

LEGISLATIVE FINANCE-HOUSE / SENATE FINANCE COMM. FILES 8879

HJR 38 cont. - 66

421

12

UNALASKA

Population:

1,331	1987	DCRA Municipal and Regional Assistance
1,922	1986	DCRA Municipal and Regional Assistance
1,331	1985	Alaska State Demographer
1,322	1980	1980 Census

Housing Programs:

The Aleutian Housing Authority reported 20 Mutual Help homes in December 1987.

BARROW

Population:

3,075	1987	DCRA Municipal and Regional Assistance
3,075	1986	DCRA Municipal and Regional Assistance
3,075	1985	Alaska State Demographer
2,267	1980	1980 Census

Housing Programs:

The North Slope Borough Housing Authority had 22 families on the Barrow waiting list in December 1987.

BETHEL

Population:

4,462	1987	DCRA Municipal and Regional Assistance
4,462	1986	DCRA Municipal and Regional Assistance
4,006	1985	Alaska State Demographer
3,576	1980	1980 Census

HAINES

Population:

1,151	1985	Alaska State Demographer
993	1980	1980 Census

METLAKATLA

Population:

1,270	1985	Alaska State Demographer
1,056	1980	1980 Census

Housing Programs:

The Metlakatla Housing Authority reported 133 housing units under their program as of December 1987.

WRANGELL

Population:

3,112	1987	DCRA Municipal and Regional Assistance
2,376	1986	DCRA Municipal and Regional Assistance
2,387	1985	Alaska State Demographer
2,184	1980	1980 Census

Housing Programs:

There were 33 applicants on file with the Tlingit-Haida Regional Housing Authority as of December 1987.

DELTA JUNCTION

Population:

1,207	1987	DCRA Municipal and Regional Assistance
1,207	1986	DCRA Municipal and Regional Assistance
1,299	1985	Alaska State Demographer
945	1980	1980 Census

NORTH POLE

Population:

1,640	1987	DCRA Municipal and Regional Assistance
1,640	1986	DCRA Municipal and Regional Assistance
1,640	1985	Alaska State Demographer
724	1980	1980 Census

Housing Stock:

According to the Fairbanks - North Star Borough, there were 663 housing units in 1985.

APPENDIX B

THE CH2M HILL STUDY OF 1983

The Purpose:

The Alaskan Statewide Housing Needs Study was done in association with ISER and was designed to "provide realistic policy and program alternatives based on sound statewide housing need data, an understanding of the housing delivery characteristics and cultural diversity."

The Community Categories:

The study begins by grouping Alaskan communities into four categories for purposes of analysis: metropolitan, urban rural and remote. Metropolitan is the Municipality of Anchorage only; urban includes the Fairbanks/North Star Borough, Juneau Borough, Kenai, Ketchikan Borough, Kodiak and the Sitka Borough; rural is the southeast quarter of Alaska and a few additional communities; and remote is the remainder of Alaska. These categories were chosen based on population and transportation and are intended to coincide with census definitions. No information was provided on a village level.

Major Difference between Studies:

This new, 1988 Alaska Rural Housing Needs Assessment Study was requested by the State of Alaska to exclude information within the city limits of Anchorage, Juneau, Fairbanks, Sitka and Ketchikan. After excluding these communities, Alaska was geographically divided into twelve regions based on correspondence with relevant information and physical conditions. These include regional housing authority boundaries, native corporation boundaries, weather conditions, native cultural group locations, and census areas. These regions were then broken down further based on population. The result is a much more useful categorization for housing assessment purposes.

The Analysis:

The CH2M Hill study concentrated heavily on analyzing housing programs available at the time and the housing delivery system in Alaska. The 1988 Rural Housing Needs Assessment Study assesses housing needs regardless of what programs or funding is available to help those in need.

The Numeric Data:

The most current and readily available numeric data for the CH2M Hill Study was the 1980 Census results. Consequently the researchers used that information and presented it in various summary tables based on the community categorizations they defined. Where relevant, these results were compared to 1970 Census result to demonstrate trends in statewide housing conditions.

This 1988 study presents information which was obtained during the course of the study by primary and secondary research methods. When current (since 1985) data was available, the source was incorporated into the data bank. If the needed information did not exist, surveys were taken to fill in the missing data. The analysis of these data is done on several levels: village region, and statewide.

BIBLIOGRAPHY

Information Sources Used:

BIA CONSOLIDATED HOUSING INVENTORY 1987. The Bureau of Indian Affairs conducts a housing inventory of Indian homes in Alaska every two years, as required by the federal government.

Years Covered: 1985 and 1987
Geographic Coverage: statewide
Volume of Records: 176 communities

Scope of Record Sets: The summary report indicates, on a village level, the following information about native housing in Alaska:

Total Number of Existing Housing Units	(Indian housing only)
Housing Units in Standard Condition	
Housing Units in Substandard Condition	
Total Housing Units Needing Renovation	(house can be repaired)
Total Housing Units Needing Replacement	(house can not be repaired)
Families Needing Housing	(families without a house)
Total New Housing Units Required	(total houses needing to be built)

The information is gathered every other year using the same survey form but different interviewers. The survey is taken door-to-door and requires a great deal of personal judgment by the interviewer. Detailed questions regarding the condition and aspects of living in the home constitute most of the survey. The counting and summarization of results are all done manually and typed.

Form of documentation: 1 report every other year; hard copies only
Location of documentation: Bureau of Indian Affairs
Contact Person: Herbert Hope

COMMUNITY SANITATION FACILITIES INVENTORY: The report is updated annually at Public Health Service.

Years Covered: 1987
Last Updated: August 1987
Geographic Coverage: statewide
Volume of Records: 208 communities

Scope of Record Sets: The printout report contains the following information on a community level: the population (undisclosed year), respective native regional corporation, description of the water and sewer systems in use, and the number of households served by the system.

Form of documentation: computer printout
Location of documentation: Public Health Service
Contact Person: James Crum and Lewis Fox

FY-88 REGIONAL PRIORITIES PL 86-121: The Public Health Service must prioritize Alaskan communities in terms of water and sewer system needs to determine where improvements will be made first. This process requires a review of the Community Sanitation Facilities Inventory and a Community Environmental Health Profile and Priority Projection.

Years Covered: 1988
Last Updated: December 1987
Geographic Coverage: statewide
Volume of Records: 107 communities

Scope of Record Sets: Lists the deficiency level of each community. The levels are 1 through 5, where 5 is the highest deficiency

Form of documentation: single sheet of paper
Location of documentation: Public Health Service
Contact Person: James Crum and Lewis Fox

COMMUNITY ENVIRONMENTAL HEALTH PROFILES: The Public Health Service maintains files on each community. These files describe in detail the sewer and water systems in use.

Geographic Coverage: statewide
Volume of Records: estimated 210 communities

Scope of Record Sets: In paragraph form, describes the sewer and water systems in use for the community. Additional information is included in some files such as, population, number of residential structures, number of empty homes, etc.

Form of documentation: stored in file cabinets
Location of documentation: Public Health Service
Contact Person: James Crum and Lewis Fox

1986 ALASKA UTILITIES AVERAGE ANNUAL ENERGY USE AND BILLINGS CHARGES:

Years Covered: 1986
Last Updated: November 1987
Geographic Coverage: statewide
Volume of Records: 138 communities

Scope of Record Sets: This report includes the following information for each community: geographic region, utility company, and a breakdown of the Use (KWH/Customer), Bill (\$/Customer), and Charge (Cents/KWH) for Residential, Commercial/Industrial, Other, and Total Customers. The report divides the State into five geographic regions: Southeast, Southcentral, Yukon, Arctic/Northwest, and Southwest. Regional averages are also reported.

Form of documentation: computer printout
Location of documentation: Alaska Power Authority

ACTIVE PROJECTS ACCORDING TO HOUSING AUTHORITIES. This computer generated report is the complete listing of all HUD projects in the State of Alaska. A project is a group of homes built in a community in one year. A single community may have had more than one project, each built in a different year.

Years Covered: 1952 through 1987
Last Updated: November 1987
Geographic Coverage: statewide
Volume of Records: 352 projects

Scope of Record Sets: The report describes the following information for each project: community, HUD program type, total number of units built, number of elderly units, year completed, and current project phase. If the project is in the "application" phase and funding becomes available within two years, the project will be completed, otherwise the application becomes outdated and is returned to the housing authority. Please note that this report does not include the HUD structures whose ownership transferred from HUD to the residents per a federal court decision.

Form of documentation: computer printout
Location of documentation: Housing and Urban Development
Contact Person: Arlene Patton and Nadene Schliebe

PRE-1984 COMMUNITIES WEATHERIZED SUMMARY REPORT: This report is no longer published. In 1984, a new summary report, the Community Priority Listing, was developed that summarizes the Weatherization Section's list of weatherized communities and is submitted to the Department of Energy (DOE).

Years Covered: 1977 through 1984
Last Updated: 1984
Geographic Coverage: statewide

Scope of Record Sets: The document includes the following information on a community or borough level: election district, estimated number of homes (1980 Census), estimated number of homes that qualify for federal assistance, number of homes weatherized through federal assistance, estimated number of homes that qualify for state assistance, number of homes weatherized through state assistance, year(s) the community was weatherized. The number of homes that qualify for federal or state assistance is a direct reflection of the qualifying requirements for the programs available between 1977 and 1984. Federally or state assisted refers to the funding source and not the agency which supervised the weatherization process. Several of the larger communities were weatherized in more than one year.

Form of documentation: hard copy only
Location of documentation: State DCRA Weatherization Section
Contact Person: John Munson and Toy Owen

COMMUNITY PRIORITY LISTING: In 1984, this priority listing was developed for the State Weatherization Section in conjunction with ISER. The list is now used as an exhibit in RFPs issued by the State Weatherization Section.

Years Covered: 1984 through 1987 (RFP 88-0214, Exhibit IV)
Last Updated: November 1987
Geographic Coverage: statewide
Volume of Records: 275 communities

Scope of Record Sets: The list describes the following for each community: the Weatherization region, community completed or not, the percent of total homes which have not been weatherized, the index number, region factor, and date of weatherization contract. The index number for a community is calculated using a formula and indicates the community's priority. The community which has never been completed (weatherized) and has the highest index, is ranked the highest priority.

Form of documentation: computer printout
Location of documentation: State DCRA Weatherization Section
Contact Person: John Munson and Toy Owen

RURALCAP WEATHERIZATION CLIENT LISTINGS: This report form was terminated when individual client file information was entered into the computer system.

Years Covered: 1976 through 1983
Last Updated: 1983
Geographic Coverage: statewide

Scope of Record Sets: Each client is listed by weatherization project year, community of residence, project number, and client first and last name. In addition, some 1982 listings include number of household residents, address, and funding source.

Form of documentation: computer printout
Location of documentation: Rural Alaska Community Action Program
Contact Person: Glenn Collver and Vince Holton

RURAL CAP CLIENT FILES: There is a client file for every home that has been weatherized by Rural CAP. The information obtained for each file has varied with the years; however, the State Weatherization Section does require the contractor to provide a monthly Completions List which contains required information on a household level. Rural CAP has kept a more detailed data base than required by the State, as described below.

Years Covered: 1977 through 1987
Last Updated: new client files as projects are completed
Geographic Coverage:
Volume of Records: For 1984-1987 1211 households (36 communities)

Scope of Record Sets: All client files have basic information regarding household members and building structure, but only the years 1984-1987 have client files which include much more detailed information on household members, building condition (before and after weatherization), and costs associated with weatherization. The 1984-1987 information is as follows: State Weatherization region; village; project number; client number; client name; mailing address; zip code; phone number; survey date; work starting and completion date; project funding source; BTUs saved; number in household; number of elderly, handicapped, and minorities; rent or own; annual household income; head of household's age; square footage of dwelling; type of dwelling; number of adults; number under 18 years old; surveyer's name; fuel cost; fuel type; total project cost to-date; if the residents helped weatherize; and if any member of the household is on AFDC, SSI, Food Stamps, other aid, or unemployment insurance.

Form of documentation: 1977-1987 hard copies in file cabinets
1984-1987 computer disk and summary printout
Location of documentation: Rural Alaska Community Action Program
Contact Person: Glenn Collver and Vince Holton

SUPER INSULATED HOMES CLIENT FILES: The client files at SIH are complete for reporting to the Weatherization Section, but very little supplementary information is gathered.

Years Covered: 1984-1987
Last Updated: new client files as projects are completed
Geographic Coverage: statewide

Scope of Record Sets: The client files contain various sorts of information depending on the years. However, SIH has recently begun computerizing their client files. So far, only two communities are entered into their system, but from this date forward, the following information will be available for every household SIH weatherizes: client name, address, and phone number; job number; house square footage; fuel type and cost; list of materials used, total cost; and if there is a smoke detector.

Form of documentation: 1985-1987 hard copies
part of 1987, computer printouts
Location of documentation: Super Insulated Homes, Inc.
Contact Person: Robert Grove

TANANA CHIEFS CONFERENCE CLIENT FILES: (These files have not yet been evaluated, but they have been received)

Last Updated: new client files as projects are completed
Geographic Coverage: DOYON Region
Volume of Records: 1211 homes; 4853 Residents

Scope of Record Sets: Comparable to Rural CAP Files

Form of documentation: computer printout and summary report
Location of documentation: Tanana Chiefs Conference

ALASKA COMMUNITY DEVELOPMENT CORPORATION CLIENT FILES: ACDC has computerized their client files since 1985, but 1985 and 1986 client files are stored on computer video tape. Given the time constraints and scope of this project, retrieval from this form of storage was too expensive and time consuming. If they were retrieved, the data would not be compatible with the current data base created.

Years Covered: 1983 through 1987
Last Updated: new client files as projects are completed
Geographic Coverage: Bristol Bay and Cook Inlet Regions
Volume of Records: For 1987 274 households (14 communities)

Form of documentation: pre-1985
1985-1986 stored on computer video tape
1987 on Osborne computer (records not retrievable)
1983-1987 hard copies of client files (boxed)

Location of documentation: Alaska Community Development Corporation
Contact Person: Pat Shifley

COMPLETIONS LISTS: The State Weatherization Section obtains Completions Lists from each contractor on a monthly basis. 1986 and 1987 Completions Lists are filed under the contractor's name (along with Monthly Service Data Reports) in file cabinets. 1979-1985 Completions Lists are stored in a box at the State Weatherization Section.

Years Covered: 1979 through 1987
Last Updated: supplemented on a monthly basis
Geographic Coverage: statewide

Volume of Records:	Contractor	Volume of Records	Years
	RurAL CAP	1211 households	1984-87
	SEA CAP	133 households	1986-87
	SIH	160 households	1986-87
	Energy Specialists of Alaska	59 households	1986
	ACDC	274 households	1987

Scope of Record Sets: Although some contractors provide more information than required, the following information is always reported on a Completions List: job number; contractor; contract number; funding source; per unit limit; type dwelling; serial number; square footage of dwelling; fuel type; fuel cost; applicant's (client) name, address, zip and phone number; priority, quantity, type, and cost of materials required (estimated and actual); labor cost and total cost (estimated and actual); conservation, repair, and total material costs; DOE client education kit; and if there is a smoke detector.

Form of documentation: 1986-1987 hard copies in file cabinets
1979-1985 boxed
Location of documentation: State DCRA Weatherization Section
Contact Person: John Munson and Toy Owen

***MONTHLY SERVICE DATA REPORT:** These reports are completed by each weatherization contractor on a monthly basis.

Years Covered: 1979 through 1987
Last Updated: new monthly reports
Geographic Coverage: varies with contractor areas
Volume of Records: 1 month per report

Scope of Record Sets: Each monthly report contains, for every month in the current fiscal year, the planned cost, actual cost, and variance in planned costs and the following information, both planned and completed: number of single family households, multifamily households, and mobile homes that are owned by the resident and number that are rented by the resident; number of elderly, handicapped, American native and other households; number of elderly, handicapped, American native, and migrant people assisted.

Form of documentation: computer printout
Location of documentation: State DCRA Weatherization Section
Contact Person: John Munson and Toy Owen

***FEDERALLY ASSISTED MANAGEMENT SUMMARY REPORT:** This report is a summary of all weatherization contractor Monthly Service Data Reports. It summarizes the State Weatherization Section's activities on a monthly basis for submission to the Department of Energy. The fiscal year begins April 1st and ends March 31st. The information presented here is not on a village level.

Years Covered: 1984 through 1987
Last Updated: new monthly reports
Geographic Coverage: statewide
Volume of Records: 1 to 12 months per report

Scope of Record Sets: Each monthly report contains, for every month in the current fiscal year, the planned cost, actual cost, and variance in planned costs and the following information, both planned and completed: number of single family households, multifamily households, and mobile homes that are owned by the resident and number that are rented by the resident; number of elderly, handicapped, American native and other households; number of elderly, handicapped, American native, and migrant people assisted.

Form of documentation: computer printout
Location of documentation: State DCRA Weatherization Section
Contact Person: John Munson and Toy Owen

***SEA CAP CLIENT FILES:** All SEA CAP client files have been confiscated by the Federal Bureau of Investigation, but the State Weatherization Section does have their Completions Lists for 1986 and 1987. The Completions Lists for May 1986 through March 1987 were released to ASK*, but the rest of the 1987 Completions Lists have not yet been released. Even if the remaining Completions Lists were available, the validity and accuracy of their contents are highly questionable.

***MUNICIPALITY OF ANCHORAGE CLIENT FILES:** Since Anchorage was not included in the scope of this project, the Municipality of Anchorage's client files were not reviewed. Their coverage and record scope is not included.

***WEATHERIZATION OFFICE CLIENT FILES:** The State Weatherization Office does store client files, but only for those contractor's who will no longer be responding to new RFPs issued by the Weatherization Office.

ADDITIONAL SOURCES OF INFORMATION USED

ELECTRIC UTILITIES: Each electric utility keeps a record of the number of hookups to residential customers which is updated annually. This is a means of counting the number of residential structures in a community.

HOUSING AUTHORITIES: Each housing authority maintains a waiting list of communities which would like to apply for HUD housing. Many of the housing authorities keep additional housing information which can also be useful.

CITY HALLS: The communities with population of approximately 1,000 or greater usually have city halls which maintain records on their population, demographics, and housing stock. The amount and currency of this information varies among communities and years.

MUNICIPALITIES/BOROUGHES: Each community that wishes to participate in Municipal Revenue Sharing must report their housing inventory and estimated population to the State DCRA Division of Community and Regional Assistance.

STATE DEMOGRAPHER: The State of Alaska's demographer in Juneau keeps the most accurate data in regards to population figures per community.

APPENDIX C

**HOUSING INFORMATION SYSTEM AND
ONLINE WEATHERIZATION COMPUTER DATABASE**

In the course of acquiring data for this study, the foundation for an excellent statewide population and demographic computer database was laid. It was also determined that there is a definite need and interest to establish a central computer database with dial-in access for weatherization contractors.

Although the State of Alaska Weatherization Office collects summary data from all weatherization contractors, they do not maintain a computerized database. The result is that there is no way to analyse statewide data or to create reports as needed.

We are aware that there have been discussions with the Department of Energy to which the DCRA Weatherization program submits reports. It is important that any planning for a coordinated, computerized data collection and reporting system include the capture of essential community demographic and housing data. This information is valuable for planning and monitoring of key social and economic trends statewide. Coordination with the AK Department of Fish and Game's subsistence database must also be included.

Weatherization contractors collect a rich variety of household-level and community data which in its own right is valuable. Much of this was used in this study to complement survey data from the 42 communities.

To avoid a future scenario whereby the state will need to pay a consultant to once again assemble and assimilate a wide range of information from many diverse sources and in many different forms (some computerized, some paper files), we urge the establishment of a centralized computer database. Key features and benefits are summarized below.

<u>Major Features</u>	<u>Benefits</u>
Computerized database of housing and weatherization files.	Greater accessibility of data
Dial-in access with standard format for inputting of client records.	Lower cost of administration
Statistical analysis	Coordination of information
Print products summarizing vital facts, etc.	Forecasting
Data library of detailed community-level information	Flexible report generation
Key source catalog	Instant reference to all covered sources of information on housing related information statewide

In terms of maintaining confidentiality of individual client data (such as names, income, assistance programs, etc.) a multi-level password approach can be employed so that, for example, a weatherization contractor cannot modify other client files, except those which they deal with, or another user cannot access personal household data without proper authorization).

Based on our familiarity with existing data its form and flow, it is estimated that for approximately \$100,000 to \$150,000 an excellent online computer database could be organized and functioning within 6 months by a contract consultant using existing computer systems. DCRA would need to plan for an in-house coordinator.

To handle dial-in access and system management, DCRA could make use of the Dept. of Admin. mainframe or the University of Alaska network. A small annual contract could be executed with the consultant for periodic maintenance and ad hoc modifications.

The key element to successfully implementing this is for the consultant to facilitate the establishment of a minimum set of common data and the form in which it will be gathered between all the concerned agencies.

Existing or historical data can be added to the system over a period of time. This could be covered under the general contract for database implementation and should be priced based on standard data entry costs for private industry.

APPENDIX D

**OTHER ASPECTS CONCERNING POTENTIAL ECONOMIC CONTRIBUTION OF
A MAJOR ALASKAN RURAL HOUSING PROGRAM**

What might be the economic contribution to the state of funding an ongoing housing construction program estimated at over \$1 billion, designed to improve rural housing conditions? (In other words, there could be created a major in-state market for construction materials, windows, doors, insulation, labor, etc.)

One possible scenario: A Fairbanks window company manufacturing thousands of thermopane windows; South-central firm manufacturing doors and cabinetry; yet another building wood-laminate furniture; etc. Construction labor is divided so that rural residents are engaged in building/rebuilding their own communities. Perhaps this could be leveraged to assist new export industries based on Alaskan wood and other products. Appropriate constraints could be placed on the sourcing of materials to favor in-state manufacture.

Given the cost and potential economic impact of fully meeting rural housing needs, a study should be performed to determine the potential economic implications of this in its fullest implications. An important secondary benefit of the study would be to determine not only a true picture of the role of the construction industry but could also uncover new opportunities for Alaskans. Such a study could be funded for approximately \$100,000 to \$150,000.

This could be a significant rural-urban joint economic venture. If begun in the second quarter of 1988, the study could be completed in time for full deliberation by the next Alaskan legislative session.

APPENDIX E

RURAL HOUSING NEEDS ASSESSMENT STUDY - PERSONNEL

PROJECT MANAGEMENT STAFF

Rural CAP:

Glenn Collver

ASK* Marketing/Information Search:

Mary P. Collins
Gina R. Martin
Bill Schaedel
Alex Kochkin

Alaska Public Interest Group:

Jeff Bohman

FIELDING STAFF AND OTHERS

Rural CAP Staff:

Glenn Collver
Mark Lyman
Frank Kameroff Jr.
Dianne Dabrowski
Gary White
Harrilyn Smith
Tom Kane
Mike Packer
Randy Johnson
May Quinn

Other Staff:

Robert Taylor - Kotzebue
Dolores Stolberg - Nikolski
Bane Robinson - Chignik Lagoon
SIH Inc. - Fairbanks
Dawn Stephan - Sand Point
Tom Grimes - Cold Bay
Virginia Gene - Copper Center
Alaska CDC - Anchorage

H J R

U Q

HOUSE COMMITTEE REPORT original

(11)

Date Referred: May 4, 1989

FURTHER REFERRALS:

Date of Committee Action: 2/21/90

The FINANCE Committee considered:

HJR 49

HOUSE JOINT RESOLUTION NO. 49

[ROAD ACCESS TO WHITTIER]

Supporting construction of road access to the City of Whittier.

RECOMMENDATIONS:

- be replaced with _____ the same title
- have attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s):
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- fiscal impact _____
- zero fiscal note _____
- zero with analysis DOTPE

- fiscal note(s) _____
- zero fiscal note(s) _____
- zero fn/analysis _____

SIGNING DO PASS:

SIGNING:

(Check approp. column)

Do Not
Pass No Rec Amend

<u>[Signature]</u> Hoffman	<u>[Signature]</u> Koponen		X
<u>[Signature]</u> Larson	<u>[Signature]</u> ulmer		X
<u>[Signature]</u> Swackhammer	<u>[Signature]</u> Shultz		X
<u>[Signature]</u> Brown			
<u>[Signature]</u> Barnes			
<u>[Signature]</u> Phillips			
<u>[Signature]</u> Rieger			
<u>[Signature]</u> Wallis			

[Signature] Larson
 Chairman's Signature
[Signature] Hoffman

1 IN THE HOUSE

BY CATO

2

HOUSE JOINT RESOLUTION NO. 49

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - FIRST SESSION

5

Supporting construction of road access

6

to the City of Whittier.

7

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

8

WHEREAS there is no road access to the City of Whittier; and

9

WHEREAS road access to the City of Whittier is necessary to promote
10 the public health, safety, and welfare of the residents of Whittier and to
11 promote economic development of the community; and

12

WHEREAS the construction of a road to the City of Whittier will re-
13 quire access across the Chugach National Forest; and

14

WHEREAS the United States Forest Service must grant permission for a
15 road to cross national forest land; and

16

WHEREAS the construction of a road to the City of Whittier is for an
17 essential governmental purpose;

18

BE IT RESOLVED that the Alaska State Legislature supports the con-
19 struction of road access to the City of Whittier; and be it

20

FURTHER RESOLVED that the Alaska State Legislature respectfully re-
21 quests the U.S. Forest Service to identify a transportation corridor for a
22 road to Whittier and to give the necessary permission for construction of a
23 road across the Chugach National Forest.

24

COPIES of this resolution shall be sent to the Honorable F. Dale
25 Robertson, Chief, U.S. Forest Service; the Honorable Mike Barton, Regional
26 Forester, Alaska Region, U.S. Forest Service; and to the Honorable Ted
27 Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable
28 Don Young, U.S. Representative, members of the Alaska delegation in Con-
29 gress.

REQUEST: FISCAL NOTE

Revision Date:
Title: Supporting construction of road
access to Whittier.
Sponsor: Cato
Requestor: Kubina

Agency Affected: DOT&PF
BRU:
Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTURAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: Fiscal impact of a road to Whittier is discussed in CSHB 311.

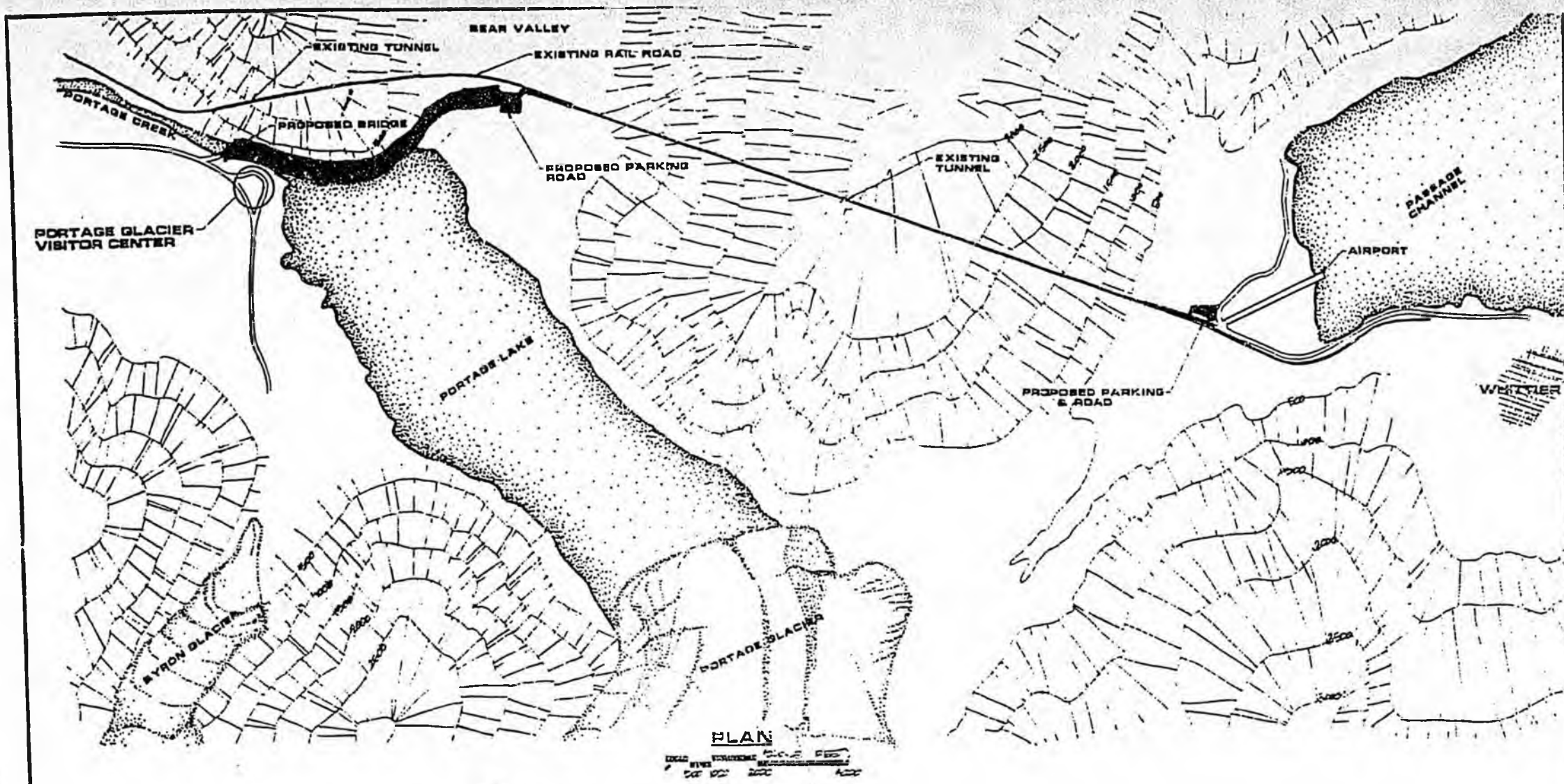
Prepared by: W. Keith Gerken
Division: Deputy Commissioner, Operations

Phone: 465-3900
Date: February 21, 1990

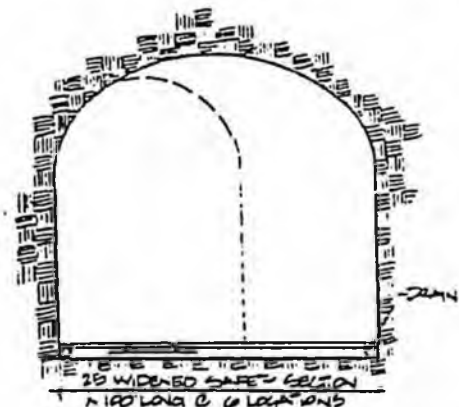
Approved by Commissioner: Mark S. Hickey
Agency: Department of Transportation and Public Facilities

Date: 2/21/90

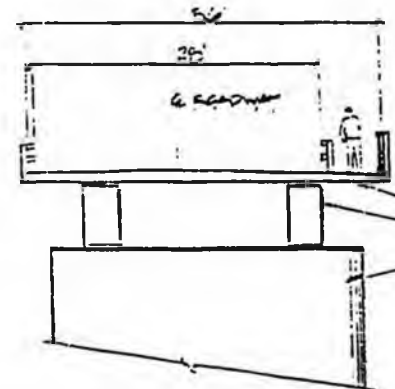
Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)



EXISTING RAILROAD SECTION

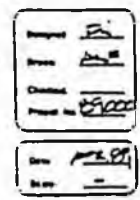


WIDENED TUNNEL SECTION



BRIDGE SECTION

CONCRETE DECK
 STEEL BOX GIRDERS
 CONCRETE PER



WHITTIER TUNNEL

Peratrovich, Nottingham & Drage, Inc.
 Engineering Consultants
 1506 West 38th Avenue,
 Anchorage, Alaska 99503 (907) 641-1011

CONCEPT PLAN

FISCAL NOTE

ce

REQUEST:

Revision Date: _____
Title: Supporting road access
to Whittier
Sponsor: Cato
Requestor: House Transportation

Agency Affected: _____
BRU: _____
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

CAPITAL	-0--	-0-	-0-	-0-	-0-	-0-
---------	------	-----	-----	-----	-----	-----

REVENUE	-0--	-0-	-0-	-0-	-0-	-0-
---------	------	-----	-----	-----	-----	-----

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	0	0	0	0	0
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	0	0	0	0	0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: House Transportation Committee Phone: _____
Division: Alaska State Legislature Date: 5/4/89

Approved by Commissioner: Bette Cato e ms Date: _____
Agency: House Transportation Committee

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

H J R

L Q

SENATE FINANCE COMMITTEE REPORT

DATE: 4/10/90

FURTHER:

DATE TURNED INTO OFFICE: 4/27/90

The Finance Committee considered

HJR 49

Supporting construction of road access to the City of Whittier.

and recommended:

replace with _____ CS _____
 or adopt _____ CS _____

same title
 new title
 technical title change
(HB only)

attached amendment(s)

_____ letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

ATTACHES NEW FISCAL NOTE(S):

fiscal note(s) _____ Dept/Date: _____

zero fiscal note(s) _____

appropriation-no fiscal note

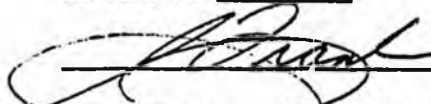
APPROVES PREVIOUS:


fiscal note(s) _____ Dept/Date: _____

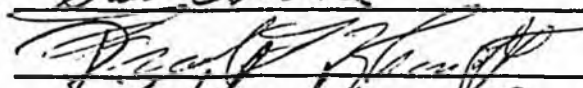
zero fiscal note(s) DOT/PF 4/21/90

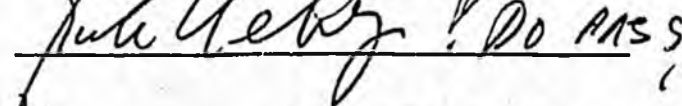
SIGNING DO PASS:

OTHER RECOMMENDATIONS:









1.

2.

Co-Chairs: Signatures and Recommendations

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: HJR 49 No. 2
PUBLISH DATE: HOUSE 2/22/90

REQUEST: FISCAL NOTE

Revision Date:
Title: Supporting construction of road
access to Whittier.
Sponsor: Cato
Requestor: Kubina

Agency Affected: DOT&PF
BRU:
Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTURAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: Fiscal impact of a road to Whittier is discussed in CSHB 311.

Prepared by: W. Keith Gerken
Division: Deputy Commissioner, Operations

Phone: 465-3900
Date: February 21, 1990

Approved by Commissioner: Mark S. Hickey
Agency: Department of Transportation and Public Facilities

Date: 2/21/90

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

1 IN THE HOUSE

BY CATO

2

HOUSE JOINT RESOLUTION NO. 49

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - FIRST SESSION

5

Supporting construction of road access

6

to the City of Whittier.

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

8

WHEREAS there is no road access to the City of Whittier; and

9

WHEREAS road access to the City of Whittier is necessary to promote
10 the public health, safety, and welfare of the residents of Whittier and to
11 promote economic development of the community; and

12

WHEREAS the construction of a road to the City of Whittier will re-
13 quire access across the Chugach National Forest; and

14

WHEREAS the United States Forest Service must grant permission for a
15 road to cross national forest land; and

16

WHEREAS the construction of a road to the City of Whittier is for an
17 essential governmental purpose;

18

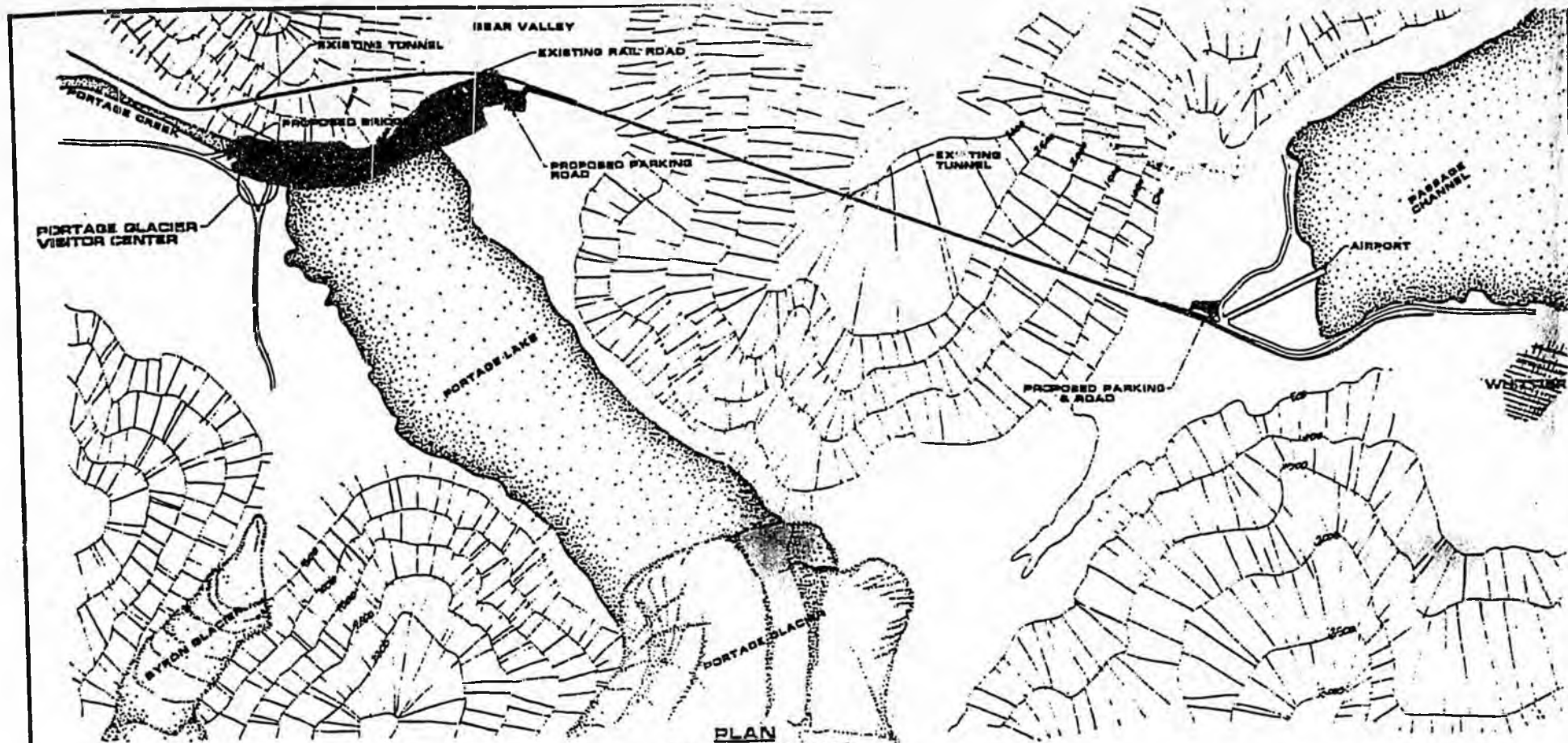
BE IT RESOLVED that the Alaska State Legislature supports the con-
19 struction of road access to the City of Whittier; and be it

20

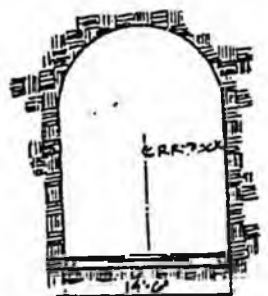
FURTHER RESOLVED that the Alaska State Legislature respectfully re-
21 quests the U.S. Forest Service to identify a transportation corridor for a
22 road to Whittier and to give the necessary permission for construction of a
23 road across the Chugach National Forest.

24

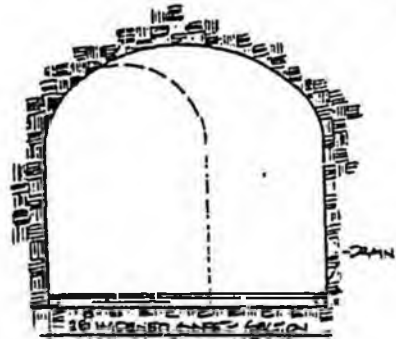
COPIES of this resolution shall be sent to the Honorable F. Dale
25 Robertson, Chief, U.S. Forest Service; the Honorable Mike Barton, Regional
26 Forester, Alaska Region, U.S. Forest Service; and to the Honorable Ted
27 Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable
28 Don Young, U.S. Representative, members of the Alaska delegation in Con-
29 gress.



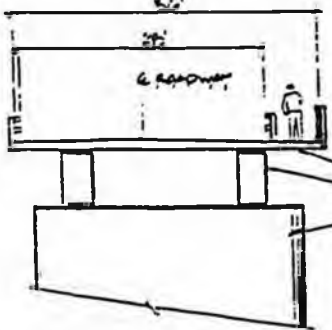
PLAN
 0 100 200 300 400
 FEET



EXISTING RAILROAD SECTION



WIDENED TUNNEL SECTION



BRIDGE SECTION

Drawn by	CS
Checked by	CS
Scale	AS SHOWN

WHITTIER TUNNEL

Peratrovich, Nottingham & Drage, Inc.
 Engineering Consultants

1808 West 34th Avenue,
 Anchorage, Alaska 99503

(907) 541-5811

CONCEPT PLAN

TR

CO

FISCAL NOTE

66

REQUEST:

Revision Date: 1/31/90
Title: Relating to the appropriation limit.
Sponsor: Finance Committee
Requestor: Finance Committee

Agency Affected: Office of the Governor
BRU: Elections
Components: II- Primary & General Elections

EXPENDITURES/REVENUES: (Thousand: of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	2.2*	-0-	-0-	-0-	-0-	-0-
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	2.2*	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	2.2*	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	2.2*	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

The fiscal impact for FY 90 is -0-.

* Costs included cover 2 to 3 pages in each Official Election Pamphlet, for printing and typesetting, and costs estimated to cover computer programming requirements for vote counting purposes.

Prepared by: Linda Edgeworth
Division: Division of Elections

Phone: 465-4611
Date: 1/31/90

Approved by Commissioner: [Signature]
Agency: Division of Elections

Date: 1.31.90

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

CONTINUATION OF FISCAL NOTE ANALYSIS

For Bill/Resolution No. HJR 66

However, these costs are based on the assumption that all candidates and issues will fit on three ballot cards, which is the norm. It should be noted, however that should the inclusion of this issue require a 4th ballot to be printed, the cost increase would have to be calculated at 16 cents per ballot x approximately 320,000 voters. The total cost of printing the additional ballot card would be \$51.2

Under these circumstances the fiscal note would be:

53.4

Original sponsor(s): Finance Committee

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE JOINT RESOLUTION NO. 66 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the Constitu-
6 tion of the State of Alaska relating to
7 to the budget reserve fund; depositing
8 into the budget reserve fund, except for
9 money deposited into the permanent fund,
10 all money received by the state after
11 July 1, 1990, as a result of the ter-
12 mination, through settlement or other-
13 wise, of an administrative proceeding or
14 of litigation in state or federal court
15 involving mineral lease bonuses,
16 rentals, royalties, royalty sale pro-
17 ceeds, federal mineral revenue sharing
18 payments or bonuses, or involving taxes
19 imposed on mineral income, production,
20 or property; allowing an appropriation
21 from the fund only if the amount avail-
22 able for appropriation for a fiscal year
23 is less than the amount appropriated for
24 the previous fiscal year or upon the
25 affirmative vote of three-fourths of the
26 members of the legislature in joint
27 session; and providing for an effective
28 date.

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

1 * Section 1. Article IX, Constitution of the State of Alaska, is amend-
2 ed by adding a new section to read:

3 SECTION 17. BUDGET RESERVE FUND. (a) There is established as a
4 separate fund in the State treasury the budget reserve fund. Except
5 for money deposited into the permanent fund under Section 15 of this
6 article, all money received by the State after July 1, 1990, as a
7 result of the termination, through settlement or otherwise, of an
8 administrative proceeding or of litigation in a State or federal court
9 involving mineral lease bonuses, rentals, royalties, royalty sale
10 proceeds, federal mineral revenue sharing payments or bonuses, or
11 involving taxes imposed on mineral income, production, or property,
12 shall be deposited in the budget reserve fund. Money in the budget
13 reserve fund shall be invested so as to yield competitive market rates
14 to the fund. Income of the fund shall be retained in the fund. Sec-
15 tion 7 of this article does not apply to deposits made to the fund
16 under this subsection. Money may be appropriated from the fund only
17 as authorized under (b) or (c) of this section.

18 (b) If the amount available for appropriation for a fiscal year
19 is less than the amount appropriated for the previous fiscal year, an
20 appropriation may be made from the budget reserve fund. However, the
21 amount appropriated from the fund under this subsection may not exceed
22 the amount necessary, when added to other funds available for appro-
23 priation, to provide for total appropriations equal to the amount of
24 appropriations made in a previous calendar year for the previous
25 fiscal year.

26 (c) An appropriation from the budget reserve fund may be made
27 for any public purpose upon affirmative vote of three-fourths of the
28 members of the legislature in joint session.

29 (d) If an appropriation is made from the budget reserve fund,

1 until the amount appropriated is repaid, the amount of money in the
2 general fund available for appropriation at the end of each succeeding
3 fiscal year shall be deposited in the budget reserve fund. The legis-
4 lature shall implement this subsection by law.

5 * Sec. 2. The amendment proposed by this resolution shall be placed
6 before the voters of the state at the next general election in conformity
7 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-
8 tion laws of the state.

5/2/90

5/2/90
Rep. Kay Brown

"BUDGET RESERVE ONLY"
CS HJR 66 () dated 5/1/90 - with revisions

SUMMARY OF DRAFT CS

Section 1

Article IX if the Constitution is amended to add a new section 17 to establish a Budget Reserve Fund. Except for royalty deposits to the Permanent Fund, all settlement funds and back taxes received after July 1, 1990 are deposited into the Budget Reserve. Money in the Budget Reserve Fund invested so as to yield competitive market rates. Income from the fund retained in the fund.

Appropriations from the Budget Reserve Fund can be made by simple majority if the amount of funds available are less than the amount appropriated for the previous fiscal year, but only up to the amount needed to equal the prior year appropriation. Notwithstanding this limitation, an appropriation may be made for any public purpose upon a vote of three-fourths of the members in a joint session.

If an appropriation is made from the Budget Reserve Fund, until the amount is repaid, any general fund balance available at the end of succeeding fiscal years is deposited into the fund.

Section 2

Constitutional amendment to be placed before voters at next general election.

5/1/90

Amendment

By Riccy

To "HJR 66" Version of SJR 5

Page 1, Line 15, after "\$2,300,000,000" insert:

, less any amounts appropriated from a State source required for State participation in a federally mandated aid program for low income persons to the extent ~~the~~ ^{the} appropriations exceed amounts appropriated during fiscal year 1991 for the same purposes."

5/1/90

Amendment

By Rieger

To: HTR66 version of SJRS

Line
~~20~~ 18, page 1: before "revenue" insert

"general obligation and"

Page 1, line 20: after "State," insert:

"appropriations required to pay the principal

and interest on general obligation bonds

issued by the State,"

Page 1, Line 25-27: delete all material after "taxpayers."

Page 2, Lines 3-4: delete "two-thirds", insert "three-quarters"

4/23/90 AM
Attachment 5

4/19/90

CS HJR 66 (Judiciary)

AMENDMENT 

by BROWN

page 1, line 20, after "State," delete:

"appropriations of money received from a State source required for State participation in a federally mandated aid program for low income persons"

insert:

"appropriations of money required for state participation in federal entitlement programs for low income persons"

A M E N D M E N T

OFFERED IN THE HOUSE

BY REP. ULMER

TO: CSHJR 66 (Judiciary)

Page 1, line 20, after "State,":

Insert "appropriations required to pay principal and interest on general obligation bonds issued by the State,"

A M E N D M E N T

OFFERED IN THE HOUSE

BY REP. ULMER

TO: CSHJR 66 (Judiciary)

Page 1, line 20, after "State,":

Insert "appropriations to pay the principal and interest on general obligation bonds issued by a municipality for construction of elementary or secondary schools,"

A M E N D M E N T

OFFERED IN THE HOUSE

BY REP. ULMER

TO: CSHJR 66 (Judiciary)

Page 1, line 22, after "persons,":

Insert "appropriations for a benefit program calculated on a formula basis if the amount required to fully fund the program for the fiscal year is greater than the amount required for the previous fiscal year due to an increase in population,"

A M E N D M E N T

OFFERED IN THE HOUSE

BY REP. ULMER

TO: CSHJR 66 (Judiciary)

Page 1, line 22, after "persons,":

Insert "appropriations for a program that generates during the fiscal year an amount in program receipts equal to or greater than twenty percent of the cost of operating the program for that year,"

HJR 66 amendment

5/1/10
by Illmer

pt line 23 after "purpose" add:

"appropriations required to
comply with the terms of a
settlement agreement or

judgment in carrying out
the trust responsibilities

of the state under the
Alaska Mental Health
Enabling Act of 1956"

"Proposing an amendment to the Constitution of the State of Alaska establishing a budget reserve fund; depositing into the fund, except for money deposited into the permanent fund under Section 15 of Article IX of the Constitution of the State of Alaska, all money received by the State after July 1, 1990, as a result of the termination, through settlement or otherwise, of an administrative proceeding or of litigation in a State or federal court involving mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments or bonuses, or involving taxes imposed on mineral income, production, or property; allowing an appropriation from the fund if the amount available for appropriation for a fiscal year is less than the amount appropriated for the previous fiscal year; allowing an appropriation from the fund for any public purpose upon the affirmative vote of two-thirds of the members of the legislature meeting in joint session; and providing for an effective date."

Legal Services should be asked to draft the precise language, but I'm hard pressed to think of a "tighter" title.

Doug

How is this
for a title on HJR-66
Jan

ATTACHMENT
5/3/90am



NEA-ALASKA

AFFILIATED WITH THE NATIONAL EDUCATION ASSOCIATION

ANCHORAGE REGIONAL OFFICE

1411 W 33RD AVENUE
ANCHORAGE, ALASKA 99503
(907) 274-0536

JUNEAU OFFICE

105 MUNICIPAL WAY, SUITE 302
JUNEAU, ALASKA 99801
(907) 586-3090

FAIRBANKS REGIONAL OFFICE

2118 CUSHMAN STREET
FAIRBANKS, ALASKA 99701
(907) 456-4435

March 16, 1990

To: Representatives Goll and Gruenberg, Co-Chairs
Members, House Judiciary Committee

Re: Constitutional/Statutory Spending Limits

NEA-Alaska opposes any form of constitutional or statutory spending limit. Such a change would be far more than a limit on spending. It would be a limit on government and on your ability to represent your constituency and to act on their behalf and in their interests.

Tough spending decisions are never easy decisions but they must be made by our elected representatives based upon the circumstances which are current. They should not be based upon a formula driven system without regard for unique circumstances and needs.

A constitutional spending limit will have the effect of distorting subsequent spending decisions. Alaska is unique. Our problems, programs, and needs are truly different from other states. They are always dynamic.

It is predictable that they will be changing this session, next year, and in future years. As Legislators, you have a continuing need for maximum flexibility in how you chose to deal with them.

A state spending limit will do nothing more than pass along an increasing financial burden to local government. It will only serve to increase a disparity and inequity which is already glaringly evident.

In our opinion, the Alaskans who were involved in last years' "town meetings" were asking you and the Administration to have the courage to make the tough and responsible decisions on the level of programs and services which reflect our current needs and our current and projected financial resources. Such a process does not require any form of formula driven spending limit.

As Legislators you have the information, the responsibility, and the opportunity to make those spending decisions which are in the best interests of all of us. Please do so.

Thank you for your consideration of our position.

Respectfully submitted,

Bob Manners
Executive Director

Don Oberg
President

MY TURN

Just say 'No' to a constitutional spending limit

By BILL POTTER

The Alaska Legislature is presently considering a constitutional spending limit. I think this is an ill-conceived idea and hope that fellow Alaskans will also oppose such a politically motivated way to avoid making the important decisions elected officials are supposed to make.

When the Founding Fathers gathered in Philadelphia to write our Constitution, the most significant comprehensive political document the world had ever seen or has yet to see, there were many present who did not have much trust in governments or government institutions. Yet in spite of this mistrust and even fear, of government run amok, they wrote a document that placed the ultimate control, the ultimate power, the power of the purse, in the hands of the people's elected representatives.

Without money, government cannot act; with money government can act. Those Founding Fathers placed the power to act, or not to act, in the hands of the people's representatives. And when a like number of another set of Founders met in Fairbanks to draft the Alaska Constitution, they recognized the wisdom of that earlier group which had met in Philadelphia, and acted likewise. They put the ultimate power, the power of the purse, in the hands of elected representatives. And that is as it should be.

A constitutional spending limit is more than a limit on spending; it is a limit on the power of government to act. It is a limit on the power of government to protect the people; it is a limit on the power of the government to serve the people; it is a limit on the power of the government to govern.

I suspect that many people who support a spending limit are concerned about the financial future of this state, and I think that is a just and righteous concern, but as bleak as the financial future of Alaska may be, it is not as bleak or as foreboding

as it has been in times past. Any review of the first eight years of this state government's financial history will show that the financial constraints were far more severe than even the most dire predictions for the future. In spite of the lack of financial resources during those early years, the state legislature, the people's representatives, were able to balance the needs of government with the financial resources available without a constitutional spending cap.

I believe we had many wise people in our legislature during those formative, financially pressing years, but I submit that the current legislature is equally wise and equally able to balance the needs of government with the finances available. I further submit that the people of Alaska will choose an equally wise legislature in the 1990 elections which will be equally able to balance the needs that exist with the finances that will be available, and subsequent elections will result in equally wise and able representatives of the people.

I don't believe it is good government policy or good public policy, for any legislature or any other body to second-guess the intelligence, judgment, or motives of future legislative representatives.

To deny future legislatures the opportunity to use their judgment to address the issues before them with the resources available at that time smacks of, if not arrogance, a profound lack of confidence in those legislators and/or the people who elected them.

I am concerned about the future of public schools because I have devoted my life to education in this state. I am concerned about the future we offer our children, and I am concerned about the economic and social status of the elderly, and I am concerned about those for whom circumstances have cast their lot outside the mainstream of our society. I have concerns for the future and what it is that may be done to restrict the ability of our legislature:

restrict the ability of government to act to deal with the issues and needs that arise within the confines of the resources available.

Notwithstanding what I said about the wisdom and ability of past, present, and future legislatures, I am painfully aware that not all legislators have been, or are likely to be, willing to make the judgments necessary to balance needs with the financial resources available. If there is a constitutional spending limit in place, I am concerned about legislators who will take the low road by saying "I wanted to help, but our hands were tied." "I wanted good schools, but there was a spending limit." "I support you in your desire to deal with alcohol and drug abuse, but there is nothing we can do with the constitutional limits placed on the legislature."

In the interests of good public policy; in the interests of good government, I urge you to resist any constitutional spending limits. I urge Alaskans to insist that elected officials demonstrate the courage to resist the temptation to tie the hands of government's ability to act in the public interest with the resources available.

Bill Potter has taught in Juneau for 25 years and is a member of the Education Commission of the States.

net set of r
inks to draft
on, they reco
at earlier grc
iladelphia.
ey put the
wer of the p
ected repre
it should be.
A constituc
ore than a lir

**House Finance
Fiscal Policy Subcommittee**

Report No. 3

**Representative Kay Brown, Chair
Representative C.E. "Swack" Swackhammer
Representative Steve Rieger**

January 10, 1990

PREFACE

The Fiscal Policy Subcommittee of the House Finance Committee was formed early in 1989 to address issues arising from the state's critical financial circumstances. The subcommittee members are Representative Kay Brown, Chair; Representative C.E. Swackhammer and Representative Steve Rieger. In the course of developing its recommendations, the Subcommittee has been assisted by an informal fiscal policy Working Group which includes Representatives Larson, Hoffman, Ulmer, Finkelstein, Boucher, Cotten, Koponen, Boyer, Goll, Davidson, Navarre, Grussendorf, Davis, Leman, and Miller.

The Subcommittee's initial report, published February 7, 1989, included:

- potential budget reduction scenarios for FY 90;
- an approach for identifying specific reductions; and
- information about alternative revenue options.

As part of its initial effort, the Subcommittee also promoted a bi-partisan information effort that included a series of public workshops and a statewide survey sponsored by the Governor and the leadership of both the House and the Senate.

By early April, 1989 when the Subcommittee's Second Report was published, a new revenue forecast by the Department of Revenue narrowed the anticipated budget gap for FY 90 to approximately \$250 - \$300 million. In order to address the projected budget gap and put the state budget on a sustainable, recurring revenue basis, the Subcommittee recommended spending be reduced over four years to achieve an annual budget of about \$1.9 billion. Additionally, in recognition that these budget reductions alone would not

fully close the budget gap, the Subcommittee recommended that annual revenues be increased by \$300 - \$500 million. The April report also reported on the public information process.

On October 16-17, 1989 the Subcommittee met for briefings on the Prudhoe Bay production decline, OMB's mid-October Fiscal Review, the status of DNR's Oil and Gas Lease Sales, and the first in a series of Fiscal Policy Papers entitled "The Alaska Fiscal Gap" by the Institute of Social and Economic Research. In a public hearing October 16th, the Subcommittee heard testimony on state participation in economic development efforts with an emphasis on the identification of criteria for the Legislature to use in evaluating the merits of state participation in specific economic development proposals.

This report, as well as previous reports of the Fiscal Policy Subcommittee, reflect the general consensus of the subcommittee members but not necessarily unanimity of opinion on each specific point.

EXECUTIVE SUMMARY

Alaska is confronted with an impending fiscal crisis as a result of an inevitable "gap" between general fund revenues and present state spending. Current levels of state spending cannot be sustained.

Even assuming significant additional new oil and gas development and strong growth in the state's non-petroleum sectors, the decline in production from Prudhoe Bay will eventually necessitate substantial reductions in the state budget. The Executive Branch and legislative response to the looming fiscal gap will influence the severity of the

economic impacts associated with the decline in state revenues.

The House Finance Fiscal Policy Subcommittee recommends that the Legislature:

- adopt a target spending level of \$1.9 billion (1989 \$) to be achieved by FY 1995;
- enact a constitutional amendment to reduce spending by 3-5% each year over the next 4 years in order to achieve the target spending level;
- where realistic and likely to create new employment opportunities, pursue measures to strengthen and expand the state's private economy; and
- identify and develop new sources of recurring revenue with a priority on "user fees" that will allow recovery of the cost of providing public services directly from the beneficiaries of those services.

INTRODUCTION

While the Alaska Department of Revenue's most recent short-term "mid-case" forecast (\$ 2.25 billion) projects sufficient revenue to support a "maintenance level" budget for the coming fiscal year (FY 91), over the long term state revenues are expected to deteriorate rapidly with the production decline of Prudhoe Bay.

Petroleum revenues already have fallen to just half of what they were in the peak revenue years of the early 1980's. If real (inflation-adjusted) oil prices remain in their current

range, oil revenues will drop by half again by the year 2000.

If annual state General Fund spending were held at present levels of approximately \$2.3 billion (1989 \$), the projected "fiscal gap" between expenditures and revenues likely would be several hundred million dollars a year in the early 1990s and more than \$1 billion annually after the turn of the century.

The decline in Prudhoe Bay will compel a reduction in state spending. Even if one were to assume that a decision was made to deplete the entire Permanent Fund, state spending can not be maintained at current levels.

All credible analysis leads to the same conclusion: the current state spending level of approximately \$2.3 billion (in 1989 \$) cannot be sustained. The state budget will have to be reduced, not as a matter of choice, but as a matter of necessity. The only substantial point of policy debate concerns how deeply to cut the budget and how soon substantial reductions should be made.

Even assuming substantial new oil and gas development in Alaska and significant expansion of the state's non-petroleum economic sectors, the decline of Prudhoe Bay, North America's largest oil field, will have a dramatic impact on the Alaska economy.

The Executive Branch and legislative response to the inevitable decline in state spending and the type of action taken (or not taken) to reduce state spending over the next few years will have a significant influence on magnitude and severity of the economic impacts associated with the downturn in petroleum revenues.

The most important issue confronting the Governor and the legislature is how to manage the transition to a smaller, sustainable state budget in order to minimize the adverse economic impacts that will necessarily attend the reduction in available revenues. Recognizing that a failure to take decisive action in the near-term will only result in unnecessarily harsh economic impacts in the long-term, the Fiscal Policy Subcommittee recommends that the Legislature adopt a "target spending level" of \$1.9 billion (1989 \$) to be achieved within 5 years.

In order to realize these spending reductions in an orderly manner, the Subcommittee recommends that a constitutional spending limit be enacted that will enforce a gradual and orderly reduction in state spending of about 3-5% per year to achieve the \$1.9 billion (1989 \$) "target" budget level.

THE NECESSITY TO REDUCE SPENDING

In a recent analysis of the state's impending budget gap, the University of Alaska's Institute for Social and Economic Research (ISER) developed and evaluated four possible fiscal policy scenarios. Without endorsing or recommending any particular policy scenario, ISER developed the options in order to describe a broad range of fiscal choices (see The Alaska Fiscal Gap, ISER Fiscal Policy Papers No. 1, August 1989). The four scenarios can be briefly summarized briefly as follows:

Scenario 1: "Stumble from Year-to-Year"

This case assumes an effort is made to maintain current spending levels for as long as possible drawing on all available reserves (i.e., Railbelt Energy Fund, Earnings

Reserve Account) except the principal of the Permanent Fund. No new tax measures would be enacted. In this scenario, declining revenues would force significant budget cuts by 1992 with a cut of approximately 18 percent that year. Expenditures in the year 2000 would be \$1.2 billion (1989 \$), equal to revenues collected that year.

Approximately 26,000 public and private jobs would be lost over the next decade as state general fund expenditures were cut roughly in half.

Scenario 2: "Deplete the Permanent Fund"

The most drastic scenario developed would be to use the entire \$10 billion in the Permanent Fund (Earnings Reserves, Inflation-Proofing and, eventually, the corpus of the Fund) to sustain the current spending level. No new tax measures would be enacted. Draws on the Permanent Fund would begin in 1992 and the Permanent Fund would be depleted by the year 2003. At that point, the budget would collapse to a level of about \$1 billion.

While Alaska employment would increase in the near term, severe economic and a recession would start in 2003. Approximately 30,000 public and private jobs would be lost over a two year period. (By comparison, job loss during the 1985-1988 recession was about 25,000.)

Scenario 3: "Freeze the Budget/Spend Permanent Fund"

Under this scenario, the budget is held constant in nominal terms (i.e., not adjusted for inflation) and the entire \$10 billion Permanent Fund would be spent to maintain this level of spending. The effect of this scenario would be to reduce the "purchasing power" of the budget by the annual rate of inflation (estimated at 5% annually). No new tax measures

would be enacted. By 1998 the budget would be reduced to a level of \$1.5 billion (1989 \$). This scenario assumes that after 1998 the budget would be held constant at \$1.5 billion (1989 \$). The Permanent Fund would be depleted shortly after the year 2010 and further major reductions in spending would be required thereafter.

This scenario would result in the gradual loss of about 20,000 public and private jobs over the next decade. After 2010, when spending was sharply curtailed upon depletion of the Permanent Fund, a "shock wave" of reduced employment would travel through the economy.

Scenario 4: "Cut Spending and Raise Taxes"

This scenario calls for meeting the projected fiscal gap through a combination of spending cuts and the establishment of new recurring revenues. This scenario contemplates a 25% cut in the General Fund budget over a 10-year period to \$1.7 billion (1989 \$), coupled with action to increase sustainable recurring revenues by \$650 million annually. Under this scenario it is assumed that the personal income tax is reimposed (\$250 million/year) in 1991 and Permanent Fund earnings currently used for dividends (\$600 million/year) are diverted to support general public services in 1995. This scenario indicates that a General Fund budget level of \$1.7 billion/year could be sustained through the 1990s and beyond into the following decades. After the year 2000, expenditures could be maintained at the target level indefinitely. This scenario also would require near-term budget cuts even while state revenues are still on the increase over the next few years.

About 12,000 public and private jobs would be lost as spending cuts were made. Another 3,000 would be lost as the

income tax was reimposed and 5,000 more when the Permanent Fund dividend program was terminated.

ECONOMIC IMPACTS OF ALTERNATIVE FISCAL SCENARIOS

In comparing these fiscal scenarios, it is evident that state spending must be reduced. While these reductions can be avoided in the near term, eventually they must be confronted. Even if the personal income tax were reimposed and revenues now used for PFDs were diverted to support basic government services, the ISER analysis concludes that state general fund spending still would have to be cut by approximately 25% in order to achieve an indefinitely sustainable budget level of \$1.7 billion (1989 \$).

Accordingly, even if substantial new taxes were imposed and/or there was support for use of the Permanent Fund for basic services, significant cuts in state spending still would be inescapable. The only significant point of policy debate concerns how deeply to cut the budget and how soon substantial reductions should be made.

Further, it is apparent from the ISER analysis that the fiscal policy choices made in the near-term by the legislature will have a significant influence on the nature and extent of the eventual economic impacts experienced by the state economy as spending declines.

Gradual reductions in state spending would have the least traumatic effect as measured in total job loss while also allowing for maximum state-supported employment over the long term. By contrast, the avoidance or forestalling of budget cuts in the near-term eventually will lead to a larger total job loss when spending reductions become unavoidable, as well as a lower overall, long-term level of state-supported employment.

In summary, the near-term actions taken (or not taken) by the Governor and the legislature to reduce state spending will significantly influence the eventual severity and extent of the public and private sector employment supported by state spending. If the public policy objective were to maximize Alaska employment, the ISER analysis indicates that the scenario assuming a combination of budget reductions and new revenue measures (i.e., Scenario 4: "Cut Spending and Raise Taxes") would result in the lowest total job loss attributable to reduced revenues while also yielding the highest overall sustainable level of Alaska employment in the long term.

**SUMMARY OF EMPLOYMENT IMPLICATIONS
ALTERNATIVE FISCAL SCENARIOS**

Stumble Along

- 33,000 public and private jobs lost by 2010
- state-supported jobs in 2010: 26,000
- wage/salary employment 2010(1): 236,000

Deplete Permanent Fund

- 35,000 public and private jobs lost by 2010
- state-supported jobs in 2010: 23,000
- wage/salary employment 2010(1): 233,000

Freeze/Spend Permanent Fund

- 21,000 public and private jobs lost by 2010
- state-supported jobs in 2010: 38,000*
- wage/salary employment 2010(1): 249,000*

(* about 2015, state-supported employment would experience a dramatic drop as the Permanent Fund was exhausted)

Cut Spending & Raise Taxes

- 19,000 public and private jobs lost by 2010
- state supported jobs in 2010: 40,000
- wage/salary employment 2010(1): 247,000

Note:

(1) exclusive of military and self-employed

Source: Goldsmith, S., "The Alaska Fiscal Gap," Institute of Social and Economic Research, University of Alaska Anchorage (August 1989) and personal communication.

POLICY PRINCIPLES TO GUIDE THE TRANSITION

In the view of the Fiscal Policy Subcommittee, several fundamental principles should be used to guide decision-making as the Legislature undertakes the effort to make the transition to a smaller annual state budget based on annually recurring revenue streams. During recent hearings information was provided to the subcommittee concerning work of the Council on Economic Policies established by former Governor Jay Hammond. Several of the following principles are derived from the Council's work.

Principal No. 1: The State should separate subsidies from investments.

Investments are those that are projected to yield a return of principal and interest directly to the State treasury, through the imposition of taxes or user fees. Subsidies, on the other hand, are State expenditures that support a given project or service which has some broad public purpose, but provides less than a market financial return to the State treasury. Subsidies should be explicit, and should be budgeted. Apart from special projects, it is important to remember that in the absence of a broad-based tax structure, all households and all businesses, with the exception of oil and gas producers, are being subsidized by the state because they are not paying the full cost of the services and facilities they require.

Principle No. 2: The State should have in place a tax structure that captures a portion of the wealth attributable to economic growth.

Increased economic activity generates additional needs for governmental services and infrastructure, as the resulting

population increases. However, the tax mechanisms commonly found in other states needed to support these additional expenditures (such as the income tax or sales tax) are not currently in place. Therefore, additional growth means increasing deficits in terms of industry paying its own way. Unless economic growth includes payment for required services, the state finds itself in the position of subsidizing the creation of jobs and then subsidizing the services that these new jobholders require.

Principal No. 3: The State should not engage in purely speculative development of infrastructure.

The state should evaluate speculative infrastructure development proposals very carefully as the risk is high and the experience of other developing countries that have attempted this approach, as well as Alaska's own experience, has been abysmal. The state must ensure that its money is spent wisely on the most needed development projects that have the greatest chance of facilitating private sector development. State involvement in the case of infrastructure development for economic development should be conditioned on a clear commitment by private parties to share in the cost and responsibility for project development.

MANAGING THE TRANSITION

Although the need to reduce state spending clearly is recognized by the Legislature, widely different budget priorities among the many regions of the state and the availability of "surplus revenues" during the recent past have frustrated recent attempts to reduce spending.

Constitutional Limit on State Spending

In recognition of the inevitability of general fund reductions and the need to ensure an orderly reduction in spending that minimizes adverse economic impacts, the Subcommittee recommends enactment a constitutional amendment to compel spending reductions.

This amendment would

- target a spending level of \$1.9 billion (1989 \$) within 4 years; and
- reduce spending by 3-5% each year over that period in order to achieve the target spending level by FY 1995;

The proposed constitutional amendment would limit appropriations to \$2.2 billion or a maximum equal to appropriations of the previous fiscal year, whichever are less, with certain exceptions as stipulated. These exceptions would include:

- appropriations to the Permanent Fund
- appropriations for Permanent Fund Dividends
- appropriations of revenue bond proceeds
- appropriations for payment of General Obligation bonds
- appropriations of non-state "pass-through" funds
- appropriations to meet a state of disaster declared by the Governor as prescribed by law

A partial exception to this "spending cap" would be allowed if inflation were determined to be above 6%. If, in the session following a given fiscal year appropriation, inflation was determined to be in excess of 6%, an appropriation above the cap would be allowable -- but only

to the extent necessary to offset the effects of inflation above 6% -- and then subject to a two-thirds vote of the membership of the Legislature.

Existing language in the state constitution concerning the allocation of appropriations between operating and capital expenditures would be repealed.

The appropriation limit would be in effect for four years and expire at the end of Fiscal Year 1995 (i.e., June 30, 1995).

Fiscal Effect of Spending Limit

Capping spending at \$2.2 billion would have the effect of reducing the budget (in terms of effective purchasing power) by the rate of inflation, estimated at approximately 5% per year. Still further reductions would be required under a \$2.2 billion cap in order to "absorb" the cost increases driven by formula program increases (e.g., additional students in the foundation formula, increased power consumption under the Power Cost Equalization program, additional applicants for the Longevity bonus) absent "cost containment" changes to these formula programs. Also, increased federal program responsibilities (e.g., welfare reform) without increased federal funding would necessitate further cutbacks to existing state services or programs.

Although there is no consensus at the present time regarding an appropriate level of state spending, it is clear that current levels can not be sustained. The proposed constitutional amendment would substantially reduce the budget to a level of approximately \$1.9 billion (1989\$) by the end of FY 1995 when the amendment would expire.

Although current analysis indicates that even this substantially lower level of spending is not supportable without new or increased recurring revenues, the "fiscal gap" will have been significantly reduced and the general public, the Governor and the legislature will be able to reassess the state's fiscal condition at that time.

Windfalls Off the Table

Whether or not the effort to enact a constitutional amendment is successful, it will be imperative for the Legislature to take action to take "windfall" revenues such as one-time litigation settlements "off the table."

Several proposals have been advanced toward this end. These proposals include:

- re-establishment of a budget reserve fund;
- appropriation to provide "forward funding" of education;
- use of near-term surplus revenues to pay off the state's General Obligation bonded indebtedness; and
- appropriation to the Permanent Fund.

Regardless of what specific mechanism is chosen, action should be taken either to "save" these surplus revenues for future spending or commit them to a purpose that will preclude their use in a way that will frustrate the long-term objective of reducing state spending in a gradual and orderly fashion. Passage of the proposed constitutional amendment would accomplish this goal.

Expanding the Private Economy

Although it is widely accepted that there are no realistic opportunities available to replace Prudhoe Bay as the state's dominant source of revenue, it is still imperative to support the continued exploration and development of Alaska's oil and gas resources in an environmentally responsible manner with particular emphasis on the prevention of future oil spills through the rigorous regulation and enforcement of the state's oil pollution control laws.

At the same time, while recognizing the limited contribution to be made from the non-petroleum sector of the state economy relative to the oil industry (see summary of the Alaska State Chamber of Commerce "Export Model" below), there are actions that the Legislature can and should take to expand and strengthen the state's non-petroleum economy.

In particular, efforts should be focused on expanding the state's tourism economy; strengthening our fishing industry; capitalizing on Alaska's global geopolitical location as part of the worldwide transportation and distribution industry; encouragement of new international and domestic investments in Alaska through changes to the state's unitary tax law; facilitating development of a state information industry; and continued efforts to expand international trade.

An economic development legislative agenda developed by the House Majority Economic Development Working Group is attached as Appendix A.

EXPORT MODEL OF THE ALASKA ECONOMY

(in millions)

Oil and Gas		\$ 4,000
Fishing		300
Timber		200
Minerals		100
Coal		25
Travel/Tourism		500
Defense	1,600	
Other Federal	<u>1,300</u>	
	2,900	
Less Federal Taxes	(2,000)	900
Permanent Fund Dividend		300
Total Estimated Value		\$ 6,325

Source: Alaska State Chamber of Commerce (January 1988)

Budget Reduction Strategies and New Revenue Options

The Fiscal Policy Subcommittee addressed the issue of potential budget reductions and new revenue options in its previous reports.

No significantly new information is available to modify the Subcommittee's earlier findings.

APPENDIX A

HOUSE MAJORITY ECONOMIC DEVELOPMENT WORKING GROUP

Premise: Expansion of the private sector economy should be enhanced by specific actions taken by the Legislature.

ECONOMIC DEVELOPMENT STRATEGIES

■ Continue to develop the most viable and promising existing resource extraction industries -- which include oil and gas, coal, minerals, and timber.

■ Double the number of visitors to Alaska by the year 2000.

Maintain support for domestic marketing program. Increase emphasis on independent and highway travelers, fall-winter-spring seasons.

Initiate expanded, multi-year international tourism marketing program.

Fund tourism infrastructure projects, such as

- * State park repairs, maintenance/expansion of basic facilities
- * Ship Creek re-development
- * Denali development
- * Girdwood water/sewer system
- * Project 92 (50th anniversary of Alaska Highway)
- * Juneau cruise ship port development

Pass legislation (SB 213/HB 290) to facilitate the leasing of state land for recreational facilities.

■ Expand the management capability and marketing of Alaska's fisheries resources.

Undertake assessment of fisheries that could be more intensely harvested consistent with the sustained yield principle.

Target and support enhancement programs to compliment commercial and sport fisheries expansion.

Increase management capability so that adequate information and enforcement efforts can maximize economic harvest.

■ **Expand transportation/distribution industry (capitalise on Alaska's strategic geographic location).**

Maintain port and airport facilities; expand facilities to accommodate viable economic activity.

Support DOTPF effort to establish a Statewide Port and Harbor Development Program.

■ **Encourage international and domestic capital investments in Alaska.**

Support unitary tax change (HB 281/SB119).

■ **Encourage development of an information industry.**

Undertake assessment of public and private efforts to develop this industry and prepare a strategic plan for implementation, including actions such as establishing a University Center for Information Technology.

Support university programs generally.

■ **Continue efforts to expand international trade.**

Expand Pacific Rim language courses in the state school system (HB 6) and the university.

CAPITAL SPENDING PROPOSAL

To implement several of the strategies identified above, to protect prior investments, and to fulfill statutory and constitutional responsibilities, continue to make capital investments in maintenance and public infrastructure.

■ **Goals:**

Meet highest statewide and regional priorities.

Enhance development of the private sector economy.

■ **Criteria:**

Will the project serve a public purpose? Is it a constitutional or statutory responsibility?

Is there evidence of public and local community support?

Is the project ready for development?

Will the project provide for the basic maintenance of an existing capital investment; what are the long-term O&M cost implications?

Will the project leverage non-state investment?

Will the project generate a direct return to the state treasury in terms of new revenues?

Will the project will have a quantifiable positive economic benefit for the state, or a region of the state, considering all costs and benefits (such as jobs created, royalties and taxes captured, and ancillary economic or other benefits)?

Is the project compatible with maintenance of environmental quality; does it enhance, or at least not degrade, the quality of life for those directly affected?

Will the project enhance the development of private enterprises?

Proposed total capital budget:

\$250 million.

Funding sources:

\$125 million GF and \$125 million RBEF.

Proposed allocation:

\$125 million -- Governor's capital budget (statewide projects, agency capital projects, roads, schools, repairs, etc.)

\$125 million -- Railbelt economic development projects

Process:

Orderly process and consideration of projects on merit and criteria.



ISER FISCAL POLICY PAPERS

No. 1, August 1989

Institute of Social and Economic Research

University of Alaska Anchorage

THE ALASKA FISCAL GAP

by Oliver Scott Goldsmith

Alaska faces a problem that will be very tough to solve but is easy to explain: state government is spending more than it collects. The problem will get much worse as time goes on. If state general fund spending stays at the current level of \$2.25 billion (in 1989 dollars), we face a fiscal gap—the difference between current spending and projected revenues—that could soon grow to \$1 billion annually.

This budget crisis looms because oil production, which supplies 85 percent of the state's general fund revenues, will soon begin dropping as the huge Prudhoe Bay oil field is depleted. Likely new petroleum production, higher oil prices, and other economic activity in the coming decade won't be able to generate nearly enough tax and royalty income to replace the loss of Prudhoe Bay production.

Figure 1 shows projected oil production and state petroleum revenues over the next 20 years, based on the Alaska Department of Revenue's estimates from producing fields and our own estimates of new field production and per barrel revenue. Production is at its peak and will soon begin a long decline. Even assuming production from new fields such as West Sak—the timing of which is uncertain—production in 2000 will be only half of what it is today. Petroleum revenues

have already fallen to just half of what they were in the early 1980s, because oil prices are much lower now. If the real price of oil remains in the range where it has been for the last few years, petroleum revenues will drop by half again by 2000.

This figure does not include potential production and revenues from oil fields that may exist in the Arctic National Wildlife Refuge (ANWR). Such revenues would of course help reduce the budget shortfall in the next century. But under any reasonable assumptions (see the box on page 4) they would fall far short of revenues we've enjoyed from Prudhoe Bay, and could not reverse the downward trend. Also, future production from ANWR is extremely speculative right now. Congress would first have to open the refuge to exploration and oil companies would have to discover commercial quantities of oil; after such discoveries it would take years to bring new fields into production.

THE FISCAL GAP

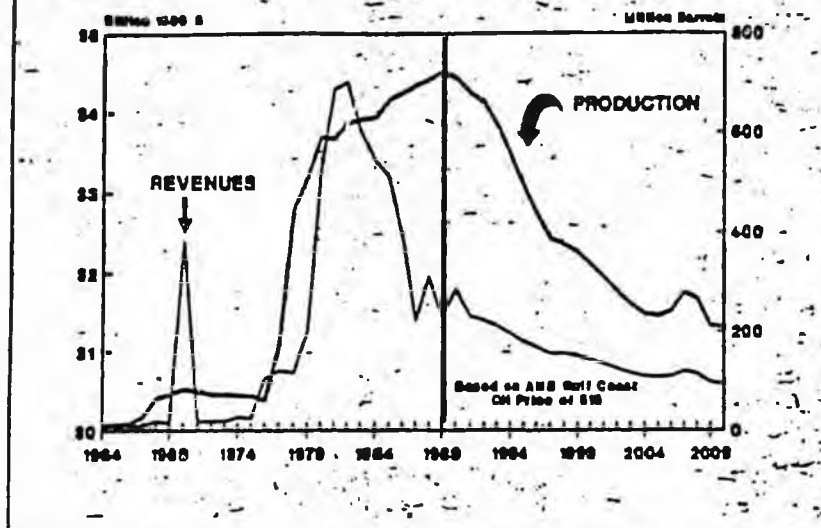
How shrinking production and revenues translate into trouble for Alaska is apparent in Figure 2. It shows the potential size of the future gap

This is the first in a series of *ISER Fiscal Policy Papers* that will examine aspects of state government spending. We intend these papers to focus the attention of state officials and of Alaskans in general on the serious budget crisis we face, and on the necessity for dealing with it soon. We hope this and later papers will provide policymakers with information and analysis they will need when making the difficult decisions ahead.

The author, Oliver Scott Goldsmith, is professor of economics with ISER. He has fourteen years of experience examining state spending. Lee Gorsuch, ISER director, is responsible for the design and presentation of this series. Linda Leask edited the paper.

The *ISER Fiscal Policy Papers* series is financed by a grant from ARCO Alaska.

FIGURE 1. PROJECTED ALASKA PETROLEUM REVENUES AND PRODUCTION



between general fund revenues and spending. If annual spending were held at its current level of about \$2.25 billion (in 1989 dollars), the gap between spending and revenues could be several hundred million dollars a year in the early 1990s and more than \$1 billion annually after the turn of the century. If future revenues turn out to be larger than we anticipate, the fiscal gap could be reduced for a short time but the overall picture would be the same. (See the box on page 4 for a description of how our results would change under different assumptions about future developments and other factors.)

Such a gap of course can't persist. We'll have to balance the budget by cutting spending, raising taxes, using savings, or some combination of the three. These changes will affect not only those who currently enjoy state services, work for state government, or pay taxes. Everyone who benefits from local government services like schools and street maintenance will also be affected. Budget cuts will also affect recipients of government transfers—including Permanent Fund dividends—and businesses that depend on the purchasing power provided by a large public sector.

Balancing the budget will affect all Alaskans, because the economy and people of Alaska are dangerously dependent on state government spending financed by oil revenues. Even now, after several years of recession and a precipitous drop in revenues, state government spending still

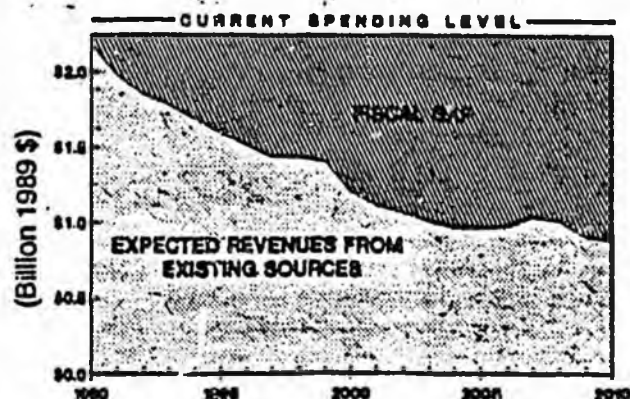
accounts directly and indirectly for more than one in four Alaska jobs.

Below we look at four possible ways to deal with the fiscal gap between now and the year 2010. Briefly, our four cases are: (1) Stumble From Year to Year; this case assumes that the state tries to maintain current spending for as long as possible by using all available reserves except the principal of the Permanent Fund and then cuts spending to match reduced revenues. (2) Deplete the Permanent Fund; this case examines what would happen if the state maintained the current budget level by spending the principal of the Permanent Fund. (3) Freeze the Budget; this case looks at how the

fiscal gap would be affected if the state did not adjust the budget for inflation—in effect cutting the budget by the annual rate of inflation. (4) Cut Spending and Raise Taxes; this case describes the combined effects of reducing state spending, reimposing the personal income tax, and eliminating the Permanent Fund dividend.

There are other possible combinations, but these four scenarios include the main options available to the state. We do not discuss, nor have we attempted to analyze, the enormous political difficulties inherent in exercising any of these options. Some would require changes in law or even amendments to the Alaska constitution. All would generate intense public debate, and most

Figure 2. PROJECTED STATE FISCAL GAP* (Difference Between Revenues and Spending)



*Projected at the current level of state general fund expenditures. Revenues include oil settlement estimate.

REAL VS. INFLATED DOLLARS IN FISCAL ANALYSIS

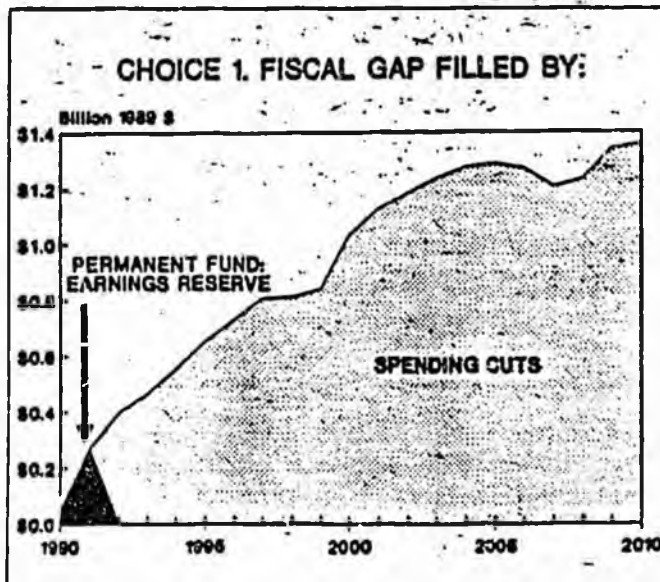
For simplicity and clarity all revenues and expenditures are presented in 1989 dollars. Using this technique eliminates the need to estimate the rate of inflation—the value of which has only a marginal effect on the rest of our analysis—and avoids the confusion that inflation can introduce when we try to compare the purchasing power of dollars received at different times. For example, \$1 of revenue collected in 2000 would have the purchasing power of just 61 cents, if inflation were 5 percent annually over the next decade. Our use of 1989 dollars throughout the analysis allows direct comparisons of current and future purchasing power.

The use of real dollars also corrects a misinterpretation that can arise in revenue projections that use nominal dollars. In such projections, the inflation-proofing portion of Permanent Fund earnings can appear to be a source of recurring revenues. In fact, inflation-proofing is just the portion of earnings needed to offset the devaluation of the fund principal by inflation. Because we use real dollars in our analysis, inflation-proofing does not appear as a separate revenue source, and we avoid any potential misinterpretation. This assumption does not preclude the policy option of appropriating inflation-proofing to fund government spending.

would face extremely strong opposition from specific groups or from Alaskans in general. This paper does not endorse any particular strategy to balance the budget. Rather, it describes in general the tradeoffs—who bears the pain—and the ramifications of the various choices.

Doing an analysis like this requires making certain economic assumptions. Those assumptions are summarized in the box on page 4 and in the individual case descriptions. We can't be sure that these assumptions will prove correct, but changing those assumptions in any reasonable way would not substantially alter our findings.

FISCAL CHOICE 1: STUMBLE FROM YEAR TO YEAR



In this case we look at what would happen if the state government budgeted from year to year, trying to maintain the current level of spending (\$2.25 billion in 1989 dollars) for as long as possible, using available fund balances but making no changes in current fiscal policies. The dividend

program would not be changed, the principal of the Permanent Fund would be retained, and no new tax measures would be enacted.

Revenues from the settlement of disputes with the oil companies over past royalty and tax payments, as well as with the federal government over ownership of leases in the Beaufort Sea, are an important element of our revenue estimates for the 1990s. The amount and timing of any settlement money the state might receive is extremely uncertain, but we assume for this and the other cases that the settlements occur regularly over the next decade in an amount equivalent to \$1.7 billion today. (See also the box on page 4 for an example of how changing this settlement total would change the analysis.) In reality the state may not be so fortunate as to receive a steady stream of income from this source, and the budget shortfall would pressure the state to accept quick negotiated settlements in these disputes.

Under these conditions, the Railbelt Energy Fund, the Earnings Reserve Account of the Permanent Fund, and other fund balances could balance the budget for a short time. A fiscal gap of \$400 million would open in 1992 and grow to an annual deficit of \$1 billion by 2000. In this scenario, state government and the economy would adjust to reduced state spending as discussed below and shown in the graphs on page 7.

Permanent Fund: The Permanent Fund would remain just about the same size (inflation-proofed) that it is today. Contrary to popular belief, future earnings of the Permanent Fund will not be able to replace petroleum revenues in the support of state government. Annual additions to the fund from petroleum revenues—which the state constitution currently requires go directly to the principal of the Permanent Fund—plus earnings would largely be consumed by the Permanent Fund dividend program, with little or nothing left

ECONOMIC ASSUMPTIONS USED IN ANALYSIS

If we changed the economic assumptions used in this analysis, the rate at which the fiscal gap grows would be different but the options for dealing with the gap would be the same. To focus on those options we held the economic assumptions constant throughout the four cases. The most important assumptions are listed below. (Full details on the assumptions are available from the author.)

OIL PRODUCTION: Alaska Department of Revenue estimate, Spring 1989, plus West Sak production scenario developed by author (oil companies recently announced postponement of West Sak exploration)

OIL PRICE: Gulf Coast delivered price for Alaska North Slope (ANS) crude averages \$15 a barrel (in 1989 dollars)

RETURN ON PERMANENT FUND: 3 percent annually, net of inflation

EMPLOYMENT GROWTH RATE: 1.75 percent annually, independent of government spending

SETTLEMENT REVENUES FROM PETROLEUM DISPUTES: \$1.7 billion (in 1989 dollars), received over 10 years

TAX REGIME: Reflects the Economic Limit Factor (ELF) as revised by the Alaska Legislature in June 1989

INFLATION RATE: 5 percent annually

RECURRING REVENUES (Non-petroleum revenues): 1 percent growth annually, net of inflation

for fund growth. The total amount available to pay dividends and the payments to individual Alaskans would stay fairly constant because population growth would roughly match growth in the total available for dividends. Dividends as a component of government spending would increase because of decreased spending in all other functional areas.

Revenues: With no new recurring revenues, general fund revenues would steadily decline to about \$1.2 billion in 2000. Permanent Fund additions and earnings would remain relatively constant because of the stable size of the fund.

Expenditures: Declining petroleum revenues would force significant budget cutbacks beginning in earnest in 1992. The general fund would need to be cut 18 percent that year to balance the

budget. Smaller annual cuts would be the rule over the next two decades. Expenditures in 2000 would be \$1.2 billion—equal to revenues collected that year. These cuts in state spending would mean underfunding many and eliminating some government programs; reducing transfers to local governments (reating pressure on local governments to increase taxes and try to shift government functions back to the state); and reducing financial support for individuals. Projected population growth would add to the problem of deciding how the cuts should occur. Uncertainty about the timing and magnitude of cuts from year to year would create continuing confusion and negative attitudes both within government and the private sector.

Alaska Employment: During the next decade 26,000 public and private jobs would be lost as

WHAT IF WE CHANGED THE ASSUMPTIONS?

A question likely to be asked is: How much longer could we maintain current spending if revenues turned out to be greater than we have assumed? If we used up the entire Permanent Fund (as discussed in Case 4), we could maintain current spending up until 2003. Alternate assumptions would add to the number of years that the current spending level could be maintained as follows:

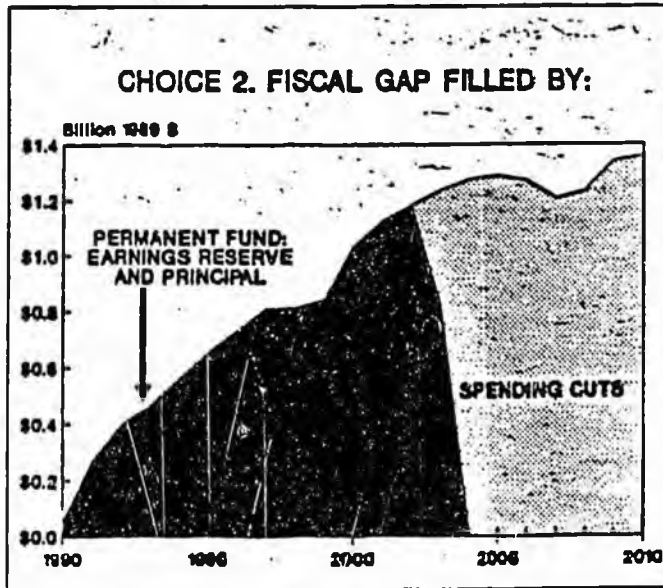
\$1 increase in the price of oil	1 year
Gas pipeline in the 1990s	1 year
ANWR production shortly after 2000	1 year
Petroleum settlements of \$3.4 billion	2 years

Another likely question is: What would be the cost of a one-year delay in closing the fiscal gap? Our analysis in Case 4 indicates that the state can sustain annual spending of about \$1.45 billion (in 1989 dollars) based on the current tax regime, compared with the current spending level of \$2.65 billion (including the approximately \$400 million paid in Permanent Fund dividends). The difference between current and sustainable spending—\$1.2 billion—approximates the loss in state fiscal assets associated with each year of delay in closing the gap.

state general fund spending was cut virtually in half. (For simplicity we assume public sector jobs would be eliminated in proportion to the budget cuts. Wage rate reductions could partially offset this job loss. We also assume that local governments do not raise taxes in response to less state fiscal support.) The drag on the economy created by a job loss of this magnitude would make it difficult if not impossible for the economy to grow, even assuming the private sector could generate new jobs at about the same rate projected for the national economy—1.75 percent annually. Total employment in Alaska in 2000 would be only slightly above what it is today.

Economic Well-Being: Annual percentage changes in employment would hover near zero for most of the next 10 years, with a dramatic drop when government spending was first reduced in 1992. Per capita general fund government spending would fall about 5 percent annually through most of the next 20 years.

FISCAL CHOICE 2: DEplete THE PERMANENT FUND



Another strategy for dealing with the budget crisis—the most drastic and one which would require an amendment of the Alaska constitution—would be to use the entire \$10 billion in the Permanent Fund to plug the fiscal gap and keep spending at \$2.25 billion (in 1989 dollars) for as long as possible. We do not endorse this strategy, but include it to cover the range of options avail-

able to the state. Under this scenario, the portion of Permanent Fund earnings now used to protect the principal of the fund from inflation would be spent, as well as the principal of the fund itself.

The first draw—\$400 million from inflation-proofing—would be required in 1992. Within two years, however, we would begin taking from the principal of the fund, and the withdrawals would grow rapidly—topping \$1 billion for the first time in 2000. The fund principal would be drawn down faster as time went on not only because of the growing fiscal gap but also because the shrinking Permanent Fund would generate less earnings each year. Under this scenario, the effects would be as discussed below and shown in the graphs on page 8.

Permanent Fund: More than \$6 billion from the Permanent Fund would be needed to fill the budget gap between 1992 and 2000. The last year of withdrawals would be 2003, when the Permanent Fund would be depleted. The Permanent Fund dividend would be an additional casualty, declining each year as the fund shrank and disappearing when the fund disappeared.

Revenues: Revenues flowing into the general fund would be the same as in Case 1, but the use of Permanent Fund earnings and principal would disguise the shortfall until 2003, when the Permanent Fund would be gone. By 2005, revenues would be about \$1 billion—60 percent less than the level expected in 1990. The additions and earnings of the Permanent Fund would fall as the fund itself shrank.

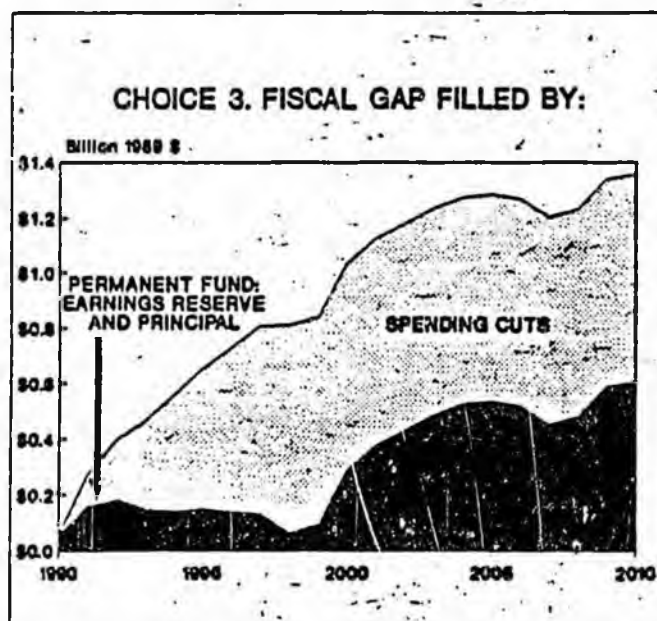
Expenditures: The Permanent Fund would prop up expenditures until 2003. Then a massive "forced transformation" of the public sector and the entire Alaska economy would occur because of the sudden drop in state general fund spending—from \$2.25 billion to \$1 billion in just two years. All public services at the state and local levels would suffer dramatic cutbacks.

Alaska Employment: Extreme dislocation and a serious economic recession would start in 2003. About 30,000 jobs—both public and private—supported by general fund spending would disappear over a two-year period. (To put such a drop in perspective, job loss during the 1985-1988 recession was about 25,000.) Even assuming

private industry would continue to generate jobs at the rate of 1.75 percent annually, by 2010 Alaska would still not have replaced all the jobs lost during the recession.

Economic Well-Being: Alaska employment would increase through 2002 because of growth in the private economy and constant general fund government spending. In the following two years, 12 percent of total state jobs would disappear. Despite constant government spending through 2002, per capita state general fund spending would decline because private economic growth would be drawing people to Alaska. Per capita state general fund spending would be cut nearly in half when the "forced transformation" occurred.

FISCAL CHOICE 3: FREEZE THE BUDGET



The forced transformation of the public sector and the severe recession described in Case 2 could be mitigated under a scenario in which the budget was held constant in nominal dollars—that is, not adjusted for inflation. Such a strategy would reduce the purchasing power of the budget each year by the rate of inflation.

The average annual rate of inflation in the coming years is expected to be in the neighborhood of 5 percent. If the budget were not adjusted for that inflation, the real dollar value (the effective purchasing power) of the budget would fall by 5 percent each year. If the state government imple-

mented a constant budget policy starting in 1991, the budget could be reduced to an arbitrary target level of \$1.5 billion (in 1989 dollars) by 1998.

A gradual policy like this would require a large amount of political discipline, but it would have several attractive features—even though it would not entirely solve the state's long-term fiscal problem. Public programs could be phased out on the basis of plans developed to minimize the effects of the budget reductions. The economy would not suffer the kind of massive shock described under Case 2, when state spending would be reduced by half in just two years. The effects of using inflation to cut the budget are discussed below and shown in the graphs on page 9.

Permanent Fund: This strategy at first glance appears to preserve the Permanent Fund, since the balance would hold relatively constant for several years after budget cuts ended. It would require use of portions of the annual appropriations for inflation-proofing during the 1990s. After 2000 continuing declines in revenues would force significant withdrawals from principal. By 2010 the fund principal would be only about \$3.5 billion, as compared with \$10 billion today. As the Permanent Fund shrank, the amount paid out as dividends would also fall off.

Revenues: General fund revenues would be the same as in Cases 1 and 2. The spending reductions would not be sufficient to produce a general fund surplus; such a surplus could in itself be a new source of earnings. Additions and earnings of the Permanent Fund would taper off after 2000 as the principal of the fund was spent.

Expenditures: State expenditures would fall off gradually but steadily each year until 1998 and then hold steady at \$1.5 billion through the next decade—but only because we would be using the principal of the Permanent Fund to supplement other revenues. After 2010 the Permanent Fund would be used up and a smaller "forced transformation" of the public sector and the economy would occur. Under this scenario, dramatic cuts in state spending—as much as 40 percent—would be forced by 2015 (not shown on the graph).

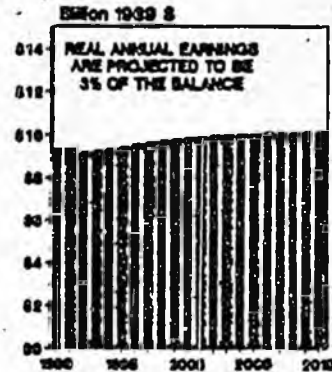
(Text continued on page 11)

Fiscal Choice 1: Stumble from Year to Year

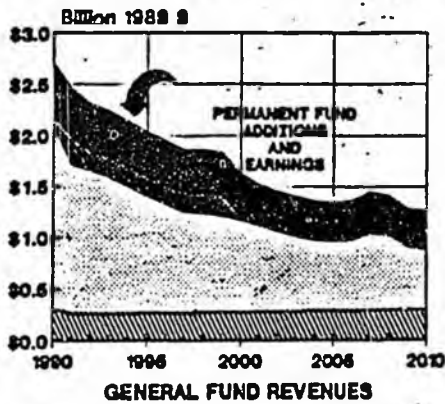
CASE ASSUMPTIONS

- **SPENDING:** General Fund spending based on availability of revenues up to \$ 2.25 billion (1989\$)
- **TAXES:** No new taxes
- **DIVIDEND:** Retain Permanent Fund dividend
- **PERMANENT FUND:** Leave Permanent Fund principal intact, continue contributions and inflation proofing, spend earnings reserve account
- **OIL PRICE (constant across cases):** Average ANS Gulf Coast oil price \$15 (1989\$)
- **SETTLEMENTS (constant across cases):** \$1.7 billion of oil settlements collected and spent over 10 years.

PERMANENT FUND BALANCE

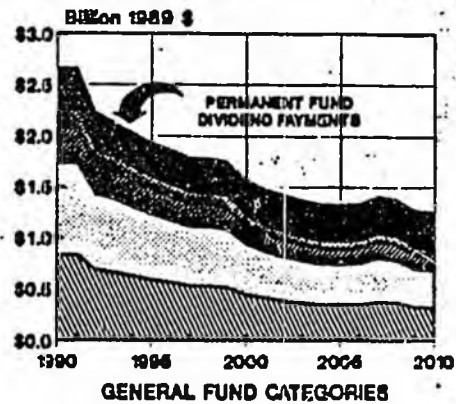


STATE GOVERNMENT REVENUES (Permanent Fund Included)



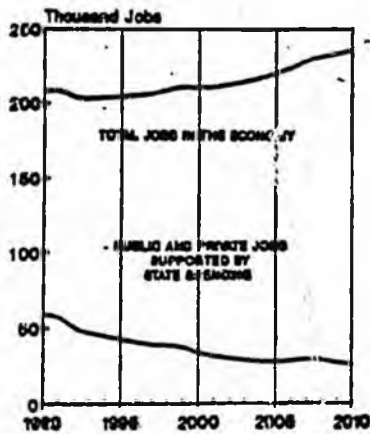
RECURRING OIL
SETTLEMENTS

STATE GOVERNMENT EXPENDITURES (Dividend Included)



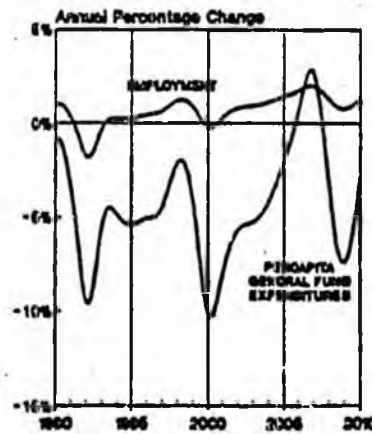
AGENCY FORMULA
OTHER CAPITAL

ALASKA EMPLOYMENT



Wage and Salary Employment Only

ECONOMIC WELL-BEING

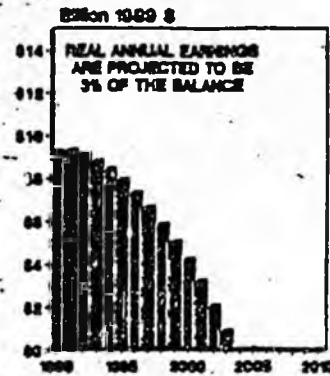


Fiscal Choice 2: Deplete the Permanent Fund

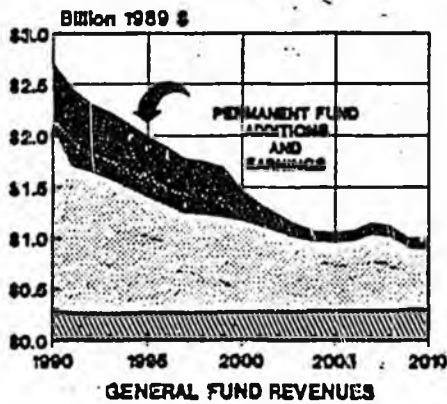
CASE ASSUMPTIONS

- **SPENDING:** General Fund spending based on availability of revenues up to \$ 2.25 billion (1989\$)
- **TAXES:** No new taxes
- **DIVIDEND:** Retain Permanent Fund dividend
- **PERMANENT FUND:** Use Permanent Fund principal to maintain spending as long as possible
- **OIL PRICE (constant across cases):** Average ANS Gulf Coast oil price \$15 (1989\$)
- **SETTLEMENTS (constant across cases):** \$1.7 billion of oil settlements collected and spent over 10 years

PERMANENT FUND BALANCE

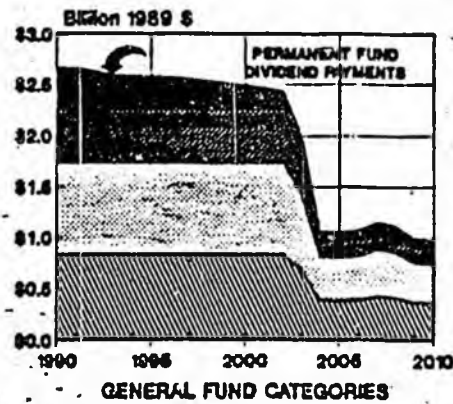


STATE GOVERNMENT REVENUES (Permanent Fund Included)



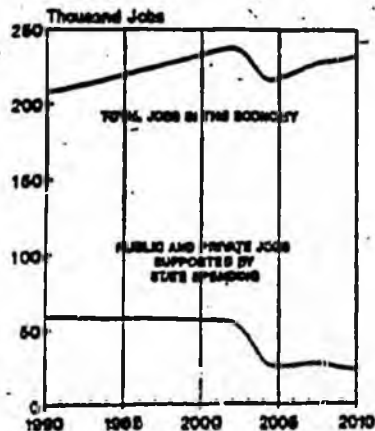
RECURRING OIL
 SETTLEMENTS

STATE GOVERNMENT EXPENDITURES (Dividend Included)



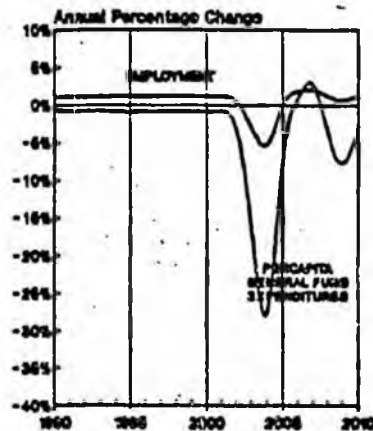
AGENCY FORMULA
 OTHER CAPITAL

ALASKA EMPLOYMENT



Wage and Salary Employment Only

ECONOMIC WELL-BEING



Fiscal Choice 3: Freeze the Budget

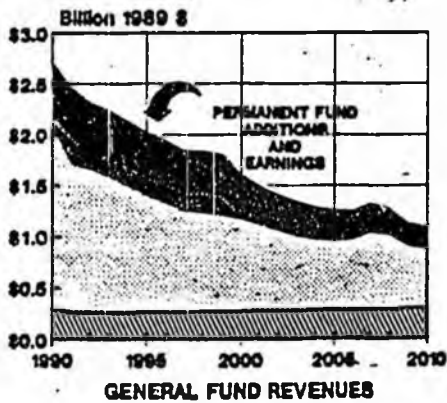
CASE ASSUMPTIONS

- **SPENDING:** General Fund spending constant in nominal dollars from 1991 to 1998. (The budget declines to a target of \$1.5 billion in 1999)
- **TAXES:** No new taxes
- **DIVIDEND:** Retain Permanent Fund dividend
- **PERMANENT FUND:** Use Permanent Fund principal to maintain spending at targeted level as long as possible
- **OIL PRICE (constant across cases):** Average ANS Gulf Coast oil price \$15 (1989\$)
- **SETTLEMENTS (constant across cases):** \$1.7 billion of oil settlements collected and spent over 10 years

PERMANENT FUND BALANCE

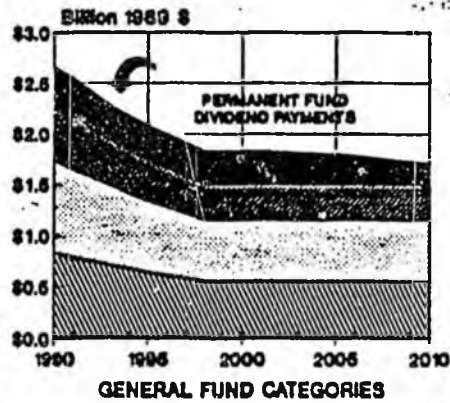


STATE GOVERNMENT REVENUES (Permanent Fund Included)



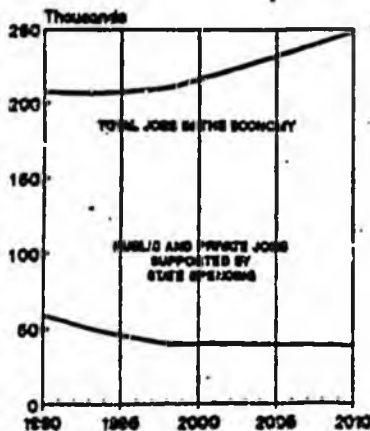
RECURRING OIL
SETTLEMENTS

STATE GOVERNMENT EXPENDITURES (Dividend Included)



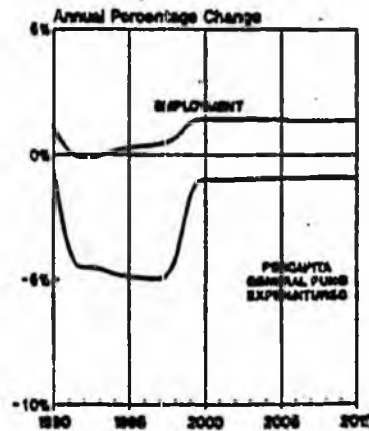
AGENCY OTHER
FORMULA CAPITAL

ALASKA EMPLOYMENT



Wage and Salary Employment Only

ECONOMIC WELL-BEING

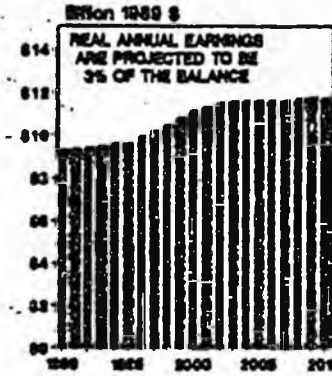


Fiscal Choice 4: Cut Spending and Raise Taxes

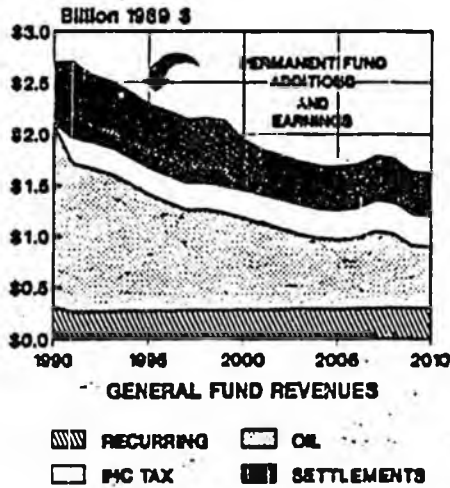
CASE ASSUMPTIONS

- **SPENDING:** General Fund spending is reduced 2.5% annually (1989\$) from 1991 to 2000. (The budget declines to a target of \$17 billion in 1989\$)
- **TAXES:** Personal income tax reimposed in 1991
- **DIVIDEND:** Permanent Fund dividend eliminated in 1995
- **PERMANENT FUND:** Leave Permanent Fund principal intact, continue contributions, spend earnings reserve account. Appropriate real earnings to General Fund. Use inflation proofing to fill revenue gap.
- **OIL PRICE (constant across cases):** Average AHS Gulf Coast oil price \$15 (1989\$)
- **SETTLEMENTS (constant across cases):** \$1.7 billion of oil settlements collected and spent over 10 year

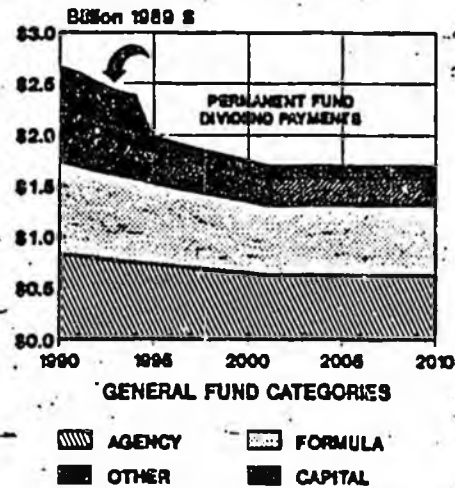
PERMANENT FUND BALANCE



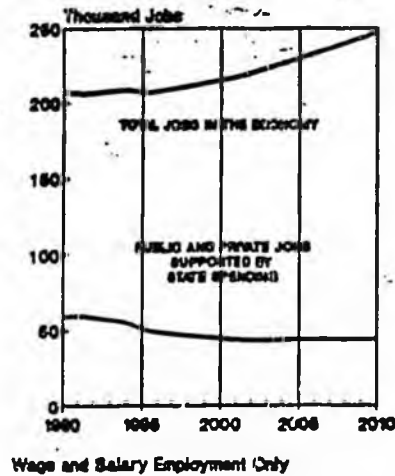
STATE GOVERNMENT REVENUES (Permanent Fund Included)



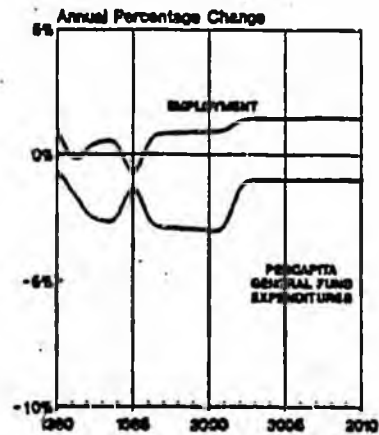
STATE GOVERNMENT EXPENDITURES (Dividend Included)



ALASKA EMPLOYMENT



ECONOMIC WELL-BEING

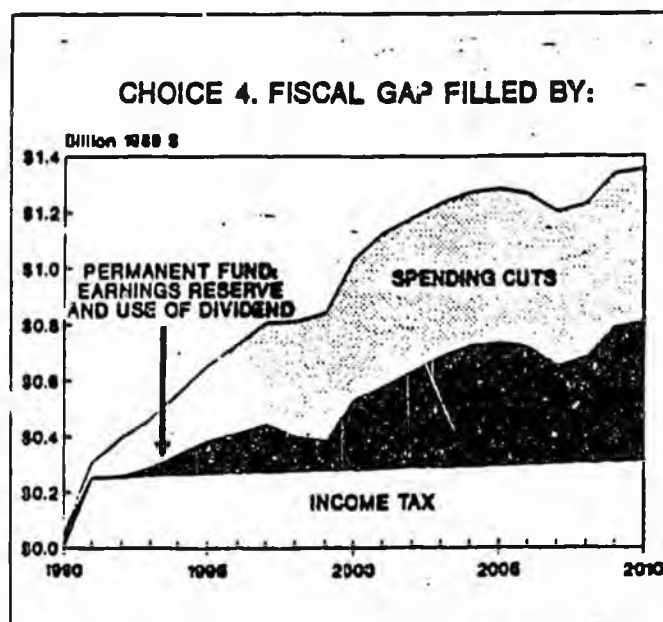


(Text continued from page 6)

Alaska Employment: The number of public and private jobs supported by state spending would suffer gradual attrition throughout most of the 1990s, dropping by about 20,000 over the decade. Private industry would be hard pressed to replace those jobs that had been supported by state spending. Total Alaska employment would stagnate until 1995 and only then begin a gradual increase. However, after 2010, when state spending dropped off very abruptly, a shock wave would again travel throughout the economy, eliminating public and private sector jobs and precipitating another recession.

Economic Well-Being: There would be little year-to-year change in Alaska employment until the late 1990s. In the following decade, modest growth in the private sector combined with stable public employment would result in small annual increases in employment. Per capita general fund state spending would decline every year for the next two decades, but the drops would be smaller after the 1990s. Again, both per capita state spending and employment would suffer after 2010, when state spending dropped sharply.

FISCAL CHOICE 4: CUT SPENDING AND RAISE TAXES



The cumulative budget reductions described in the first three cases, combined with the elimina-

tion of the Permanent Fund in the second and third, may be more than Alaskans are willing to endure. An alternative to those kinds of reductions would be for the state government to use new sources of revenues. The most likely sources are a personal income tax and the earnings of the Permanent Fund that now finance the dividend program. Those two together could contribute \$650 million annually—\$250 million from the income tax and \$400 million from the dividend program—to the general fund. In this scenario, we look at what would happen under one possible combination of these two new revenues. We assume the income tax is reimposed in 1991 and that beginning in 1995 the revenues now used to fund the Permanent Fund dividend program are instead used to supplement general fund revenues.

The state would still need to cut the budget, because at the current level of spending the fiscal gap would soon exceed the \$650 million generated by these new revenue sources. Furthermore, cutting the budget at the same time new revenues were added would distribute the pain between the taxpayers and the beneficiaries of public spending.

Our analysis suggests that the state is spending \$1.2 billion more annually than it can support in the long run, without an income tax (\$800 million in general fund spending and \$400 million in dividends). If we chose to reimpose the income tax and use the earnings of the Permanent Fund to support public spending, sustainable revenues would increase \$650 million annually and \$550 million in non-sustainable spending would remain. Thus the general fund budget would need to be cut to \$1.7 billion—about a 25 percent reduction. In combination with the revenue generating measures, such a budget cut would eliminate the fiscal gap not only in the 1990s but into the following decades as well—and the Permanent Fund would remain intact.

Depending on when the state receives settlements in tax and other disputes, this scenario might require budget cuts in years of increasing revenues. The state would intentionally collect more than it spent—thus setting aside a small balance of settlement reserves to smooth the transition to a smaller budget. Although that might be a rational decision when we consider the projected revenue decline in the later years, the plan would be tough to justify in the short run, particularly in the presence of fluctuating oil

prices. The effects of this fourth scenario are discussed below and shown in the graphs on page 10.

Permanent Fund: The principal of the Permanent Fund would grow slowly through the next two decades, with the addition of revenues from petroleum and withdrawals only of real earnings to fund government. The fund would have a continuing capacity to generate real earnings of \$400 million annually that could be used to support public spending. Individual Alaskans would, however, lose their annual dividends in 1995.

Revenues: Even with the addition of new revenues from the income tax, total general fund revenues would still fall under this scenario, because the new taxes would not completely offset lost petroleum revenues. But the drop would not be as dramatic as in the other cases—revenues independent of the Permanent Fund would be \$1.5 billion in 2000 and fall to \$1.25 billion in 2005. As noted above, the Permanent Fund would produce about \$400 million in real earnings annually, some of which could be reinvested in early years.

Expenditures: Annual budget reductions would continue for 10 years, cutting expenditures by 25 percent over the decade. (If the annual rate of inflation averaged 5 percent, then the budget in nominal dollars would be increasing at 2.5 percent in this case.) These cuts would of course reduce the level of government services, but the reductions would be much more gradual than in the other cases we've looked at. After 2000 expenditures could be maintained at the target level indefinitely.

Alaska Employment: About 12,000 public and private jobs supported by general fund spending would disappear as state spending declined. Another 3,000 jobs would be eliminated when the income tax was reimposed and 5,000 more when the dividend program ended. Although the rate of job loss from these government actions over a 10-year period would be gradual, private industry would have to create new jobs at a rate greater than 1.75 percent annually to produce significant total employment growth before 1996.

Economic Well-Being: The economy would con-

tract when the income tax was reimposed, and again when the Permanent Fund dividend was eliminated. Reimposition of the income tax would draw purchasing power out of the private economy. Elimination of the Permanent Fund dividend would shift purchasing power from an activity with a high multiplier to one with a lower multiplier—because the money would be spent not by thousands of individuals but by government. Per capita general fund spending would decline in the 1990s, but the loss would be less than in the other cases. In contrast, per capita discretionary income of Alaskans (not shown on the graph) would fall in this case due to the reimposition of the income tax and the elimination of the dividend.

TRADEOFFS AMONG STRATEGIES

We have described four ways—all of them painful—of dealing with the fiscal gap. In each case the level of public services—both aggregate and per capita—would fall. In each case the private economy would also suffer, since reduced public spending and transfers and increased taxes would mean less buying power. There is no strategy that would close the fiscal gap without creating pain, because the gap can only be filled by taking from somewhere in the economy.

In each case the pain would be distributed among citizens—present and future—in a different way. Those different distributions are the distinguishing features of each strategy. We recognize, of course, that the effects of balancing the budget will vary among individual Alaskans and in different areas of the state. For example, areas where state spending makes up a larger share of economic activity would be harder hit by budget cuts. Similarly, eliminating or reducing Permanent Fund dividends would affect the pocketbooks of low-income Alaskans more than those with higher incomes, while reimposing the personal income tax would have more impact on those with higher incomes. Despite these individual and regional differences, there are broad kinds of tradeoffs all Alaskans will need to consider; some of these are discussed below.

Present vs. Future Public Spending: If we spend less of our petroleum wealth now, more will remain for future needs—our own or those of

later generations. Should we discount the needs of the future, because such needs are not easily identifiable or because we think the wealth of future generations is currently underestimated? Or should we weight the needs of the future heavily because new public needs are continually being identified, the population is growing, and we may be overestimating future revenues?

Figure 3 shows state spending levels over the next 20 years under our four choices. All the choices show much lower spending by 2010—but how much we spend along the way varies sharply among the choices. Choice 1 and Choice 2 offer the biggest contrast in spending over the next decade; under Choice 1 we would continue current fiscal policy, using all available reserves except the Permanent Fund, while in Choice 2 we would prop up spending by draining the Permanent Fund. Although spending would obviously be much higher under Choice 2 over the next decade, by 2010 spending under both cases would fall to about the same level—but the Permanent Fund would be gone under Choice 2. Choice 3 also would prop up state spending by using the Permanent Fund, but at a slower rate. Spending under Choice 4 would be highest in 2010—but we would maintain that spending level without drawing on the Permanent Fund principal.

Figure 4 shows how each of our four choices would affect the Permanent Fund, our primary repository of oil wealth. The fund and its earning power would not last long if we opted to use the principal to prop up state spending. In Choice 2, the fund would be used up in 2003; in Choice 3 it would dwindle after the 1990s and be gone by 2015. The fund would increase somewhat under both Choices 1 and 4. But under Choice 1 the fund would be left intact while state spending shrank and the state government and the economy floundered from year to year. Under Choice 4, state spending would be stabilized and the economy would not be jolted by continuing spending cuts over 20 years—but it would be stabilized at the cost of a new personal income tax and the elimination of Permanent Fund dividends.

The most straightforward benefit to the average Alaskan from the Permanent Fund has been the annual dividends paid out of fund earnings. Figure 5 shows how dividend payments would be affected under each of our four choices. Under Choice 1, real dividend payments (in 1989 dol-

lars) to each Alaskan would remain fairly constant over the next 20 years, since population growth would roughly match growth in the amount available for dividends. Under Choice 2, the dividends would shrink over the next decade as the principal of the fund was being drawn down and its earnings reduced; the last dividends would be paid in 2004. The attrition of dividends would be somewhat slower under Choice 3, but the result would be the same: shrinking and then disappearing dividends by 2015. Under Choice 4, the dividend program would end in 1995 and the money that formerly went into that program would be shifted over to the general fund.

To conclude our discussion of spending, we should note that in the past decade the state government has spent part of its oil wealth in ways intended to stimulate future economic growth rather than simply to maintain current programs. Many of these ventures have so far had limited success, and it's outside the scope of this paper to assess their value to the state as investments. But to the extent that the state can use its oil wealth to promote economic growth, that kind of spending should be viewed as investment and distinct from spending that simply creates jobs and income in the present.

Present vs. Future Economic Activity: The Alaska recession that followed the "petrodollar boom" of the early 1980s demonstrated that a large portion of the economic activity stimulated by state spending of oil revenues could be sustained only as long as the flow of oil dollars continued. We can continue to spend oil revenues when we receive them, and immediately receive the benefits of the jobs and income produced by that spending. Alternatively, we can postpone spending some of the revenues and receive the economic benefits at some future time. The choice should depend on when those jobs and income will contribute most to the economy and on what we want to save for future generations. Until we make such a choice, the marketplace—essentially the OPEC cartel and the petroleum production cycle—will continue to dictate the booms and busts of our economy.

Figures 6 and 7 show how the number of jobs supported by state spending—including both public and private jobs—and the total number of jobs in Alaska would vary under our four choices. Under Choice 1, the number of jobs supported by

public spending would decline steadily for the next 20 years. Under Choice 2, spending of the Permanent Fund would keep such jobs at about their current level until the fund was exhausted in 2003—then many jobs would be eliminated quickly, and by 2010 there would be about half as many jobs supported by public spending as there are today. Under Choice 3, which involves more gradual use of the Permanent Fund, the number of jobs created directly and indirectly by state spending would drop somewhat by 2010—but not shown on the graph is a very sharp drop that would occur after 2010, when the Permanent Fund was depleted. As with the other cases, the number of jobs supported by state spending would also drop under Choice 4, but the decline would be somewhat smaller and the number of such jobs would stabilize after 2000.

How total jobs in the state—including both those supported by public spending and those by private industry—would fare under each of our choices depends largely on the timing of public spending and on whether the Permanent Fund is depleted. We assume in all cases that private industry in Alaska is able to generate new jobs at an average annual rate of 1.75 percent. Under Choice 1, it would take about 10 years for private growth to offset the job loss from reduced public spending. Use of the Permanent Fund would keep the number of jobs growing under Choice 2—until the fund was used up; then a severe recession would occur. By 2010 Alaska employment would be lowest under Choice 2. Under Choice 3, total jobs would grow slowly but steadily through 2010—but again, not shown on this graph is a sharp decline in jobs that would happen around 2015. Employment under Choice 4 would be slightly lower than under Choice 3, because in that case spending of the Permanent Fund would not be supporting jobs. However, unlike Choice 3, Choice 4 would not involve a recession in 2015.

Public vs. Private Consumption: How much we are able to consume as a state ultimately depends on the productive capacity of our basic industries—petroleum, seafood, tourism, mining, forest products and federal government spending. The split between public and private consumption does not affect this capacity unless government raises taxes so high that private economic incentives are adversely affected. However, the distribution of the benefits does depend

on that split. We have argued that the current rate of consumption can't be sustained (because public spending exceeds sustainable public revenues), but we have not suggested what the proper balance is between public and private consumption. Is public consumption in Alaska too large because of historical accident and because the only constraint on public spending seems to have been the availability of revenues? Or should we increase public consumption relative to private consumption to meet the continuing growth in those needs best served through public action? Do we need a large public sector to balance the dominant economic influence of a single commodity? Or does high public consumption hamper diversification in the private sector?

Gradual vs. Abrupt Transition: A gradual transition to a sustainable level of public spending would allow both the public and private sectors to adjust in ways that would minimize the pain from the loss of public services, income, and employment. At the same time, a gradual transition would be very difficult to manage politically and would have a lasting negative psychological effect on the state and population. A quick transition would not leave much time for adjustments and would cause some inefficiencies as public agencies, businesses, and individuals reorganized in the wake of budget cuts. On the other hand, the detrimental psychological effects would be short-lived.

Figure 8 shows the different rates of spending cuts under the four cases. The most drastic would be Choice 2, where state spending would drop by more than half shortly after 2000. Choice 1 would see sharp cuts in the early 1990s and then a continual downward drift for the next 20 years. Choice 3 would result in a fairly stiff drop in the early 1990s followed by relatively stable state spending through 2010—but then another sharp cut in the next decade. Under Choice 4 we'd see small but steady decreases throughout the 1990s but a leveling off after that.

Public vs. Private Economic Activity: Delivering public services requires hiring public employees—teachers, construction workers, office workers—and indirectly generates private employment. Delivering private goods and services requires hiring private employees—clerks, construction workers, office workers. Is the mix

Comparisons Across Fiscal Choices

Figure 3

STATE GENERAL FUND EXPENDITURES

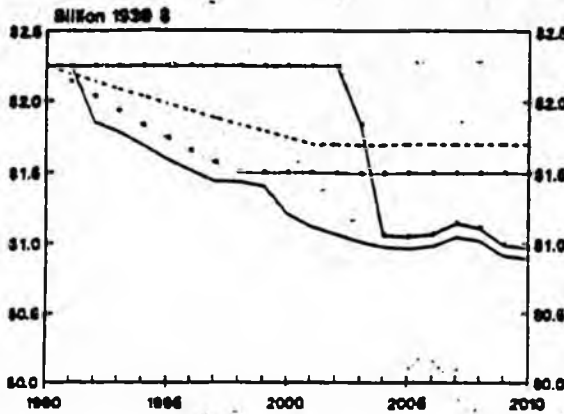


Figure 4

PERMANENT FUND BALANCE

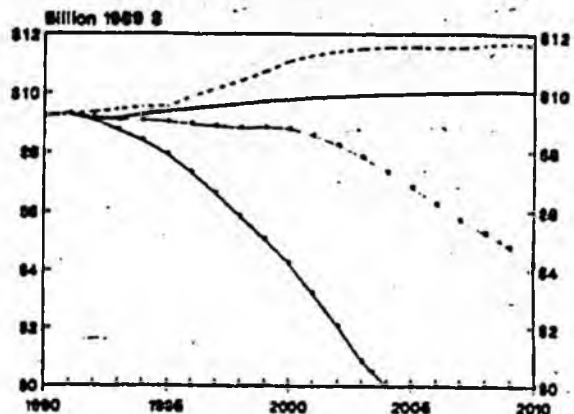


Figure 5

PERMANENT FUND DIVIDEND

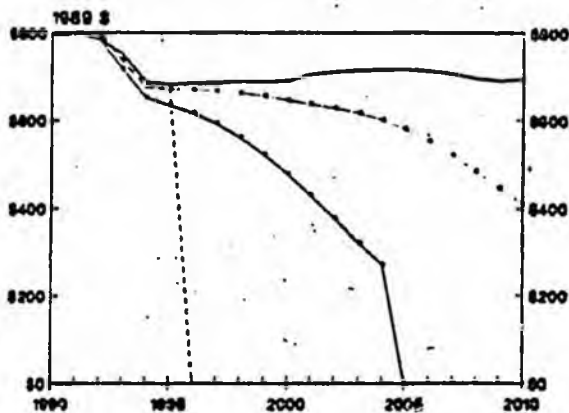


Figure 6

STATE SUPPORTED EMPLOYMENT

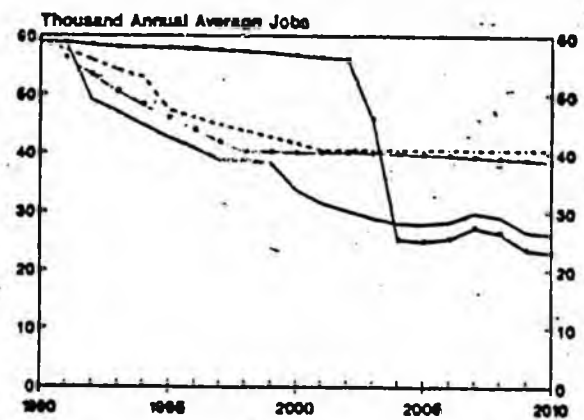


Figure 7

ALASKA WAGE AND SALARY EMPLOYMENT

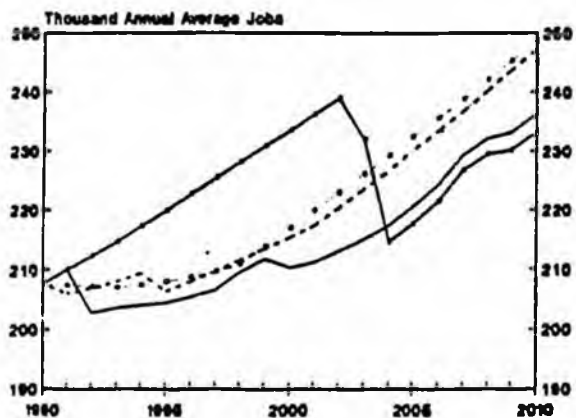
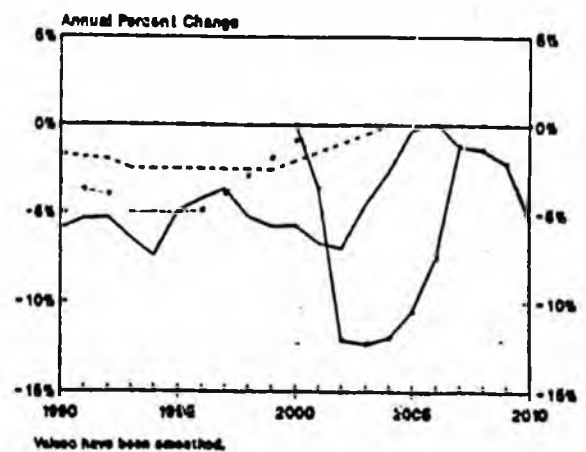


Figure 8

GENERAL FUND SPENDING: YEARLY CHANGE



Values have been smoothed.

SCENARIO

- 1 STUMBLE ALONG
- 2 USE PERMANENT FUND
- - - 3 BUDGET FREEZE
- - - 4 BUDGET CUT & TAXES

of public and private jobs in the economy an important consideration, independent of the mix of goods and services provided?

It would be if the economic multiplier—the capacity of one job to create other jobs—were significantly different for public and private jobs. However, there doesn't seem to be a significant difference between the multiplier effects of public and private jobs, since most of the multiplier effect in the Alaska economy comes from the successive re-spending of income earned as wages and salaries, independent of who writes the checks.

CONCLUSION: A CALL FOR ACTION

These cases show some of the consequences of four different choices for closing the fiscal gap facing Alaska. As we noted at the outset, we have not assessed the political difficulties of putting budget changes into effect—but of course we recognize that enormous difficulties will accompany any such plan. Further, we don't know whether the assumptions we've used in this analysis will turn out to be accurate. But whether the price of oil is higher or lower than we've assumed, or other circumstances are somewhat

different than we project, Alaska faces a serious fiscal problem. Despite the uncertainties always inherent in planning for the future, this analysis suggests positive action is warranted—and the sooner it is taken the better.

Differences among the four choices demonstrate that we can influence outcomes and change tradeoffs through public choices. For example, we can choose whether the Permanent Fund will be a lasting asset, throwing off income for future generations of Alaskans, or whether we will spend it to get ourselves through the next decade without sacrifice. We can decide on the mix of current versus future spending, total public versus private spending, and when to take the inevitable hit on the economy. With advance warning, we have an opportunity to plan spending reductions in an orderly fashion.

It is clear that what actions to take are political rather than economic decisions. Nonetheless, each decision will have significant economic consequences. Policymakers need information about the implications of different choices to make informed political decisions. Future issues of this series will seek to enlarge the scope of public information to help in this important public debate.

ISER Fiscal Policy Papers
Institute of Social and Economic Research
University of Alaska Anchorage
E. Lee Gorsuch, Director
3211 Providence Drive
Anchorage, Alaska 99508

Non-Profit Org.
U.S. Postage
PAID
Anchorage, Alaska
Permit No. 540

FISCAL NOTE

REQUEST:

Revision Date: _____
 Title: "Proposing amendments to the Constitution...relating to an appropriation limit."
 Sponsor: Finance Committee
 Requestor: House Judiciary
 Agency Affected: Office of the Governor
 BRU: Office of Management and Budget
 Components: Operations

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

No administrative impact.

Prepared by: Michael A. Nizich, Director Phone: 465-3616
 Division: Division of Administrative Services Date: 1/31/90
 Approved by Commissioner: Garrey Peska, Chief of Staff Date: 1/31/90
 Agency: Office of the Governor

Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)