[Signature]</i>	Bundo			✓	
<i>[Signature]</i>					
CHAIR: <i>[Signature]</i>	McGuire			✓	

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: SB134-GOV-OMB-4-17-07
 Bill Version: SB 134
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: All
 Title State budget policy RDU _____
 Component _____
 Sponsor Sen. Wilken Component No. _____
 Requester Sen. State Affairs Committee

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	0.0	0.0	0.0	0.0	0.0	0.0

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

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

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	0.0	0.0	0.0	0.0	0.0	0.0

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)

This legislation would amend the Executive Budget Act to state that it is the "policy of the state that the amounts necessary to cover a projected shortfall in general fund revenue during a fiscal year be appropriated equally from the constitutional budget reserve fund and the earnings reserve account.

This policy statement would not be legally binding on the Governor or Legislature; therefore, this legislation would not have a significant fiscal impact on any State agency.

Prepared by: Jack Kreinheder, Senior Analyst Phone 465-4676
 Division Office of Management and Budget Date/Time 4/17/07 10:13 AM
 Approved by: Karen J. Rehfeld, Director Date 4/17/2007
 Agency Office of Management and Budget

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Anchorage Daily News

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A sensible approach to filling budget gaps

(Published: April 2, 2007)

Sen. Gary Wilken's bill to ease future state revenue shortfalls by drawing from the Constitutional Budget Reserve Fund and the Permanent Fund earnings reserve account makes great sense.

Usually such measures are quickly stomped to death by legislators who bray piously that they are protecting the Permanent Fund dividend checks. That could happen again, but the Fairbanks Republican asks only that the Legislature adopt a guideline for future legislatures on ways to cover budget gaps.

Maybe, just maybe, good sense will prevail and Wilken's idea will be adopted. After all, it will be several years - at least - before such a draw would be made, so today's legislators presumably would not be harmed by angry voters right away.

The "give me my check" crowd doesn't usually get fired up about abstract concepts like guidelines for handling future budget deficits or long-term fiscal planning. The Constitutional Budget Reserve currently contains \$2.6 billion and the earnings reserve account has \$4.7 billion.

Wilken's press release on the measure said Permanent Fund officials estimate that a draw of \$250 million a year for 10 years would reduce dividend checks by only \$20 a person in 2011 and reach \$89 each in 2016, "an amount that could be far less than a sales or income tax."

And that alternative is very real. The state has a surplus for the current fiscal year because of recent high oil prices, but with throughput in the oil pipeline declining, it will have a growing deficit starting in just a few years and lasting until gas revenues start coming in.

There are several other good reasons for adopting such a measure. For one, it would be a marvelous incentive to keep state spending low. The less government spends, the more the people will get in their checks. That would be something for zealous legislators to brag about.

Also, the free money program is becoming an embarrassment in Washington, D.C. Congress is taking a sharp look at Alaska's many requests for funds and members from other states are asking why the 49th state can't meet some of its own needs when it has nearly \$38 billion in the bank that is used only to send checks to all its residents.

If Alaska doesn't start filling some of its own needs by using part of the financial resources it has socked away in the Permanent Fund - the purpose for which the fund was originally established - there could be a very real cost in the volume of dollars flowing from Washington to this state.

Congress could, as some suggest, take a hard look at the free-money program and become reluctant to approve some of the funds earmarked for Alaska by its three-member congressional delegation.

Free money might not be so free anymore.

FAIRBANKS
Daily News - Miner

Yes, a deficit

Published March 23, 2007

Sen. Gary Wilken's soapbox has been reduced to the size of a matchbox as the result of his relegation to minority status in the state Senate, but the message he intends to send forth in the coming weeks hasn't diminished in scope one iota.

What the Fairbanks Republican senator is talking about, and has been talking about for a few years, is the unsustainability of the state budgets. In simple terms: Alaska isn't going to have the money it needs for the budgets it is likely to have.

This notion may take Alaskans by surprise.

After all, didn't we all witness a great debate in Juneau last year about the nifty new oil tax that would bring the state millions more in oil revenue? And aren't oil prices sitting comfortably at levels that are nice and high?

Yes and yes.

So Alaska must surely be financially safe, you say.

No.

In fact, Alaska is looking at a slight budget shortfall as early as fiscal 2009, according to data from the Legislative Finance Division and presented as part of Sen. Wilken's continuing campaign of legislative and public awareness of the coming financial problem and of his own solution. Thereafter, Alaska is looking at an increasingly widening gap caused by a decline in oil production, even with the new tax system in place. The increasing size of the gap is also based on the assumption that state spending will increase 3 percent annually to account for inflation — and that's a generous calculation that does not factor in any population increases and any major expenditures like paying down the enormous retirement debt.

What to do.

Gov. Sarah Palin, for her part, has put forward a fiscal 2008 budget that is significantly smaller than the fiscal 2007 budget approved by the Legislature. Her budget is a recognition that Alaska can't have burgeoning budgets while it waits for revenue to roll in from a North Slope natural gas pipeline. She's on the right track with that kind of thinking, though there's a real question about whether the budget needs to be as stark as she has proposed. Fairbanks and other parts of the state still have needs.

Nonetheless, the facts about the future leave legislators with little choice but to listen to what Sen. Wilken, and others, are saying.

Legislators don't have to agree with Sen. Wilken's proposal, which would rely on the Constitutional

Budget Reserve and the Permanent Fund Earnings Reserve to bridge the money gap until revenue from the natural gas pipeline starts rolling in in about fiscal 2016. But they do need to be responsible, recognize the reality of the situation — a reality that includes the recognition that the state can't cut its way out of the impending deficits — and come up with a solution.



Daily News - Miner

A plan for Alaska's fiscal future

By Stefan Milkowski
Published April 8, 2007

JUNEAU — The state's finances are like its landscapes and weather — dramatic and fast-changing. This year the state will likely bring in about \$1 billion more than it spends. But next year, revenues are expected to match expenses, and the year after that, the state could be in the red by \$500 million or more.

Because revenues are so closely linked to oil prices and production levels, they're largely unpredictable. To the extent they can be predicted, the money the state brings in each year — and has to spend on state services — is expected to drop steadily for the next 10 years.

It's in this context that Sen. Gary Wilken, a Republican from Fairbanks, is pushing a “long-term fiscal plan” to fill the gap between what the state takes in and what it spends.

Wilken's plan is simple. The state should create “responsible, sustainable” budgets, and when it doesn't have enough money in a given year to meet its budget, it should draw equally from the Constitutional Budget Reserve, a savings account for state government, and the Earnings Reserve Account of the Alaska Permanent Fund.

The principal of the Permanent Fund is protected by the Alaska Constitution and would require a constitutional amendment to access, but the earnings of the fund can be spent with a simple majority vote of the Legislature. According to Wilken, a former co-chair of the Senate Finance Committee, using even a few hundred million dollars a year in times of need would have only a small effect on dividend checks.

But previous proposals involving Permanent Fund earnings have failed miserably, and in the weeks since Wilken introduced his proposal, support from other lawmakers has been slim.

Bert Stedman, a Republican from Sitka and co-chair of the Senate Finance Committee, said he didn't think his committee would review the bill any time soon.

Bridging the fiscal gap

Wilken spelled out the problem at a presentation late last month.

If state spending goes up 3 percent a year — enough to keep up with inflation — and if the Department of Revenue's projections prove true, the state will come up short starting the year after next.

Within a few years, spending will exceed revenues by \$1 billion, and by 2017 — about when the state can expect to see revenues from a natural gas pipeline — the gap will grow to about \$2 billion. (General fund spending in 2017 would be about \$5 billion and revenues about \$3 billion.) The Constitutional Budget Reserve, which has a balance of \$2.5 billion, would not be enough to cover the multi-year deficits.

There's been a fair amount of talk in Juneau over the impending "fiscal gap." Gov. Sarah Palin has said the forecast deficits underscore the importance of saving money in times of surplus and controlling state spending. The House Ways and Means Committee held a series of meetings this session on the subject, and lawmakers cite the projected deficits in explaining their opposition to funding new state programs.

"I'm absolutely convinced there's going to be a deficit," said Sen. Fred Dyson, a Republican from Eagle River and member of the Senate Finance Committee, "and I don't know of any tooth fairy that's going to jump out of the closet with a sparkly stick and rescue us."

A few lawmakers are pushing proposals meant to address the issue.

HB 125 in the House and SB 25 in the Senate call on the governor to craft detailed fiscal plans covering the next 10 and 15 years, respectively. Another House bill, HB 68, would require the Legislature to adopt a fiscal plan each year that would cover the following four years and could include ideas for increasing revenues and limiting spending. But Wilken's bill, SB 134, is the only specific proposal for dealing with the projected deficits, and it has limited support.

Some lawmakers question the state projections of declining revenues, while others argue deficits could be limited by reducing spending.

Stedman, the Finance Committee co-chair, said it doesn't make sense to develop a long-term plan when there are so many major, unresolved budget issues, including looming retirement costs and the effect of the new oil tax on production levels.

"A plan today is going to have to be modified tomorrow," he said.

Even Wilken's colleagues in the Senate minority offered lukewarm support for the proposal.

Senate Minority Leader Gene Theriault, R-North Pole, credited Wilken for pushing the issue but stopped short of endorsing his proposal to use Permanent Fund earnings.

"That causes me a little bit of concern," he said.

'It's not robbing the Permanent Fund.'

Wilken acknowledges that using Permanent Fund earnings is not a popular idea.

"This is the third rail of politics around here," he said. "You touch it, you're in trouble."

But Wilken stressed the difference between the fund itself and the fund's earnings.

The Alaska Constitution dictates that at least 25 percent of all mineral lease rentals, royalties, and bonuses be deposited in the Permanent Fund, where they can only be invested. But income from those investments can be spent. Some of it is distributed to Alaskans as dividends and some is put back into the fund to protect it from inflation. The rest goes into the Earnings Reserve Account, where it is available for appropriation by the Legislature.

Wilken's proposal recommends using money from the Earnings Reserve Account.

"It's not robbing the Permanent Fund," he said.

In the past, the Legislature has generally reinvested the funds, and overall, more than half of all deposits to the fund's principal have been made voluntarily by the Legislature, according to Wilken.

Nevertheless, using Permanent Fund earnings to pay for state government would cut into dividends. It would reduce the amount of money available for reinvestment in the fund, which would reduce future earnings of the fund. That in turn would reduce the revenue available for dividends.

The reduction would be slim. According to the Alaska Permanent Fund Corp., which manages the fund, drawing \$250 million from the Earnings Reserve Account each year for 10 years would reduce dividend checks by almost nothing in the first year, \$2 in the second year, \$6 in the third, and more each year after that.

In the 10th year, checks would be \$89 less than they would have been without the 10 years of withdrawals. In his presentation, Wilken noted the difference was about the cost of one car tire.

And that's a lot less than the alternatives. According to Wilken, raising \$250 million a year through income tax would cost an average family of four \$1,000. Doing the same with a sales tax would cost the family \$950.

The hurdle before the bridge

In September 1999, the state held an advisory vote asking Alaskans the following question. "After paying annual dividends to residents and inflation-proofing the Permanent Fund, should a portion of Permanent Fund investment earnings be used to help balance the state budget?"

Almost 42 percent of registered voters cast ballots, and 83 percent said No.

Wilken said his proposal is different. Specifically, it would only draw Permanent Fund earnings in deficit years. (The proposal is also nonbinding — it simply establishes the use of the two funds as the state's "policy.")

"This is about managing our wealth when needed," he said.

Even so, SB 134 is unlikely to move fast. It has yet to be scheduled for a hearing in its first committee of referral, the Senate State Affairs Committee, and lawmakers back the idea with hesitation, if at all.

Dyson, Wilken's colleague in the minority, said he would rather use Permanent Fund earnings than a sales or income tax, but would do so "reluctantly." Dyson and Sen. Con Bunde, an Anchorage Republican and another minority member, are the bills only co-sponsors. Sen. Joe Thomas, a Democrat from Fairbanks and member of the Finance Committee, said he wanted to look at all potential revenue sources and get a better sense of what Alaskans thought.

Others suggest the decision is premature.

Palin's budget director, Karen Rehfeld, said last week the governor likes the idea of long-term planning but isn't ready to say whether she would support using Permanent Fund earnings to cover deficits in future years. (Palin has proposed depositing a large chunk of the earnings reserve account in the principal of the Permanent Fund.)

"Her goal is to get that gas line on so that we would not have to be in that situation," Rehfeld said.

Stedman, whose committee would have to approve Wilken's plan, said it will probably be several years before the state has to decide about additional funding sources.

"When we come to the bridge where we have that gap," he said, "then we'll have that discussion."

Meanwhile, he said, the state should ratchet back spending and use other tools to try to avoid deficits.

"Hopefully next year we'll have some good revenues," he added.

Contact staff writer Stefan Milkowski at 388-6141 or smilkowski@newsminer.com.

This article may be accessed online at <http://newsminer.com/2007/04/08/6383/>.

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Anchorage Daily News

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Time to talk finances

Legislators remind Alaskans the state needs a real fiscal plan

(Published: April 10, 2007)

Several legislators continue talking about the need for a state fiscal plan, even though most Alaskans would rather think about spring, dream about a gas line and watch for the next Permanent Fund dividend in six months.

We say thank you to those legislators; please keep it up.

Math does not lie. Unless the price of oil climbs higher and never stops, the state will face budget deficits years before any North Slope natural gas pipeline can deposit tax and royalty dollars into the state treasury. Which means Alaska needs a plan for that day, and it needs to figure something out before that day arrives.

The House two weeks ago approved legislation requiring governors to set out a plan each year that projects state revenues and expenses for the next 10 years: where the money would come from, how much would be needed for public services, and how to fill any gap between the two. It would require governors and legislators to think in advance, which is always better than panicking in the moment. Led by Anchorage Republican Rep. Mike Hawker, the House passed the measure without opposition.

Over in the Senate, there are a couple of options. Eagle River Republican Fred Dyson has a bill requiring a 15-year fiscal plan. If any plan makes it into law this year, it's more likely to be the House measure. Rep. Hawker is a member of the majority in his chamber, while Sen. Dyson is in the Senate minority. That's just the way the political cookie bakes.

The other Senate proposal comes from Fairbanks Republican Sen. Gary Wilken. It doesn't mandate a plan; instead, it proposes a specific solution for any year there is a budget deficit. It says that when oil revenues can't pay the bills, the Legislature should take equally from the state's budget reserve fund and surplus earnings of the Alaska Permanent Fund.

It's not every day you see legislators willing to put their names on a bill that would spend Permanent Fund earnings.

Yes, any notion of spending Permanent Fund earnings will set off the cries of "don't touch" and "protect the dividend." But ignoring the Permanent Fund as an option for providing public services in the future is like pretending the cost of education, road building and police services doesn't increase each year. It's irresponsible.

There is almost \$38 billion in the Permanent Fund, almost \$5 billion of that in the earnings reserve. The state has \$2.5 billion in the budget reserve account -- the proceeds of past oil and gas tax and royalty settlements, saved up for years when needed to fill budget shortfalls. With options like that, Alaska should be able to manage its finances very well.

Legislators should pass a law requiring long-term fiscal planning. And then policy makers should

present the public with options for paying the bills.

BOTTOM LINE: "Fiscal" and "plan" are honest words coming out of the Capitol.

California dreaming

In various charming places across the American West, people decry the "Californication" of their beloved locales. I can understand why they don't like a lot of rich people moving in with their fancy cars, buying big houses, driving real estate values into the stratosphere and causing traffic jams.

But here in Anchorage, I personally would welcome some Californication.

While checking out the University of California Santa Barbara with my college-bound son last month, I stumbled across a local dispute that struck my sore Anchorage eyes as wildly amusing.

An editorial in the Santa Barbara paper cried the alarm: "The canyonization of the main downtown streets is in full swing. ... (These) high-density projects will bring more people, more cars, more congestion and more air pollution."

Visions of midtown Manhattan popped into my head. But later that day, when my son and I explored downtown, we found a couple of streets lined with fancy and not-so-fancy shops and stores. Parking was easy and nary a building was higher than three stories. The threat decryd by the paper was -- gasp -- the prospect that buildings with FOUR stories might be allowed.

To the barricades, citizens! Give me three stories or give me death!

Contrast that with Anchorage, a classic case of "toadstool" downtown development. Here and there, a high-rise hotel or office building pops up, surrounded by large swaths of asphalt parking lots that sit empty outside of working hours.

Nothing makes for a deader downtown than acres and acres of parking lots. Small wonder tourists visiting Alaska don't want to spend more than a few hours when they pass through Anchorage.

We're so screwed up that our mayor, supposedly a force for progressive urban development, touts the demolition of a reasonably popular tourist business, the Alaska Experience Theater, because razing it will add 75 more parking spaces in the heart of downtown.

That's plain crazy.

What we should be doing is lowering the height limit on buildings and banning off-street parking lots downtown. If you're going to have off-street parking there, hide it inside the block, in a garage surrounded by shops, offices or housing. Cities as varied as New Orleans and West Chester, Pa., have built parking garages that I didn't even recognize as garages because their architecture blended in so well.

But Anchorage, land of the cookie-cutter site condo, would never do anything so drastic and so progressive. To think otherwise is just California dreaming.

-- Matt Zencey

GARY WILKEN
SENATOR
Fairbanks



State Capitol Building
Juneau, Alaska 99801-1102
Tel: 451-5501 (from Fbks)
Tel: (907) 465-3709 (outside Fbks)
Fax: (907) 465-4714
www.akrepublicans.org/wilken
E-Mail: Senator.Gary.Wilken@legis.state.ak.us

SPONSOR STATEMENT

Senate Bill 134 A Bridge to a Gasline - "Fill the Gap"

Senate Bill 134 reads as follows: *It is also the policy of the state that the amounts necessary to cover a projected shortfall in general fund revenue during a fiscal year be appropriated equally from the Constitutional Budget Reserve fund and the Earnings Reserve Account.* With these few words, a course of action is adopted that balances the state budget when a shortfall in general fund revenue exists.

Senate Bill 134 provides the following benefits:

- The policy is used only when needed,
- When needed, bridges the fiscal gap and puts "new" money into the economy,
- When needed, minimizes the financial impact on Alaska families,
- Doubles the life of the Constitutional Budget Reserve fund,
- Answers the call from Washington, D.C. for Alaskans to help themselves, and
- Provides Alaska with a stable and dependable long-term fiscal plan.

Senate Bill 134 affirms a policy of the state that provides fiscal certainty when the general fund revenue is insufficient to fully fund the state budget. And it does so without taking from the checkbooks of Alaska's working families through an income tax or a sales tax. And it does so without adding new taxes on those that invest in us or those that chose to visit us.

Please join me in supporting this long-term fiscal plan.

Proudly Representing the Golden Heart of Alaska



25th ALASKA STATE LEGISLATURE

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SENATOR FRED DYSON
SENATOR TOM WAGONER
SENATOR GARY WILKEN

Fact Sheet for: Senate Bill 134

Contact: Sheila Peterson, 465-3709

Bill Version: SB 134

Sponsor: Senator Gary Wilken

Short Title: FUNDING SHORTFALL POLICY

Summary:

- Adds a statement to the Executive Budget Act that "It is the policy of the state to formulate a responsible, sustainable budget on a consistent basis, given the extreme fluctuations that occur in the price of oil and mineral resources. In recognition of these unforeseeable fluctuations, it is also the policy of the state that the amounts necessary to cover a projected shortfall in general fund revenue during a fiscal year be appropriated equally from the constitutional budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) and the earnings reserve account (AS 37.13.145).

Benefits:

- Bridges potential gaps between general fund expenditures and general fund revenues until Alaska's natural resources can be further developed.
- Fills the gap, when a shortfall exists, in a manner that minimizes the financial impact on Alaska families.
- Establishes accountability by forming a spending partnership with all voters.
- Allows Alaskans to share in the power of earnings from the reserve fund.
- Doubles the life expectancy of the Constitutional Budget Reserve fund.
- Provides fiscal certainty when general fund revenue is insufficient to fully fund the state budget.

Background:

- The annual revenue generated from taxes and royalties levied on and collected from the petroleum industry varies directly with the price of oil and the amount of oil produced in the state. Because of this uncertainty, the state will face recurring shortfalls in general fund revenue. Senate Bill 134 gives future legislatures a guideline for addressing the shortfall by specifying that half will be appropriated from the constitutional budget reserve and half from the permanent fund earnings reserve account. The \$4.7 billion earnings reserve account, which is accessible to the legislature by a majority vote, is separate and distinct from the \$32.1 billion permanent fund principal, which is constitutionally protected. Drawing equally from the constitutional budget reserve and the permanent fund earnings reserve would provide the state a "Bridge to Development" to sustain state services until a natural gas pipeline begins production.

SKILLED

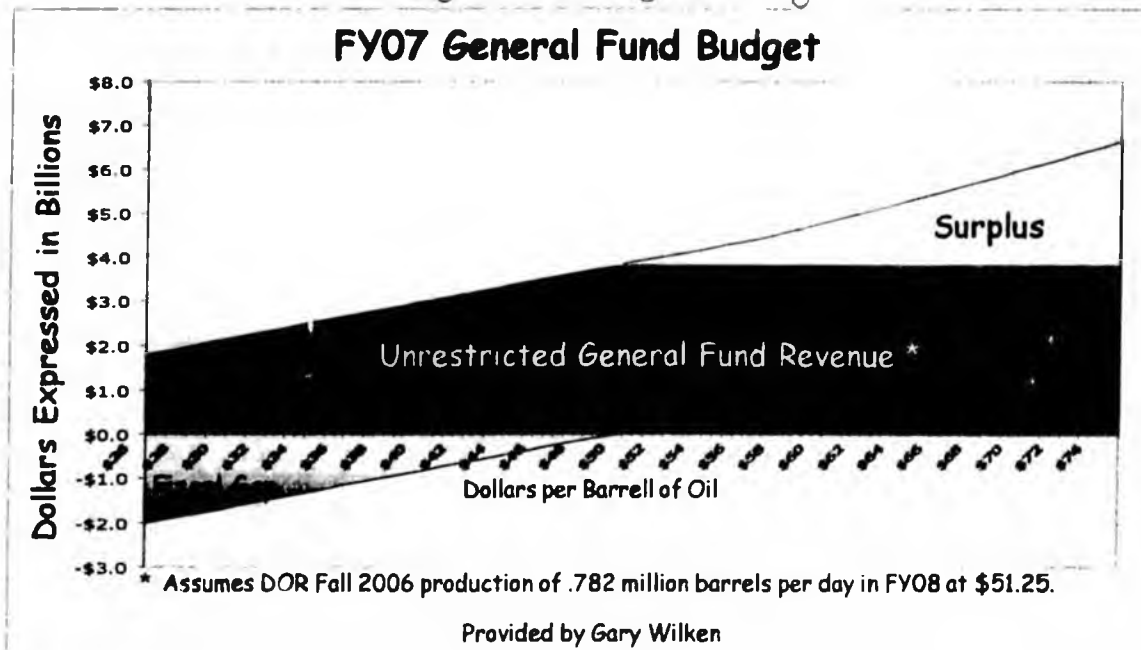
RESPONSIBLE

CONSERVATIVE

Budget Surplus/Deficit Sensitivity

Things Can Change Quickly

FY07 General Fund Budget



Effect on Alaska's Permanent Fund Dividends

How much less is my PFD if \$250 M is drawn from the ERA each year?

Fiscal Gap (millions)	ERA Draw (millions)	Fiscal Years Ahead									
		1	2	3	4	5	6	7	8	9	10
200	100	\$0	\$1	\$2	\$5	\$8	\$13	\$18	\$23	\$29	\$35
300	150	\$0	\$1	\$3	\$7	\$12	\$19	\$27	\$35	\$44	\$53
400	200	\$0	\$1	\$4	\$9	\$16	\$25	\$36	\$47	\$58	\$71
500	250	\$0	\$2	\$6	\$12	\$20	\$32	\$44	\$58	\$73	\$89
600	300	\$0	\$2	\$7	\$14	\$24	\$38	\$53	\$70	\$88	\$106
700	350	\$0	\$2	\$8	\$16	\$28	\$45	\$62	\$82	\$102	\$124
800	400	\$0	\$3	\$9	\$19	\$33	\$51	\$71	\$93	\$117	\$142
900	450	\$0	\$3	\$10	\$21	\$37	\$57	\$80	\$105	\$131	\$159
1,000	500	\$0	\$3	\$11	\$23	\$41	\$64	\$89	\$116	\$149	\$177

Differences shown are for each fiscal year, total of each row would be the cumulative effect per person

*A Bridge
to a
Gasline*

"Fill the Gap"

Senate Bill 134

A Long-term Fiscal Plan

By Gary Wilken

*Twenty-Fifth Legislature
2007*

We're listening,

Two bills work hand in hand



Senate Bill 25 (Sen. Dyson) requires the governor to look into the future



Senate Bill 134 begins the discussion of a much needed fiscal plan

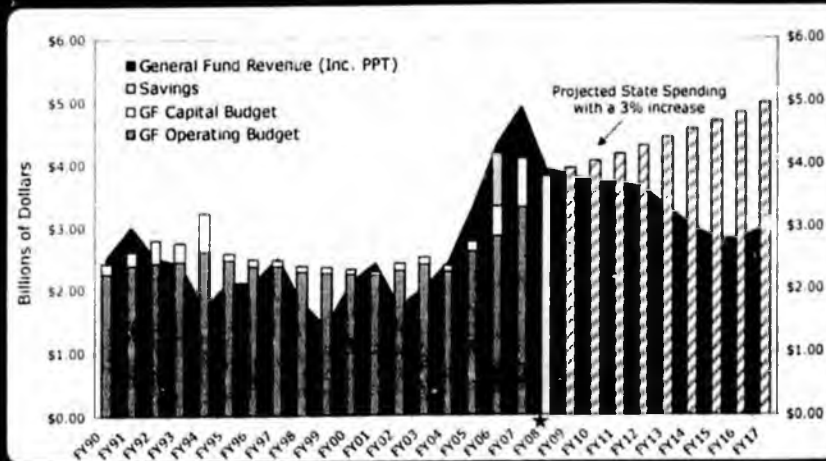
"It is the *policy* of the state to formulate a responsible, sustainable budget on a consistent basis, given the extreme fluctuations that occur in the state revenue sources.

In recognition of these fluctuations, it is the *policy* of the State of Alaska that amounts necessary to cover a projected shortfall in general fund revenue during a fiscal year be appropriated equally from the *Constitutional Budget Reserve* fund and the *Earnings Reserve Account*."

A new subsection is added to AS 37.07.010, *Executive Budget Act*

SB 134
says

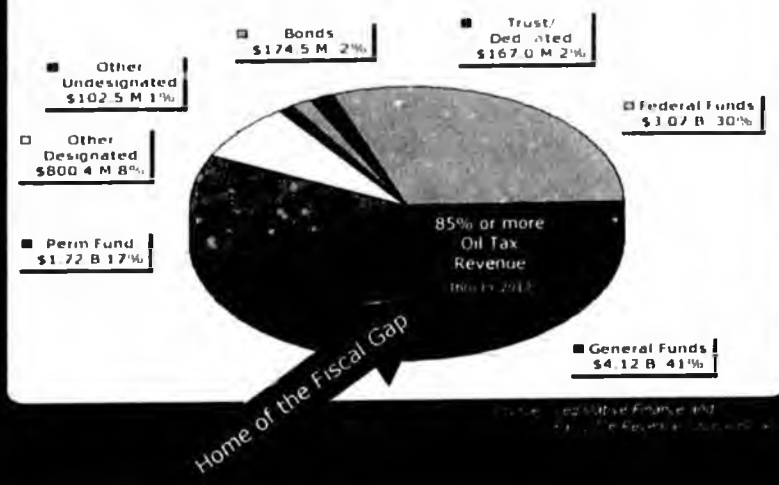
What's the problem?



Source: Legislative Finance and Management Services, 2008

... and where's the problem?

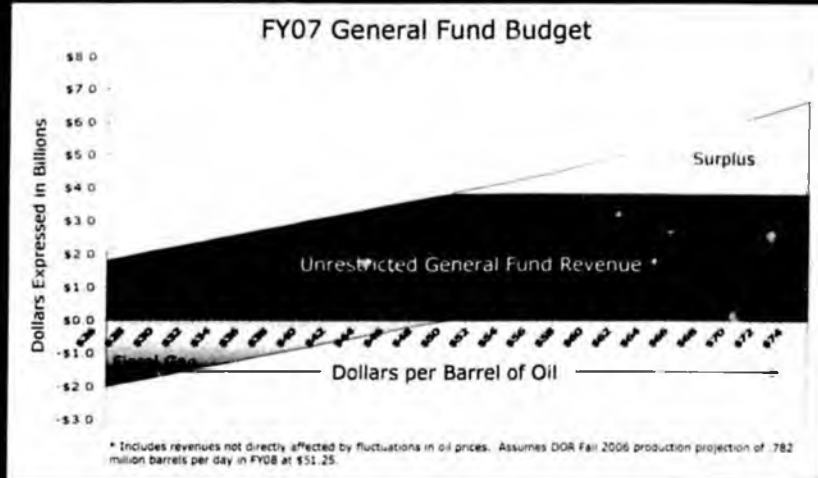
FY07 Operating & Capital Budgets - \$10.2 Billion



Source: Legislative Finance and Management Services, 2008

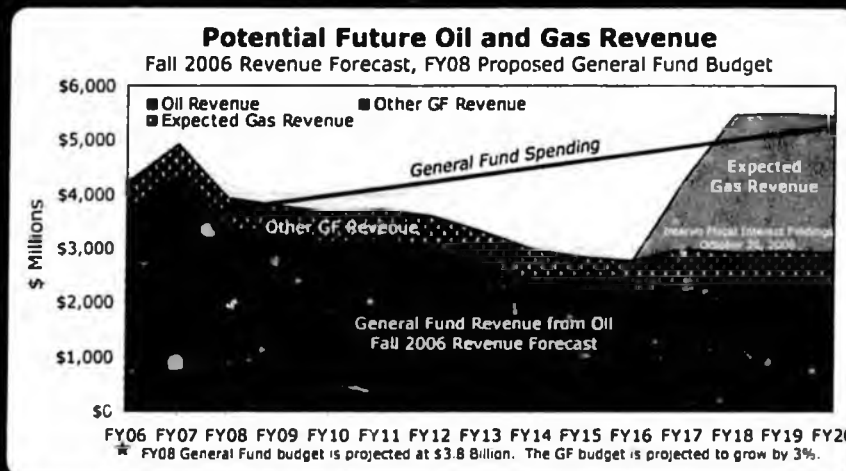
... things can change quickly

Things can change quickly

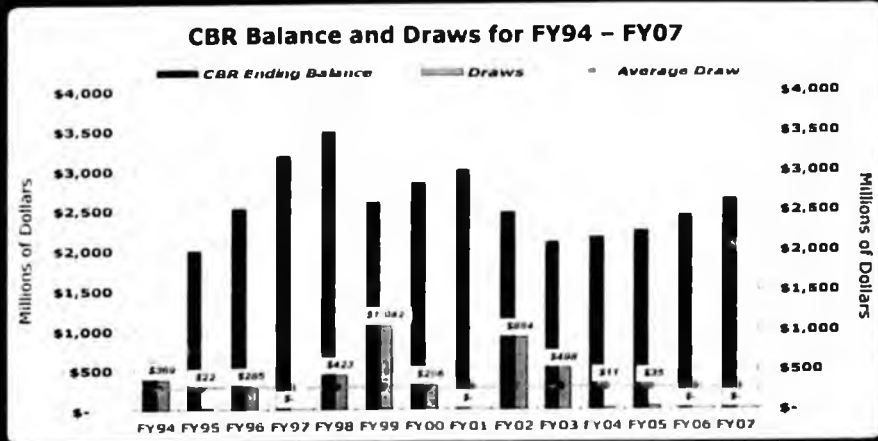


... so a bridge is needed

From today to a capsule

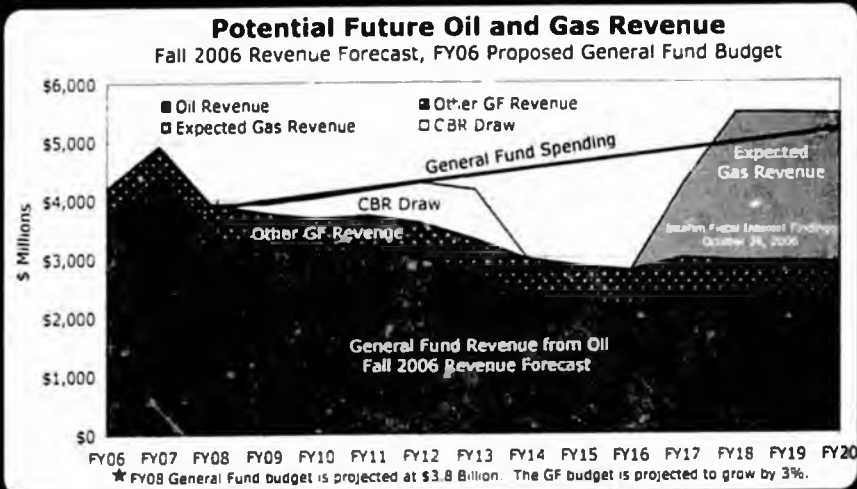


... the CBR "cushion"



- Draw 10 out of 14 years
- Average draw \$275 M
- Current balance \$2.6 B

... why not just the CBR?



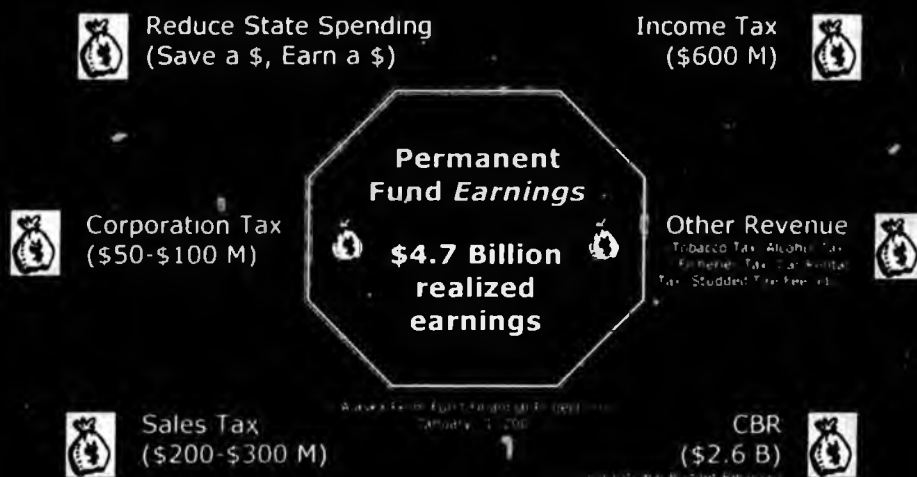
Budget discipline, of course. . . But, "Just cut government" . . . ?

- | | |
|--|---|
| <ul style="list-style-type: none"> ▪ <u>Non-essential (GF)</u> • Public radio/TV - \$5 M • One Percent for Art - \$.5 M • State Parks - \$4.5 M • Library/Museums - \$7 M • TOTAL - \$17 M | <ul style="list-style-type: none"> ▪ <u>Essential (GF)</u> • State Troopers - \$50 M • Road Maintenance - \$100 M • Marine Highway - \$80 M • Three UA Campuses - \$200 M • TOTAL - \$430 M |
|--|---|

Or eliminate all state employees - TOTAL - \$900 M

We just aren't going to "cut our way" out of our expected structural budget deficits.

Pots of Money to Build the Bridge

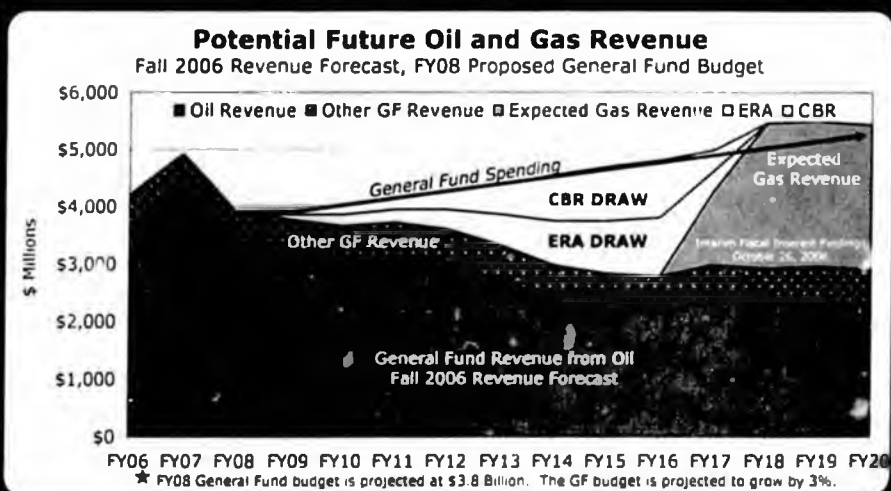


... so what if ...

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

(SB 134)

... and we bridge the gap



... 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.

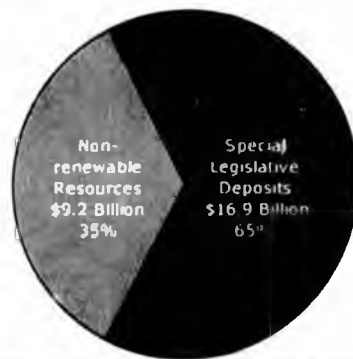
Yes, We Can!!!!

The Earnings Reserve Account (ERA), a result of wise investment of our Permanent Fund, has been and is still available to the legislature by a vote of 21 in the House and 11 in the Senate.

What's the Legislature done?

Voluntarily made 2/3 of the deposits

Deposits to the Alaska Permanent Fund



From:
GF or ERA
\$7 Billion
27%

Inflation
Proofing
\$9.9 Billion
38%



Alaska's Crown Jewels

... The Constitutional Budget Reserve fund and the Earnings Reserve Account

- Only legislature in America deciding how to manage \$40 billion for 665,000 people
- Every minute, every hour, every day, the world helps build Alaska by
 - Investing in corporate America – equities
 - Investing in America's society – real estate
 - Investing in America's future – bonds
- "We've wisely taken a one-time resource and turned it into a renewable source of wealth for current and future generations."

7.1.06 - 1.1.06
earned amount
\$734,000
per hour

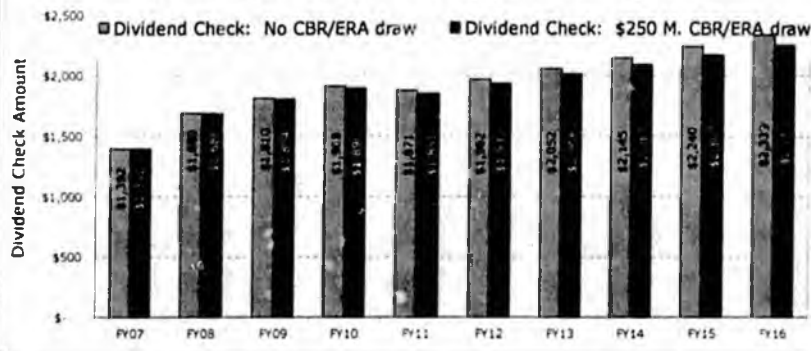
... but what about my check??

How much less is my PFD if the Legislature draws \$250 M from the ERA every year for 10 years?

Fiscal Gap (millions)	ERA Draw (millions)	Fiscal Years Ahead									
		1	2	3	4	5	6	7	8	9	10
200	100	\$0	\$1	\$2	\$5	\$8	\$13	\$18	\$23	\$29	\$35
300	150	\$0	\$1	\$3	\$7	\$12	\$19	\$27	\$35	\$44	\$53
400	200	\$0	\$1	\$4	\$9	\$16	\$25	\$36	\$47	\$58	\$71
500	250	\$0	\$2	\$6	\$12	\$20	\$32	\$44	\$58	\$73	\$89
600	300	\$0	\$2	\$7	\$14	\$24	\$38	\$53	\$70	\$88	\$106
700	350	\$0	\$2	\$8	\$16	\$28	\$45	\$62	\$82	\$102	\$124
800	400	\$0	\$3	\$9	\$19	\$33	\$51	\$71	\$93	\$117	\$142
900	450	\$0	\$3	\$10	\$21	\$37	\$57	\$80	\$105	\$131	\$159
1,000	500	\$0	\$3	\$11	\$23	\$41	\$64	\$89	\$116	\$149	\$177

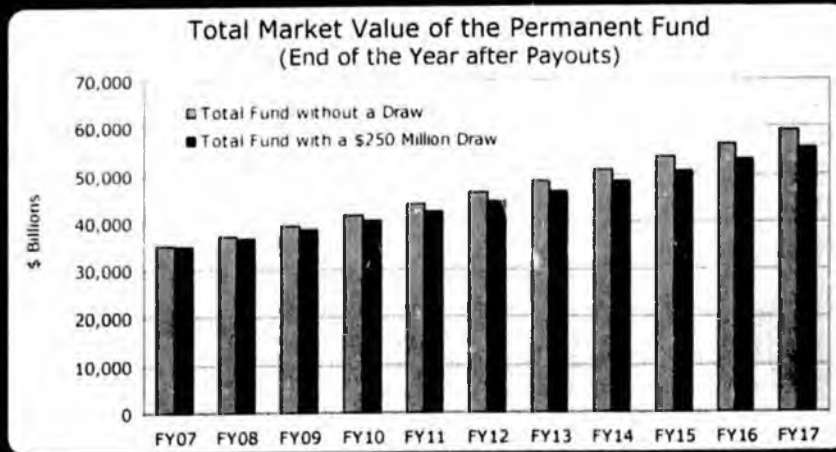
... how does this compare to status quo?

How much less is my PFD if the Legislature draws \$250 M from the ERA every year for 10 years?



Answer: In FY11, it's \$20 less. In FY16, it's \$89 less.

... and the Permanent Fund?



What does this really mean?

What does this mean for the Permanent Fund Reserve Account?
What does this mean for the State's ability to pay for its obligations?

Year One



Year Two



Year Three



Year Four



Year Five



Year Ten



... let's compare alternative revenue sources



Income Tax
Raise \$250 Million
Cost \$1,000



Sales Tax
Raise \$250 Million
Cost \$950



Earnings Reserve
Raise \$250 Million
Cost \$8

With the Bridge to a Gasline Plan,
all Alaskans share in the *Power of Earnings*.

© 1994 Alaska Department of Revenue

... to summarize

The Bridge to a Gasline Plan

- Recognizes the need to continue developing Alaska's natural resources.
- Recognizes the power of the Earnings Reserve and the Constitutional Budget Reserve—*the crown jewels of a fiscal plan*
- Bridges Alaska's revenue needs until the gasline is completed
- Establishes accountability by forming a spending partnership with all Alaskans

And SB 134 provides benefits . . .

- *When needed*, bridges the fiscal gap and puts "new" money into the economy,
- *When needed*, minimizes the financial impact on Alaska families,
- Doubles the life of the CBR,
- Answers the call from Washington, D.C. for Alaskans to help themselves, and
- Provides Alaska with a stable and dependable long term fiscal plan.

' Thank You!