

SB

25

SENATE COMMITTEE REPORT First Committee of Referral

DATE: 1/16/07

FURTHER: Finance

Date of 5-Day Notice: 01/18/07
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: _____

State Affairs Committee considered SENATE BILL NO. 25

SB 25 STATE PLANNING AND BUDGET

"An Act relating to the state budget and to planning and reports regarding state finances and operations; and providing for an effective date."

and recommends:

- be replaced with SCS or CS SB 25 (STA)
- 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#
ADM	01/22			✓	
OMB	01/24		✓		
DOR	01/24		✓		

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	Do PASS	Do NOT PASS	No REC	AMEND
				X	
				X	
		✓		✓	
CHAIR:	McGene	✓			

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB025-DOA-FIN-1-23-07
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title An act relating to the state budget and to planning RDU Centralized Admin Services
reports regarding finance and operations. Component Finance
 Sponsor Senator Dyson
 Requester _____ Component No. 59

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	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
Other (Specify Type--Do not abbreviate)	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0
 Mark 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 bill adds a requirement for a long-range financial plan covering the succeeding 25 fiscal years. Involvement by the Division of Finance in implementing such a plan would be limited to providing current and historical financial information. Division of Finance is not involved in the forecasting of revenues or expenditures of future periods. Providing current and historical financial information is a normal business function that would not require any additional funding.

Prepared by: Kim Garner, Director Phone 465-2240
 Division Finance Date/Time 1/22/07 2:00 PM
 Approved by: Kevin Brooks, Deputy Commissioner Date 1/23/2007
 Agency Department of Administration

Sponsor Statement for SB25

“An act relating to the state budget and to planning and reports regarding state finances and operations; and providing for an effective date”

January 22, 2007

Contact: Lucky Shultz at Senator Fred Dyson's office (907) 465-2199

This bill, if enacted, will require the governor to develop as part of the state budget, and to present to the legislature each January, key elements of a 25-year long-range financial plan for the state of Alaska.

Many of the decisions made and the actions taken by the governor and the legislature have an enduring and long-range impact on the citizens of Alaska. The bulk of the 2006 legislative session was devoted to revising Alaska's petroleum severance tax, an action that will have dramatic impacts on state revenues for many years to come. Much of the remainder of the session and two of the special sessions were devoted to debating a fiscal contract for a natural gas pipeline. At the heart of both issues are the state's revenues for the next 30 to 50 years, and perhaps longer. Additionally, revenues from a natural gas pipeline won't be realized by the state for perhaps 10 years or more. Yet the governor is currently only required to present a plan for the next fiscal year and a capital improvements plan for the next six years.

Also of long-term concern are the state's near- and long-term expenses. Last year a consultant hired by the legislature presented a report showing dramatic increases in the state's Medicaid expenses in the next few years. During the presentation, the consultant stated that if we only looked at the near term we might not see the dramatic changes in store for Alaska in later years. Demographics are changing nationwide. Medical and education costs are forecast to increase substantially, even to the point according to some consultants of the potential of consuming all revenues in some states. How will the Alaska meet these obligations?

Three factors will combine to compound Alaska's expenditures for Medicaid alone. First, the cost of Medicaid is projected to continue to rise. Second, Alaska is experiencing an influx of senior citizens who, along with Alaska's aging population, are expected to consume a greater share of Medicaid services. Third, it is likely the federal share of funding Medicaid will continue to decline as the federal government struggles to balance the federal budget. While increasing Medicaid benefits for next year may seem the proper thing for the legislature to do, a long term perspective must be considered because of the compounding effect. In short, the legislature and the governor must consider what Medicaid costs will be five, ten, or twenty years into the future.

PERS and TRS is another issue that necessitates a long-term perspective. Unfunded liabilities such as PERS and TRS cannot be remedied in just a few years. An unfunded liability of just under \$6 billion last year, may soon approach \$10 billion.

Sponsor Statement for SB 25 (continued)

In addition, there are substantial deferred maintenance needs, the costs of which continue to grow at a compounding rate. Deferred maintenance for the Department of Transportation and the University alone may soon reach \$1 billion. Unless action is taken soon to arrest the deterioration of Alaska's roads and buildings, this amount will increase at an ever accelerating rate.

The state must have a plan that addresses all these issues, not just for next year, not just for the next six years, but over the long haul.

Alaska Statute 37.07.020 only requires the governor to present to the legislature a budget for the next fiscal year, and a capital improvements program for the next six years. A one-year look ahead does not give the legislature sufficient information to make meaningful decisions, especially if those decisions will impact Alaskans for generations to come.

While no one can accurately forecast 25 years into the future, we can look at trends, and we can make annual adjustments as circumstances change. Brazil has a 40-year energy plan; BP has a 50-year plan for its Alaskan operations; and many Japanese companies have 100-year plans.

Alaskans from all walks of life, from private citizens to government officials, are demanding a long range plan, a plan that everyone can understand, even if they don't agree with the plan. They want to know that their government is responsibly considering the long-term ramifications of decisions and actions. As the chief executive for the state of Alaska it is incumbent upon the governor to have such a plan and to communicate it to all Alaskans. This bill institutionalizes these requirements.

Sectional Analysis SB 25

“An act relating to the state budget and to planning and reports regarding state finances and operations; and providing for an effective date”

I. Section 1 – Page 1, lines 7 & 8

- A. AS 37.07.020(a) currently sets forth requirements for the governor to prepare a budget for the succeeding year and to present it to the legislature.
- B. In addition to the requirements of subparagraph (a) AS 37.07.020(b) currently requires the governor to submit a six-year capital improvements program.
- C. This bill will add to subparagraph (b) a requirement for the governor to also submit a “long-range financial plan covering the succeeding 25 years.”

II. Section 2 – Page 1, line 12

AS 37.07.020(c) currently states that the governor’s proposed expenditure for the coming year may not exceed the estimated revenue for the coming year.

The subparagraph also states that the proposed expenditures for the six-year capital improvements program any not exceed estimated revenues and bond authorizations.

This bill will require the governor to explain how she expects to fund expenditures for the next 25 years with similar restrictions of limiting expenditures to estimated revenues and bond authorizations.

III. Section 3 – Pages 1 through 3

AS 37.07.040 is amended on page 2, line 4 to add to the duties of the Office of Management and Budget the requirement to assist the governor in the preparation and explanation of the 25-year long-range financial plan.

IV. Section 4 - Pages 3, line 16 through Page 5, line 7

AS 37.07.060(a) is restructured to itemize the elements required in the governor’s recommendations and amended to incorporate the new required elements of the long-range plan.

- A. **Items (1) and (2) on Page 3, lines 23 and 24** – changes “results” to read “desired results” to be consistent with usage elsewhere in the statute and with the verbiage associated with the Missions & Measures program.
- B. **Item (3) on Page 3, lines 27 & 28** – This item is expanded to not only include an assessment of performance toward missions and desired results, but also an indication of whether the governor considers adequate progress to have been made toward achieving the missions and desired results. Prior submittals have included a restatement of the statistics with no qualitative evaluation of what the statistics mean

or whether the measures have shown adequate progress. This item, along with others included below, moves the Missions & Measures from merely a reporting tool toward a management tool.

- C. **Item (4) on Page 3, lines 29 & 30** – Past administrations have been good about providing this information. However, this new item requires the governor to include in the plans presented hereunder an estimate of revenues for the coming fiscal year, listed by revenue source. The intent is to have in one comprehensive plan, all of the elements necessary for the legislature and the public to evaluate the reasonableness of the plans.
- D. **Item (5) on Page 3, line 31 through Page 4, line 1** – In like manner as Item (4), this item requires that the major areas of expenditures for the coming fiscal year be delineated.
- E. **Item (6) on Page 4, lines 2 & 3** – The requirement already exists.
- F. **Item (7) on Page 4, lines 4 & 5** – Like Item (4) above, this item requires an estimate of the revenues, by source and by year, for the six year capital improvements program.
- G. **Item (8) on Page 4, lines 6 & 7** – This requirement already exists.
- H. **Item (9) on Page 4, lines 8 through 10** – This existing requirement is amended to ensure proposed start times are included in the governor's recommendations regarding programs to upgrade public buildings and facilities.
- I. **Item (10) on Page 4, lines 11 & 12** – This existing requirement is amended to add clarifying verbiage to reflect that "the programs" mentioned are the upgrading projects addressed in Item (9).
- J. **Item (11) on Page 4, lines 13 through 15** – This item adds a new requirement for the governor to present a projection of revenues for the next 25 years for each major source of revenue. The item also requires the governor to explain any significant changes from previous projections.
- K. **Item (12) on Page 4, lines 16 through 18** – In like manner as Item (11) above, this item adds a new requirement for the governor to project expenditures, by each major area of expenditure, for the next 25 years, and to explain any significant changes from previous projections.
- L. **Item (13) on Page 4, line 19** – This new item requires the governor to state the assumptions upon which both the revenue and expenditure 25-year projections have been made so that the legislature and the public can evaluate reasonableness of such projections.
- M. **Item (14) on Page 4, lines 20 & 21** – If the projections indicate that expenditures may exceed revenues this item requires the governor to propose actions necessary to either reduce expenditures or increase revenues.
- N. **Item (15) on Page 4, lines 22 through 24** – This item requires the governor to include in the plan a discussion of not only the different actions set out in Item (14), but also any necessary changes to the state's overall long range strategy.
- O. **Item (16) on Page 4, lines 25 through 28** – This item requires:
 - 1. An analysis of the state's debt burden;
 - 2. The maximum debt burden the governor believes the state should undertake;
 - 3. A statement of whether the projected debt, based on the planned capital projects and programs, will exceed such maximum;

4. If the projected debt exceeds the governor's maximum:
 - a. Plans for reducing state debt below the maximum;
 - b. Plans for satisfying outstanding bonds; and
 - c. Plans for meeting deferred maintenance needs.
- P. **Item (17) on Page 4, lines 29 & 30** – This item requires the governor to provide:
 1. A status of the state's unfunded liabilities;
 2. A trend analysis for such liabilities; and
 3. The strategy for funding such liabilities.
- Q. **Item (18) on Page 4, line 31 through Page 5, line 1** – This item requires a statement regarding any anticipated changes in federal funding, and if there are anticipated reductions in federal funding, how the governor plans to accommodate such reductions.
- R. **Item (19) on Page 5, lines 2 through 5** – This item requires the governor to set a minimum level for the budget reserve fund, and to set forth a plan for making payments to the fund until the minimum is achieved.
- S. **Item (20) on Page 5, lines 6 & 7** – If the state has an emergency fund to cover disasters the governor is required to state the minimum level of funding for such fund and, if below such level, the plan for achieving the minimum level.
- T. **Item (21) on page 5, line 8** – If there are projected revenue surpluses this item requires a discussion of how such surpluses will be handled.
- U. **Item (22) on Page 5, lines 9 & 10** – Finally, the governor's recommendation must include a discussion of the actions the legislature must take for the stated strategy to succeed. The recommendations must indicate the timing necessary for such actions.

V. Section 4 - Pages 5, line 11 through Page 6, line 30

- A. AS 37.07.060(b) is amended to include the long-range plan (Page 5, line 12) in the governor's annual budget presentation to the legislature.
- B. The change at Page 5, line 14 requires the explanatory report, previously submitted concurrently with the presentation, to be submitted to the legislature prior to the presentation.
- C. AS 37.07.060(b)(1) on page 5, line 17 the revisor has made a grammatical correction.
- D. AS 37.07.060(b)(3) beginning on page 5, line 22 through page 6, line 30 is amended to clarify what "plans" are addressed, and to delineate capital projects, the capital improvements program and the long-range financial plan.

VI. Section 5 - Page 6, line 31 establishes an effective date of July 1, 2007 with the resultant effect that these requirements are to be included in the Governor's budget for FY09 and her presentation to the second session of the twenty-fifth legislature in January 2008.

Sec. 37.07.020. Responsibilities of the governor.

(a) The governor shall prepare a budget for the succeeding fiscal year that must cover all estimated receipts, including all grants, loans, and money received from the federal government and all proposed expenditures of the state government. The budget shall be organized so that the proposed expenditures for each agency are presented separately. The budget must be accompanied by the information required under AS 37.07.050 and by the following separate bills: (1) an appropriation bill authorizing the operating and capital expenditures of the state's integrated comprehensive mental health program under AS 37.14.003(a); (2) an appropriation bill authorizing state operating expenditures other than those included in the state's integrated comprehensive mental health program; (3) an appropriation bill authorizing capital expenditures other than those included in the state's integrated comprehensive mental health program; and (4) a bill or bills covering recommendations, if any, in the budget for new or additional revenue. The budget for the succeeding fiscal year and each of the bills shall become public information on December 15 at which time the governor shall submit copies to the legislature and make copies available to the public. The bills, identical in content to the copies released on December 15, shall be delivered to the rules committee of each house before the fourth legislative day of the next regular session for introduction.

(b) In addition to the budget and bills submitted under (a) of this section, the governor shall submit a capital improvements program and financial plan covering the succeeding six fiscal years.

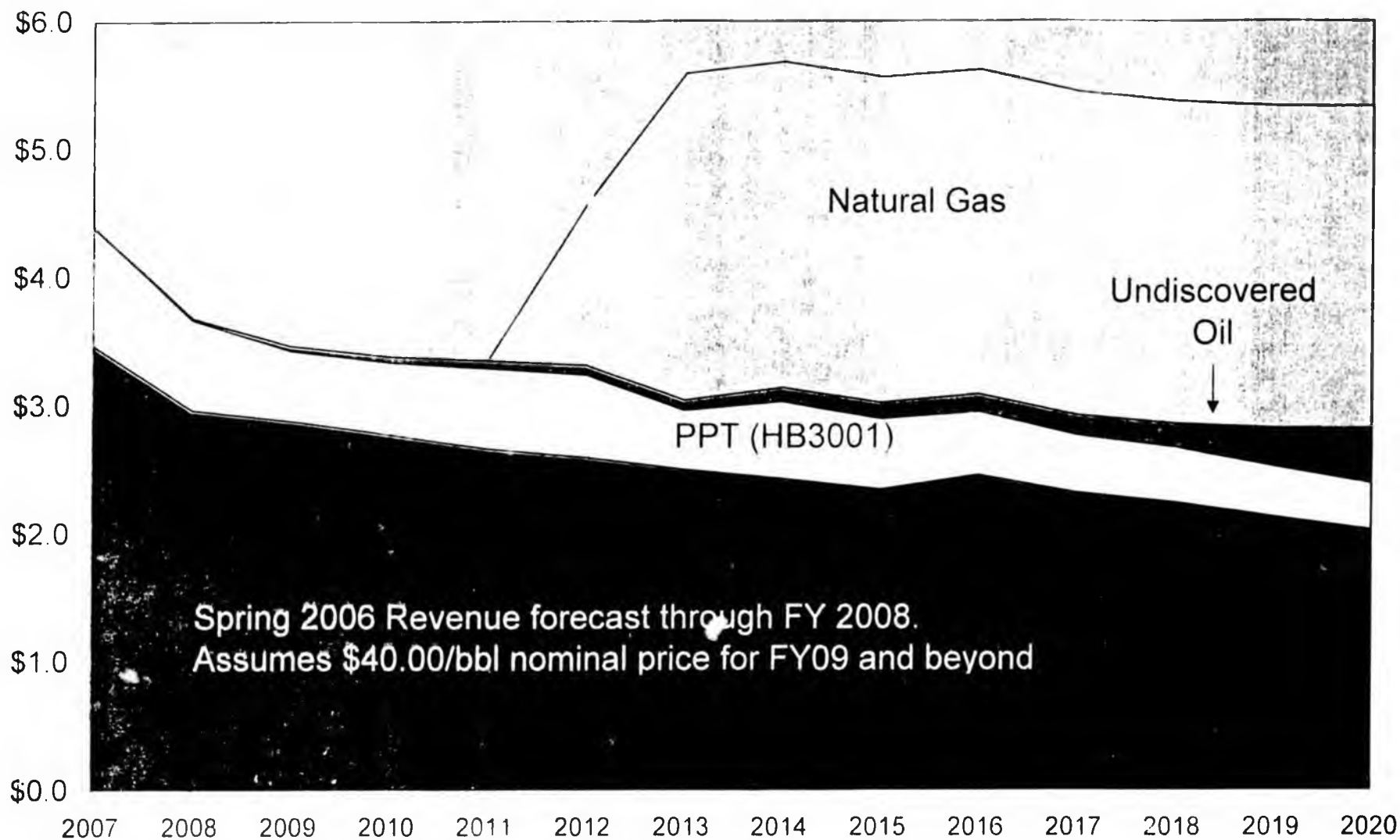
(c) Proposed expenditures may not exceed estimated revenue for the succeeding fiscal year. The expenditures proposed in the six-year capital improvements program and financial plan may not exceed the estimated revenue and bond authorizations passed and proposed.

(d) *[Repealed, Sec. 35 ch 126 SLA 1994].*

(e) The budget prepared under (a) of this section must present the proposed operating expenditures for each agency for annual facility operations, annual maintenance and repair, and periodic renewal and replacement for components of public buildings and facilities separately from the other proposed operating expenditures by the agency. Proposed annual appropriations for an agency's facility operations, maintenance and repair, and renewal and replacement for components of public buildings and facilities contained in an appropriation bill prepared under (a) of this section must be presented separately from appropriations for other proposed operating expenditures by the agency.

Potential Unrestricted GF Revenue From Oil & Gas

Billions of Dollars





The LEWIN GROUP

and

ECONorthwest

**Long Term Forecast of
Medicaid Enrollment and
Spending in Alaska: 2005-2025**

Prepared for:

Alaska Department of Health and Social Services

Prepared by:

The Lewin Group and ECONorthwest

February 15, 2006

*Provided By
Senator Dyson
1/18/07*

Executive Summary

In April 2005 the Alaska Department of Health and Social Services (ADHSS) contracted with the Lewin Group and ECONorthwest to develop a long-term forecasting model of Medicaid spending for the State of Alaska. This document describes the steps undertaken in the development of the forecasting model and provides details on the projected growth in enrollment, utilization, and spending on Alaska's Medicaid program through 2025.

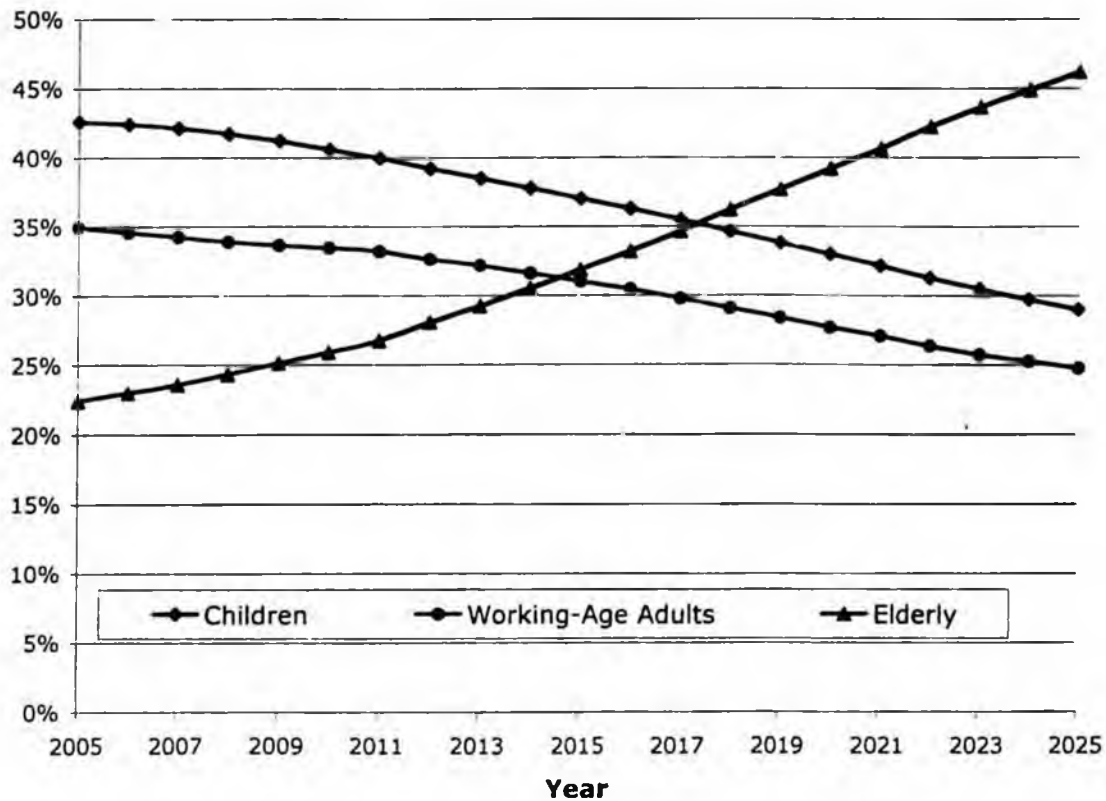
This report is intended to inform ADHSS executives and the Alaska State Legislature of the substantial projected growth in total spending on Alaska's Medicaid program and the projected growth in state matching fund spending on the Medicaid program. The projections of total and state matching fund spending presented in this report assume that the mix of Medicaid services remains constant and that eligibility criteria do not change in the future. These assumptions were necessary to show how Medicaid spending in Alaska would grow under the program's status quo. The statistical models developed for this analysis will be provided to ADHSS staff providing them the ability to update the Medicaid forecast as more timely data become available.

KEY FINDINGS

The Alaska Medicaid program will fundamentally change over the next 20 years from a program that centers on children to one that is dominated by seniors (age 65 and older). This is a result of changes in Alaska's demographic profile, which will include many more seniors. On a per-recipient basis, spending on Medicaid services for seniors is substantially higher than spending for children. As this portion of the population grows rapidly over the next 20 years, Medicaid spending will also grow rapidly. In calendar year 2005, approximately 42% of spending on Medicaid claims was devoted to children and 22% was devoted to seniors. By 2025, we expect that approximately 45% of Medicaid spending will be devoted to seniors and approximately 30% will be devoted to children. As Figure 1 shows, we expect spending on Medicaid claims for the elderly to surpass spending on the working-age population by 2015 and to surpass spending on children by 2018.

Figure 1: Spending on Elderly will Surpass Spending on Other Age Groups by 2018

Forecasted Proportion of Total Spending on Medicaid Claims by Age Group, 2005-2025



Source: Lewin Group & ECONorthwest analysis of Alaska Department of Health and Social Services data.
 Note: Spending projections are on an incurred service basis.

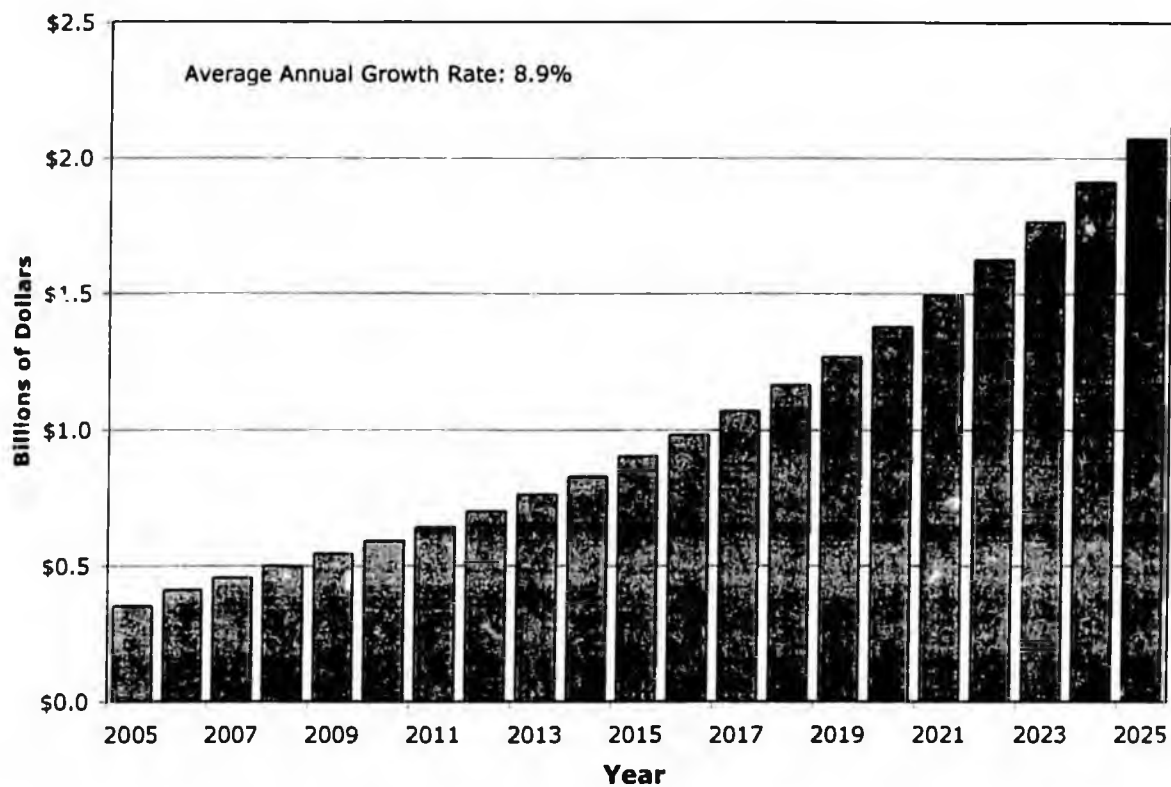
Among the key findings of this report are the following:

- More important than any of the other factors in our projection of the Alaska population, the 65 and older population is projected to grow rapidly, almost tripling from 43,000 to 124,000 between 2005 and 2025.
- Alaska's Medicaid program has been a program dominated by spending on services for children but it will change to one much more focused on the elderly. This change will affect the mix of benefits that Medicaid provides and, more importantly, the cost. Average per-recipient costs of Medicaid services are much higher for the elderly than for children.

- Projected to grow a little faster than the state’s population, we expect Medicaid enrollment—on a full time equivalent basis—to reach 131,000 by 2025 (compared to 95,000 in 2004).
- Total spending on Medicaid claims will increase from approximately \$975 million in CY 2005 to approximately \$4.7 billion in CY 2025.
- An increasing share of the Medicaid burden will be shifted away from the federal government to the state. State matching funds for Medicaid claims are projected to increase at a faster rate than the total Medicaid program—8.9% versus 7.6% for total funds (see Figure 2).

Figure 2: State Matching Fund Spending on Medicaid to Grow 8.9% Annually

Total Forecasted State Matching Funds for Medicaid Claims (in Millions of Dollars), 2005-2025



Source: Lewin Group & ECONorthwest analysis of Alaska Department of Health and Social Services data.
 Note: Spending projections are on an incurred service basis. Not adjusted for inflation.

Table 1 and Table 2 show projected utilization and spending for the five fastest growing Medicaid service categories. With the exception of Vision Services, these categories are also expected to be among the most expensive Medicaid services provided in 2025. In fact, As Table 2 shows, over half of state matching funds will be spent on just two service categories—Personal Care and HCB Waiver. These are two of the most important Medicaid service categories for Alaska’s seniors.

Table 1: Forecast of the 5 Fastest Growing Service Categories by Utilization, 2005-2025

Medicaid Service	Calendar Year					Average Annual % Change (2005-2025)	Rank by Avg. Annual % Change
	2005	2010	2015	2020	2025		
Personal Care	5,029	8,626	14,587	23,617	35,311	9.7%	1
HCB Waiver	4,167	7,004	11,428	17,686	25,263	9.0%	2
Residential Psych./BRS	1,227	1,898	2,766	3,889	5,319	7.3%	3
Therapy/Rehabilitation	9,949	15,240	22,242	31,135	41,529	7.1%	4
Vision	24,288	35,006	47,669	61,614	75,190	5.7%	5
Unduplicated Count of Medicaid Recipients	113,953	130,047	141,184	148,117	150,743	1.4%	NA
Unduplicated Count of Medicaid Enrollees	132,344	151,036	163,971	172,022	175,073	1.4%	NA

Source: Lewin Group & ECONorthwest analysis of Alaska Department of Health and Social Services data.
 Note: In this analysis we define service utilization as the annual unduplicated count of persons who used a particular Medicaid service during the fiscal year

Table 2: Forecast of the 5 Fastest Growing Service Categories by State Matching Funds (In Millions of Dollars), 2005-2025

Medicaid Service	Calendar Year					Avg. Annual % Change (2005-2025)	Rank by Avg. Annual % Change
	2005	2010	2015	2020	2025		
Personal Care	\$48.7	\$105.0	\$200.6	\$367.3	\$629.1	12.8%	1
HCB Waiver	\$49.0	\$100.6	\$181.8	\$316.1	\$520.4	11.8%	2
Residential Psych/BRS	\$27.1	\$52.9	\$88.0	\$141.1	\$221.5	10.5%	3
Therapy/Rehabilitation	\$11.5	\$21.7	\$35.4	\$56.3	\$85.9	10.0%	4
Vision	\$0.4	\$0.8	\$1.2	\$1.7	\$2.4	8.6%	5
All Medicaid Services	\$350	\$591	\$902	\$1,377	\$2,070	8.9%	NA

Source: Lewin Group & ECONorthwest analysis of Alaska Department of Health and Social Services data.
 Note: Dollars are not adjusted for inflation.

- State matching fund spending on claims provided by the Alaska Medicaid program will grow from approximately \$350 million in calendar year 2005 to just over \$2 billion in calendar year 2025.
- The main factors responsible for growth in spending on Medicaid services are population growth, aging of the population, increasing utilization of Medicaid services by enrollees, and growth in the prices of medical services.
- Growth in total (federal and state funds) spending on claims will slow from the pace of the last decade. On an average annual basis, total spending on Medicaid claims is projected to increase by 7.8%. Comparatively, between 1998 and 2004, spending on Medicaid claims increased by 16.6%.
- In calendar year 2005, state-matching fund spending on Medicaid claims was approximately \$500 per Alaskan citizen. We project this will grow to approximately \$2,600 by 2025—an 8.0% average annual growth rate. Comparatively, per-capita personal income in Alaska is projected to grow by less than 3.0% per year over this same period.
- By 2025, more than half of state matching fund spending on Medicaid claims is expected to be for Personal Care and HCB Waiver. In CY 2005 these two service categories account for less than 30% of the state's spending on Medicaid claims.
- Medicaid enrollment will grow at almost twice the annual rate of Alaska's population (1.4% vs. 0.86%).
- For the elderly, Medicaid enrollment is also projected to grow at a greater annual rate than the population (6.3% vs. 5.3%).
- Medicaid utilization will grow by approximately 4.3% per year between 2005 and 2010, but this rate of growth will decline to approximately 2.1% between 2020 and 2025.
- We project relatively slow growth in the enrollment rates of eligibility categories specific to children (e.g. Title XIX Kids), but high rates of growth in eligibility

categories geared more heavily toward the elderly (e.g. Long Term Care Non-Cash).

- The elderly population in Alaska will almost triple between 2005 and 2025 from 43,000 to 124,000; while the child population will remain relatively stable growing only from 205,000 to 245,000 in 20 years.
- The Native population will increase on average by 1.71% per year, while the Non-Native population is expected to increase by only 0.67%. The difference between the two growth rates is expected to result in the Native proportion of the population increasing from approximately 17% in 2005 to approximately 21% by 2025.
- Currently, Natives are almost three times as likely to be enrolled in Medicaid as are non-Natives.
- The enrollment of males into the Medicaid program is projected to grow slightly faster than females. Still, due to greater life expectancies, higher rates of poverty, and pregnancy and related needs, we expect the proportion of females in the Medicaid program to remain higher than males.
- The Anchorage/Mat-Su region, with almost half of all Medicaid enrollees in 2005, is expected to increase its Medicaid population by 2.0% per year—the fastest growth of any of the regions.

Alaska Oil and Gas Activities

William Van Dyke,
Acting Director
Division of Oil and Gas

January 17, 2006



Alaska Department of
**Natural
Resources**

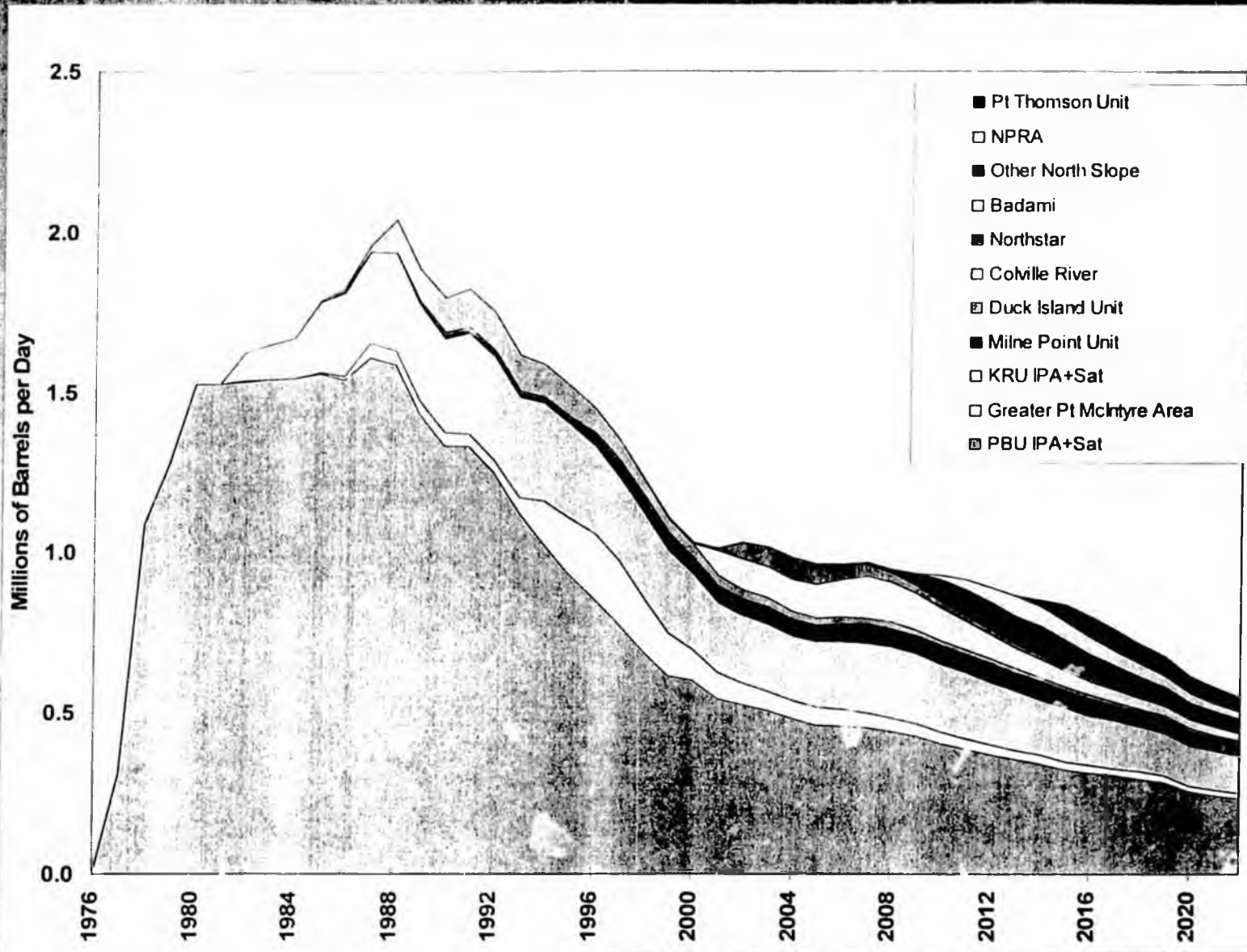
<http://www.dog.dnr.state.ak.us/oil/>

Provided by Senator Dyson

1/18/07

Historic and Projected Oil Production

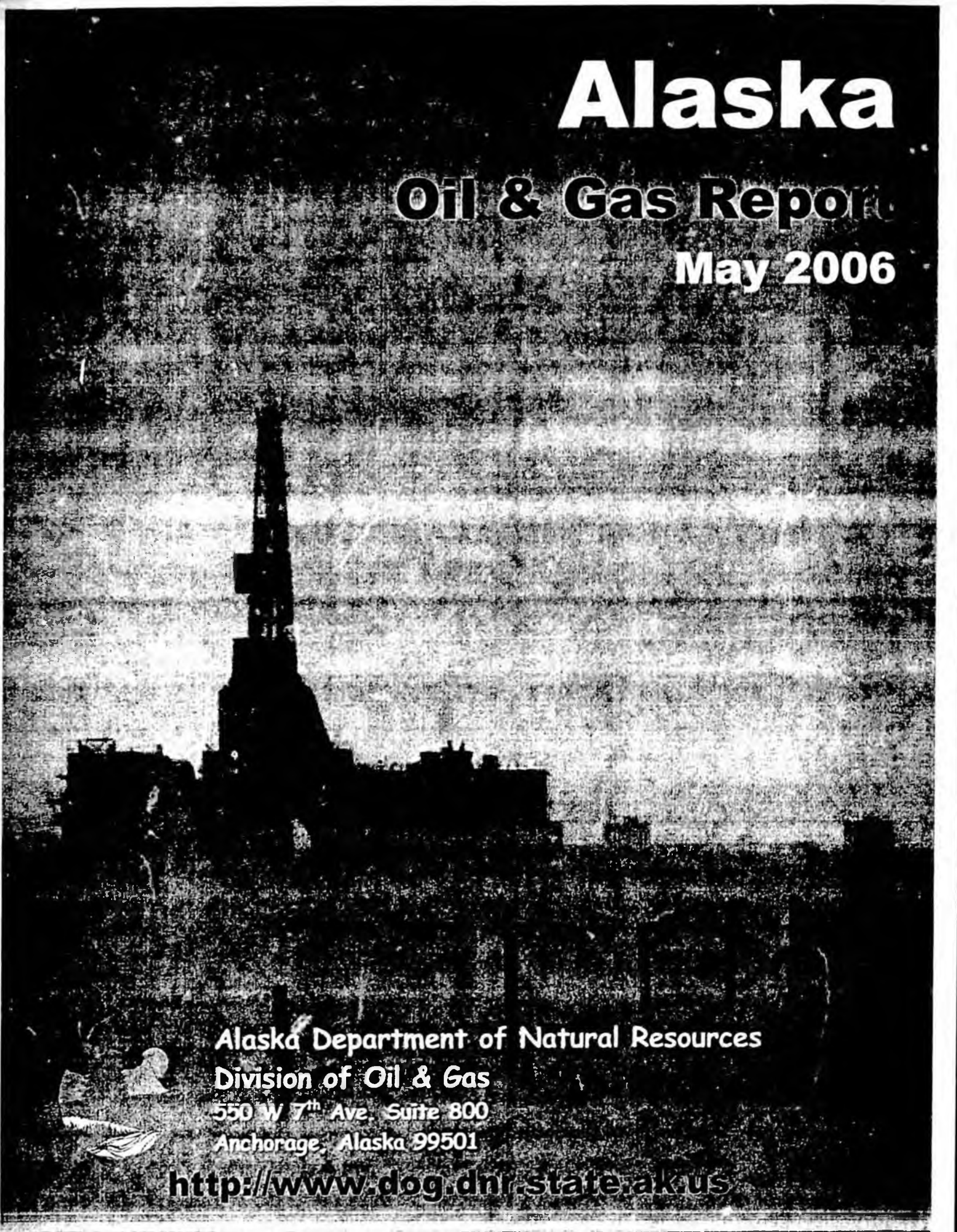
1976-2022



Alaska

Oil & Gas Report

May 2006



Alaska Department of Natural Resources

Division of Oil & Gas

550 W 7th Ave. Suite 800

Anchorage, Alaska 99501

<http://www.dog.dnr.state.ak.us>

Table III.7 Oil Production-Forecast

North Slope (Millions of Barrels per Year)

	Prudhoe Bay Unit											Kuparuk River Unit			NPRA ⁴	North Slope ⁵
	Badami	Colville River	DUG ² Sand	Prudhoe Bay IPAs ³	Prudhoe Bay ³	Greater Pt McIntyre Area ³	PBU IPA+Sat+G ³	Kuparuk IPA	Kuparuk Satellites	KRU IPA+Sat						
1975	-	-	-	0.7	-	-	0.7	-	-	-	-	-	-	-	-	0.7
1976	-	-	-	1.0	-	-	1.0	-	-	-	-	-	-	-	-	1.0
1977	-	-	-	113.2	-	-	113.2	-	-	-	-	-	-	-	-	113.2
1978	-	-	-	397.7	-	-	397.7	-	-	-	-	-	-	-	-	397.7
1979	-	-	-	468.4	-	-	468.4	-	-	-	-	-	-	-	-	468.4
1980	-	-	-	555.6	-	-	555.6	-	-	-	-	-	-	-	-	555.6
1981	-	-	-	555.6	-	0.0	555.6	1.1	-	1.1	-	-	-	-	-	556.7
1982	-	-	-	559.4	-	0.2	559.6	32.4	-	32.4	-	-	-	-	-	592.0
1983	-	-	-	561.1	-	0.1	561.2	39.9	0.0	39.9	-	-	-	-	-	601.1
1984	-	-	-	562.3	-	0.3	562.6	46.1	0.1	46.2	-	-	-	-	-	608.8
1985	-	-	-	568.6	-	1.1	569.7	79.7	0.3	80.0	0.7	-	-	-	-	650.4
1986	-	-	0.0	561.8	-	3.6	565.4	95.0	0.3	95.3	4.7	-	-	-	-	665.3
1987	-	-	8.8	586.7	-	16.7	603.3	103.7	-	103.7	0.0	-	-	-	-	716.8
1988	-	-	-	578.7	-	18.1	594.8	111.1	-	111.1	-	-	-	-	-	743.9
1989	-	-	36.9	522.9	-	14.8	537.7	109.8	-	109.8	3.7	-	-	-	-	688.1
1990	-	-	38.6	486.2	-	15.9	502.1	107.2	-	107.2	6.8	-	-	-	-	654.5
1991	-	-	42.5	486.7	-	14.7	501.4	113.6	-	113.6	7.5	-	-	-	-	664.9
1992	-	-	43.1	456.5	-	14.0	470.5	118.5	-	118.5	6.9	-	-	-	-	639.0
1993	-	-	40.8	409.7	-	18.5	428.2	115.2	-	115.2	6.8	-	-	-	-	590.9
1994	-	-	35.8	374.3	-	50.7	425.0	111.8	-	111.8	6.7	-	-	-	-	679.3
1995	-	-	34.4	340.4	-	65.2	405.6	107.0	-	107.0	8.7	-	-	-	-	555.7
1996	-	-	27.7	312.6	-	75.6	388.2	99.5	-	99.5	14.1	-	-	-	-	526.4
1997	-	-	22.9	284.0	-	73.7	357.7	96.0	0.0	96.0	19.0	-	-	-	-	465.6
1998	0.7	-	18.6	252.8	0.081	61.9	314.8	91.7	4.6	96.3	20.4	-	-	-	-	450.8
1999	1.2	-	15.7	223.8	1.723	47.5	273.0	82.4	12.7	95.0	19.7	-	-	-	-	404.5
2000	0.9	2.2	13.5	217.2	2.117	36.1	255.4	74.1	12.2	86.3	19.1	-	-	-	-	377.4
2001	0.7	32.0	1.3	11.8	194.2	4.808	29.6	228.6	68.3	11.5	79.8	19.3	-	-	-	373.4
2002	0.6	35.0	17.9	10.3	177.6	14.856	24.6	217.1	58.9	18.5	77.4	18.7	-	-	-	377.0
2003	0.3	35.6	23.0	10.6	168.3	18.582	22.3	207.2	58.5	18.9	77.4	18.7	-	-	-	372.7
2004	-	36.1	25.1	8.5	153.2	16.973	21.6	191.8	53.2	18.6	71.8	18.7	-	-	-	352.0
2005	0.0	43.8	22.4	7.5	140.0	17.1	18.7	175.7	50.4	15.9	66.3	18.0	-	-	-	331.8
2006	0.4	40.1	18.1	6.5	135.5	18.1	17.1	170.8	47.4	18.5	65.9	16.1	-	-	-	317.8
2007	0.4	46.1	14.5	5.7	131.1	20.3	15.8	167.0	44.5	22.2	66.7	16.0	-	2.1	-	318.5
2008	0.4	49.2	11.6	5.3	126.4	23.1	14.6	164.1	42.3	24.2	66.8	15.9	-	7.9	-	321.1
2009	0.4	48.4	9.3	5.2	122.4	25.1	13.7	161.2	40.3	25.9	66.3	16.1	-	15.2	-	322.0
2010	0.2	44.7	7.4	5.2	116.6	25.7	12.9	155.1	38.6	27.5	66.1	16.0	-	25.5	4.3	324.3
2011	-	38.4	6.0	5.2	112.2	25.0	12.3	149.3	37.0	28.9	65.9	15.5	-	33.3	11.1	324.8
2012	-	30.9	5.0	5.3	108.1	23.5	11.5	143.1	35.5	30.1	65.6	15.0	-	33.7	17.2	315.8
2013	-	25.0	4.2	5.4	104.5	21.8	11.0	137.2	34.1	30.8	65.0	14.6	-	29.5	23.1	304.1
2014	-	21.1	3.7	5.5	101.1	20.3	10.5	131.9	32.9	31.2	64.1	14.6	-	28.1	24.4	293.4
2015	-	18.6	3.3	5.7	96.3	18.9	10.0	125.2	31.8	31.2	63.0	14.4	14.9	28.6	21.9	295.6
2016	-	16.7	3.0	5.9	93.5	17.6	9.6	120.8	30.7	29.3	60.0	14.4	24.2	29.8	19.4	294.1
2017	-	14.7	2.7	5.9	92.3	16.5	9.2	118.0	29.7	26.5	56.2	14.8	22.0	30.1	17.1	281.7
2018	-	12.9	2.5	5.7	90.5	15.5	8.8	114.8	28.8	24.0	52.7	15.5	20.1	28.0	15.1	267.2
2019	-	11.5	2.3	5.4	87.7	14.5	8.5	110.6	27.9	21.6	49.6	16.2	18.3	25.0	13.4	252.2
2020	-	10.4	2.2	4.9	77.5	13.5	8.2	99.2	27.1	19.5	46.7	16.9	16.6	22.1	11.8	230.9
2021	-	9.4	2.0	4.5	74.8	12.6	7.9	95.3	26.4	17.7	44.0	16.5	15.1	19.7	10.5	217.0
2022	-	8.4	1.9	4.0	72.2	11.8	7.6	91.6	25.7	16.0	41.6	15.6	13.8	17.6	9.3	203.7
2023	-	7.6	1.8	3.6	66.7	11.1	7.3	88.1	25.0	14.4	39.4	14.6	12.5	15.7	8.2	191.5
2024	-	6.9	1.6	2.9	67.4	10.4	7.1	84.8	24.4	13.1	37.4	13.8	11.4	14.0	7.3	180.1
2025	-	6.3	1.5	2.3	65.2	9.7	6.9	81.8	23.8	11.8	35.6	12.8	10.4	12.5	6.4	169.6

Notes

- ¹ Actual reported production from AOGCC Monthly Production Reports through 2005. Figures include NGLs. Forecast production is based on sum of remaining recoverable reserves. Forecast horizon is 2006-2035, shown to 2025 in table and related chart.
- ² Oil Rim and Gas Cap.
- ³ Includes Lisburne, Niakuk, North Prudhoe Bay, Point McIntyre PA, and West Beach.
- ⁴ Includes Liberty and other known onshore and offshore.
- ⁵ Based on U.S.G.S. estimates.

Sources: Alaska Oil and Gas Conservation Commission, "Alaska Production Summary by Field and Pool" (monthly reports) and Alaska Department of Revenue (forecast)

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State and Local Government Debt Soars

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Published: The Heartland Institute 09/12/2006

It is well known that the federal government is amassing large amounts of debt, but state and local governments are piling up debt as well.

Total state and local debt was stable during the 1990s but soared from \$1.19 trillion in 2000 to \$1.85 trillion by 2005, an increase of 55 percent. About 39 percent of the total is state debt, and 61 percent is local debt.

Most state and local debt takes the form of long-term bonds ("municipal bonds"). Issues of municipal bonds raised an annual average of \$230 billion in new funds between 2001 and 2005, up sharply from the \$152 billion average between 1996 and 2000.

Future Revenues Become Debts

There are two main types of municipal bonds: General obligation (GO) bonds and revenue bonds. GO bonds make up about 39 percent of long-term municipal debt, and revenue bonds compose 61 percent.

GO bonds are backed by general taxation and are often subject to constitutional limits. Issues of GO bonds usually need to be approved by voters.

Revenue bonds are backed by specific sources of revenue and are usually subject to fewer restrictions. They are financed by receipts of future taxes, fees, lease payments, federal grants, lottery earnings, or tobacco settlement payments. The idea is to securitize expected streams of cash to allow state and local officials to spend now rather than later. The trend to securitize and spend is called "innovative finance" in state budget circles.

An industry journal, *The Bond Buyer*, is full of stories on the latest Wall Street methods to help government officials put their jurisdictions further into debt. A growing trend is to securitize future federal aid for highways, housing, and other items in "grant anticipation" debt.

Federal aid has long spurred overspending by the states, but such debt innovation is exacerbating the problem. Recent federal legislation has created new ways for states to go further into debt, such as the creation of three types of municipal "tax credit bonds."

Policies Favor Govt. Debt

Interest payments on municipal bonds are generally exempt from the federal income tax. State and local debt is thus tax-favored over private debt, creating an economic distortion. As a result, debt issued to finance government schools, airports, parking lots, and other facilities is favored

over debt to finance similar private facilities. Thus, tax law encourages monopoly government ownership and is prejudiced against private-sector competition and innovation.

The tax advantage for municipal bonds also creates an incentive for private groups to lobby government officials to issue debt on their behalf. In 1986, Congress tried to clamp down on this problem by imposing limits on the issuance of tax-exempt "private activity bonds." But in a series of tax bills since then, Congress has reversed course and embraced economic micromanagement by creating additional types of tax-favored private purpose debt.

Census Bureau data show "public debt for private purposes" is 23 percent of total municipal debt, but the efficient amount of such debt would be zero percent. It makes no sense, for example, that dozens of major sports stadiums have been built with tax-exempt municipal debt while private projects that are the real backbone of the economy, such as oil refineries, must be built on taxable finance.

Debt Has Pitfalls

Governments can finance capital projects by issuing bonds or by using current revenues, called pay-as-you-go financing. For state governments, most capital investment is funded on a pay-as-you-go basis.

Governments in a few states, such as Idaho and Wyoming, issue very little debt and seem to do just fine.

In theory, it might make sense for governments to finance capital projects with debt, as private businesses often do. But in practice, when politicians are given the power to issue debt, they have an incentive to issue far too much because it allows spending without the political constraint of having to tax current voters. The private interests that benefit from spending encourage officials to issue excess debt, and they push for passage of bond issues at the ballot box in voter referenda.

From the perspective of the average taxpayer, debt financing should be minimized. It is more costly than pay-as-you-go financing because of the interest payments incurred. It also comes with an overhead cost in the form of the large municipal bond industry, which employs tens of thousands of lawyers and finance experts in underwriting, trading, advising, bond insurance, and related Wall Street activities.

Another problem with debt is that mixing big government with big finance usually causes corruption. The municipal bond industry has had many scandals. In "pay-to-play" schemes, bond underwriters use bribes or campaign contributions to win bond business from state and local officials. There are federal laws to prevent such abuses, but violations are common.

A recent pay-to-play scandal in Philadelphia resulted in criminal sanctions against the city's treasurer and allegations that the mayor's office paid out big fees to politically connected bond firms that gave money in exchange for contracts to arrange big debt issues.

Debt Hides Government Costs

High levels of debt make government finances less transparent to citizens. People don't recognize the high costs of projects that officials are pursuing if they don't feel the bite of current taxes. And if concerned citizens look into their government's debt situation, they may find it very difficult to understand. A recent "debt primer" by the State of California is 606 pages long.

Perhaps the best reason to start reducing debt is that large financial burdens are looming over the states. Medicaid costs are growing rapidly and breaking state budgets. Pension plans for

state and local employees have huge funding shortfalls that could total \$700 billion nationwide, according to Barclays Global Investors.

Even more costly may be the generous retirement health care plans promised to state and local workers. An estimate by Mercer Human Resources put the unfunded costs of those plans at \$1 trillion. Finally, disasters such as hurricanes might impose added budget stress on the states in the future.

To budget in a conservative manner, debt loads should be reduced to create room for such contingencies.

Right Time Is Now

State and local tax revenues are currently growing strongly, so now is a good time to start reducing debt loads. There is no particular optimal level of government debt, but there should be a strong bias in favor of pay-as-you-go financing for infrastructure because it is cheaper, more transparent, and more prudent given the large costs that face the states in coming years.

Routine capital projects, such as school construction, should be financed on a pay-as-you-go basis. Debt financing is more appropriate for large and unforeseen needs, such as rebuilding after disasters.

State and local governments should cease issuing debt for private purposes. Investments that generate streams of income, such as stadiums, airports, and parking lots should be privatized, not subsidized by issuance of government debt. The federal government should repeal the tax exemption for municipal bond interest, perhaps in exchange for reducing overall tax rates on savings.

For their part, citizens need to remember that government debt simply represents deferred taxes and charges, and that they will have to bear the burden sooner or later.

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Saving 20% by 2020: EU Unveils Action Plan on Energy Efficiency

Delegation of the European Commission to the U.S. 10/19/2006

URL: http://www.rigzone.com/news/article.asp?a_id=37293

As a major step toward meeting the unprecedented energy challenges facing the EU, the European Commission today presented its Energy Efficiency Action Plan. The Plan contains a package of priority measures covering a wide range of cost-effective energy efficiency initiatives.

"Europeans need to save energy. Europe wastes at least 20% of the energy it uses. By saving energy, Europe will help address climate change, as well as its rising consumption, and its dependence on fossil fuels imported from outside the Union's borders," said Energy Commissioner Andris Piebalgs. "Energy efficiency is crucial for Europe: If we take action now, the direct cost of our energy consumption could be reduced by more than euro 100 billion annually by 2020; around 780 million tons of CO2 will also be avoided yearly."

The plan calls for actions to make energy appliances, buildings, transport and energy generation more efficient. It proposes stringent new energy efficiency standards, promotion of energy services, and specific financing mechanisms to support more energy efficient products. The Commission will furthermore establish a Covenant of Mayors of the 20-30 most pioneering cities in Europe and will propose an international agreement on energy efficiency. Altogether the plan includes over 75 measures.

The Action Plan, which will be implemented over the next six years, is in response to the urgent call from Heads of State and Government at the Spring European Council this year for a realistic Energy Efficiency strategy. The plan underlines the importance of minimum energy performance standards for a wide range of appliances and equipment (from household goods such as fridges and air conditioners to industrial pumps and fans), and for buildings and energy services. In combination with performance ratings and labeling schemes, minimum performance standards represent a powerful tool for removing inefficient products from the market, informing consumers of the most efficient products and transforming the market to make it more energy efficient. Minimum performance requirements for new and renovated buildings will be developed. Very low energy consumption buildings (or passive houses) will also be promoted.

The plan emphasizes the considerable potential for reducing losses in the generation, transmission and distribution of electricity. The Action Plan proposes targeted instruments to improve the efficiency of both new and existing generation capacity and to reduce transmission and distribution losses. A comprehensive set of measures for improving energy efficiency in the area of transport is put forward. The plan recognizes that energy savings can be achieved, in particular, by ensuring fuel efficiency of cars, developing markets for cleaner vehicles, ensuring proper tire pressure and by improving the efficiency of urban, rail, maritime and aviation transport systems. The plan recognizes the importance of changing transportation behavior. The Action Plan also calls for appropriate and predictable price signals, essential for improving energy efficiency and overall economic performance. The plan also contains a number of additional proposals to raise energy efficiency awareness, such as education and training. Finally, the plan emphasizes the urgent need for energy efficiency issues to be addressed on a global level through international partnerships.

The Action Plan on Energy Efficiency, when fully implemented, can thus improve the Union's competitiveness, improve the living standards of its citizens, boost employment and increase exports of new, energy-efficient technology. On an individual level, small changes in our energy consumption patterns will mean saving money, improving the environment and doing our share for our common European goals.

JOHN E. PETERSEN

Seat-Belt Budgeting



The pilot intones the familiar phrase: "Put on your seat belts, we've got bumpy weather ahead." It's a good time for states to be thinking about that admonition. After a few years of smooth flying through the recovery in the national economy, states need to be asking whether their budgets

and fiscal systems are prepared for an economic downturn.

The states are currently being kept aloft by revenue systems that have undergone restructuring during the past decade. They are now much more sensitive to changes in personal and corporate income. During good years, substantial corporate profits and capital gains bring in slugs of money. But this is followed by droughts when financial markets, business earnings and incomes turn down. Even the sales tax runs on a much more volatile mixture, with higher tax rates spitting out revenues on an ever-narrowing base. So, when incomes and expenditures change—up or down—the resulting bounce in state revenues is much greater. The shallow but prolonged recessionary conditions of 2001 through 2003 reflected this: State income tax collections in 2003 fell by about \$24 billion from their peak in 2000.

State spending is also changing. Increasingly, it is driven by the needs of the very old, the very young and the less affluent. The major cost driver has been the Medicaid program, which has grown explosively and now accounts for one-quarter of state spending. The long-term prognosis is not good: State populations are aging, and the cost of health care continues to rise more rapidly than prices in general. Medicaid costs are projected to go up 8 percent a year over the next decade. In good years, state revenue systems meet that mark but not in bad years.

Furthermore, after a decade of subdued inflation, the prices that governments have to pay are growing. The overall price index for government spending, heavily influenced by the growth in the costs of medical care, is going up faster than the general price index. Thus, states in fiscal year 2006 increased spending by 7.6 percent, which appears pretty healthy until you crank in that the state and local price deflator has been rising by 6 percent recently.

What is happening on the inflation front is of critical importance in anticipating fiscal storms. Concern rotates around the impact of higher oil prices and interest rates on the state government sector. A few states—Alaska, Oklahoma, Wyoming—have benefited from higher prices with higher tax revenues, but most are burdened, both directly as

the cost of fuel and energy rises and indirectly as increasing costs erode the buying power of consumers. The extra \$10 to \$20 per week constituents spend on filling up their car means less money to spend on other things. Since most gasoline is taxed per gallon, the higher prices don't help gas tax revenues; but the fewer dollars spent on other things does reduce state sales tax revenues.

Add to that the leveling off of real estate values. Housing starts are at their lowest levels in 15 years, and home listings are up by a factor of three in many markets. Local government finances, which held up well in the early part of the decade thanks to rising property values, may not do so this time around. The sagging real estate market may, in fact, trigger a downturn.

Adding to the uncertainties is the continuing malaise in pension finances. While better times and improved investment results brought some improvement to pension finances the past couple of years, the overhang of unfunded liabilities is unlikely to be dissolved by booming financial markets. And that doesn't even count in the latest fiscal joker—the unfunded employee retirement health benefits.

Nonetheless, state budgets for fiscal 2007 are calling for modest increases in spending and, after an assortment of tax cuts, a reduction in reserves. According to the National Association of State Budget Officers, state fund balances including rainy day funds, were rebuilt to 8.7 percent of expenditures by the end of 2005. Now, they are slated to drop to about 7.9 percent, with no growth foreseen in dollar reserves. Lest we forget, states ate a hole in their reserves in the recent recession—when those reserves were at 10.4 percent of expenditures. The windfalls from the tobacco settlement and the \$20 billion in federal payments that were tied to the tax reduction act of 2003 are unlikely to be repeated. Thus, states approach future uncertainties with dwindling reserves, which is likely to mean quicker and deeper cutbacks as deficits emerge.

A downturn is not yet on the horizon, but a dose of fiscal prudence seems to be in order. Check those seat belts!

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There's economic turbulence ahead that state budget and fiscal systems may not weather well.

POTOMAC CHRONICLE



Fiscal Candor

A new report tells governments something they need to know—but would rather not hear.

When it comes to tilting at windmills, you've got to hand it to the National Academy of Public Administration, a rabbit warren of policy wonks that still clings tenaciously to the notion that complex issues of long-range importance to our country deserve serious analysis, debate and discussion.

NAPA's latest effort actually manages to tilt at two windmills at once: It explores the intergovernmental implications of long-range tax policy. If there's one subject the political leadership of this country likes discussing less than long-range tax policy, it's the intergovernmental implications of anything.

But NAPA has taken on the challenge in a just-released report based on the proceedings from a one-day forum that brought together a broad range of scholars and practitioners to discuss the importance of coordinating long-range revenue policies among and between layers of government.

Among the assembled were G. William Hoagland, top adviser to Senate Majority Leader Bill Frist; Katherine Baicker, of the President's Council of Economic Advisers; Mick Cornett, the mayor of Oklahoma City; and Jay Rising, the Michigan state treasurer. Hoagland offered one of the more intriguing proposals of the day: He suggested that the President should regularly include in his budget a statement on its intergovernmental fiscal impacts.

The group managed to lay out a pretty convincing case for why we

ought to attempt a more sophisticated approach to long-range tax policy. It came to an agreement that we all should be worried about the long range fiscal health of the United States, and that no single layer of government is going to be able to deal with all the taxation and spending challenges.

About the only time Congress gets close to introspection on these subjects is when it tries to preempt state and local powers to collect taxes across state lines. It did that in a piece of legislation considered this spring, one that, if enacted, could cost state and local governments \$1 billion in the first year and \$3 billion per year by 2011. It's just the sort of blunt-instrument answer to complicated fiscal questions that the NAPA report warns against trying.

Rather than play preemption games, the NAPA panel concluded, legislators at all levels of government need to be thinking about such factors as the shifting political and economic climate across the globe; the aging U.S. population (and the health care cost implications thereof); our aging infrastructure; a ballooning federal debt; and rapidly rising public pension obligations at the state and local level.

The good news about the NAPA forum and the resulting report is that a group of such ideological and professional diversity managed to reach a fair amount of consensus in just one day of deliberation. The bad news is that it's not likely to happen again; NAPA doesn't have the resources to continue such quixotic enterprises on

anything like an ongoing basis. And the report makes for such sobering—even depressing—reading that it's unlikely to get much circulation outside a dwindling handful of hard-core intergovernmental specialists.

So very few citizens, even those who try to keep themselves informed on fiscal questions, are likely ever to come upon the warning of the NAPA forum that "fragmented and inconsistent tax systems among the states or even nations will increasingly serve to undermine economic productivity and growth." Or the idea that to get back to real fiscal health—and to maintain it—will require tax-policy revisions on a "whole of government basis," involving "a need to recast and update tax systems at all levels of government to be better aligned with trends in a rapidly globalizing and changing economy."

In the end, there's little reason to think that the eminently sensible NAPA recommendations will become part of the national political discussion anytime soon. Still, it would be nice to figure out a way to hammer home such a message with some kind of consistency. The mere fact that NAPA was able to generate a reasonable amount of unity among a group of high-level federal, state and local officials—even for just one day—makes it an exercise that would be well worth repeating.

—Jonathan Walters

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Provided by Senator Dys... 2/18/07