

ALASKA LEGISLATURE

1882

HOUSE and SENATE FINANCE COMMITTEE FILES, 1999 - 2000

**Projected Population by Labor Market Region and Borough/Census Area
Middle Case Scenario, July 1, 1998 - 2018**

Labor Market Area	July 1 1998 Estimate	July 1 2003 Middle	(%) Change 1998 - 2003	July 1 2008 Middle	(%) Change 1998 - 2008	July 1 2013 Middle	(%) Change 1998 - 2013	July 1 2018 Middle	(%) Change 1998 - 2018	(%) State Share 1998	(%) State Share 2018
ALASKA	621,400	656,150	5.6	693,018	11.5	733,852	18.1	776,488	25.0	100.0	100.0
Anchorage/Matanuska-Susitna Region	313,308	333,042	6.3	353,770	12.9	376,779	20.3	401,631	28.2	50.4	51.7
Municipality of Anchorage	258,782	259,567	4.2	279,707	8.1	289,528	11.9	298,875	15.5	41.6	38.5
Matanuska-Susitna Borough	54,526	63,475	16.4	74,063	35.8	87,251	60.0	102,756	88.5	8.8	13.2
Gulf Coast Region	73,028	76,771	5.1	80,553	10.3	84,737	16.0	88,837	21.6	11.8	11.4
Kenai Peninsula Borough	48,815	52,382	7.3	56,110	14.9	60,234	23.4	64,305	31.7	7.9	8.3
Kodiak Island Borough	13,848	14,030	1.3	14,159	2.2	14,277	3.1	14,416	4.1	2.2	1.9
Valdez-Cordova Census Area	10,365	10,359	-0.1	10,284	-0.8	10,226	-1.3	10,116	-2.4	1.7	1.3
Interior Region	98,647	102,931	4.3	106,963	8.4	110,915	12.4	114,459	16.0	15.9	14.7
Denali Borough	1,864	1,993	6.9	2,129	14.2	2,303	23.6	2,495	33.9	0.3	0.3
Fairbanks North Star Borough	83,928	88,012	4.9	91,773	9.3	95,367	13.6	98,585	17.5	13.5	12.7
Southeast Fairbanks Census Area	6,402	6,814	6.4	7,270	13.6	7,753	21.1	8,203	28.1	1.0	1.1
Yukon-Koyukuk Census Area	6,453	6,112	-5.3	5,791	-10.3	5,492	-14.9	5,176	-19.8	1.0	0.7
Northern Region	23,649	25,627	8.4	28,098	18.8	31,027	31.2	34,236	44.8	3.8	4.4
Nome Census Area	9,402	9,986	5.2	10,725	14.1	11,591	23.3	12,527	33.2	1.5	1.6
North Slope Borough	7,403	8,301	12.1	9,421	27.3	10,741	45.1	12,211	64.9	1.2	1.6
Northwest Arctic Borough	6,844	7,340	7.2	7,952	16.2	8,695	27.0	9,498	38.8	1.1	1.2
Southeast Region	74,285	76,298	2.7	78,687	5.9	81,462	9.7	83,976	13.0	12.0	10.8
Haines Borough	2,476	2,606	5.3	2,776	12.1	2,961	19.6	3,146	27.1	0.4	0.4
Juneau Borough	30,236	31,388	3.8	32,413	7.2	33,475	10.7	34,447	13.9	4.9	4.4
Kelchikan Gateway Borough	14,231	15,119	6.2	16,428	15.4	18,075	27.0	19,774	39.0	2.3	2.5
Prince Of Wales-Outer Ketchikan C.A.	6,884	7,067	2.7	7,281	5.8	7,485	8.7	7,611	10.6	1.1	1.0
Sitka Borough	8,779	8,590	-2.2	8,409	-4.2	8,226	-8.3	7,978	-9.1	1.4	1.0
Skagway-Hoonah-Angoon C. A.	3,664	3,563	-2.8	3,459	-5.6	3,328	-9.2	3,140	-14.3	0.6	0.4
Wrangell-Petersburg Census Area	7,205	7,045	-2.2	6,866	-4.7	6,706	-6.9	6,502	-9.8	1.2	0.8
Yakutat Borough	810	920	13.6	1,055	30.2	1,206	48.9	1,378	70.1	0.1	0.2
Southwest Region	38,483	41,481	7.8	44,947	16.8	48,932	27.2	53,349	38.6	6.2	6.9
Aleutians East Borough	2,177	2,040	-6.3	1,918	-11.9	1,784	-18.1	1,738	-20.2	0.4	0.2
Aleutian West Census Area	5,389	5,665	5.1	5,908	9.6	6,097	13.1	6,242	15.8	0.9	0.8
Bethel Census Area	15,997	17,438	9.0	19,092	19.3	21,043	31.5	23,192	45.0	2.6	3.0
Bristol Bay Borough	1,297	1,405	8.3	1,506	16.1	1,621	25.0	1,734	33.7	0.2	0.2
Dillingham Census Area	4,708	5,027	6.8	5,394	14.6	5,842	24.1	6,327	34.4	0.8	0.8
Lake & Peninsula Borough	1,852	1,962	5.9	2,128	14.9	2,282	23.2	2,439	31.7	0.3	0.3
Wade Hampton Census Area	7,063	7,944	12.5	9,000	27.4	10,263	45.3	11,677	65.3	1.1	1.5

Source: Alaska Department of Labor, Research and Analysis Section, Demographics Unit.

**Projected Population 65+ Years of Age by Labor Market Region and Borough/Census Area
Middle Case Scenario, July 1, 1998 - 2018**

Labor Market Area	July 1	July 1	(%)	July 1	(%)	July 1	(%)	July 1	(%)	(%)	(%)
	1998 Middle	2003 Middle	Change 1998 - 2003	2008 Middle	Change 1998 - 2008	2013 Middle	Change 1998 - 2013	2018 Middle	Change 1998 - 2018	State Share 1998	State Share 2018
ALASKA	32,729	40,379	23.4	52,298	59.8	69,555	112.5	92,356	182.2	100.0	100.0
Anchorage/Matanuska-Susitna Region	15,692	19,953	27.2	26,279	67.5	35,210	124.4	46,602	197.0	47.9	50.5
Municipality of Anchorage	12,703	16,146	27.1	21,134	66.4	28,058	120.9	36,115	184.3	38.8	39.1
Matanuska-Susitna Borough	2,989	3,807	27.4	5,145	72.1	7,154	139.3	10,487	250.9	9.1	11.4
Gulf Coast Region	4,447	5,362	20.6	6,913	55.5	9,347	110.2	12,685	185.2	13.6	13.7
Kenai Peninsula Borough	3,229	3,904	20.9	5,022	55.5	6,797	110.5	9,318	188.6	9.9	10.1
Kodiak Island Borough	609	723	18.7	913	49.9	1,215	99.5	1,615	165.2	1.9	1.7
Valdez-Cordova Census Area	609	735	20.7	978	60.6	1,335	119.2	1,752	187.7	1.9	1.9
Interior Region	4,400	5,305	20.6	6,914	57.1	9,074	106.2	12,337	180.4	13.4	13.4
Denali Borough	57	100	75.4	184	222.8	281	393.0	501	778.9	0.2	0.5
Fairbanks North Star Borough	3,520	4,224	20.0	5,472	55.5	7,195	104.4	9,766	177.4	10.8	10.6
Southeast Fairbanks Census Area	365	471	29.0	675	84.9	880	141.1	1,157	217.0	1.1	1.3
Yukon-Koyukuk Census Area	458	510	11.4	583	27.3	718	56.8	913	99.3	1.4	1.0
Northern Region	1,211	1,424	17.6	1,680	38.7	2,118	74.9	2,639	117.9	3.7	2.9
Nome Census Area	544	617	13.4	696	27.9	851	56.4	1,040	91.2	1.7	1.1
North Slope Borough	299	408	36.5	540	80.6	711	137.8	917	206.7	0.9	1.0
Northwest Arctic Borough	368	399	8.4	444	20.7	556	51.1	682	85.3	1.1	0.7
Southeast Region	5,189	6,201	19.5	7,930	52.8	10,598	104.2	13,869	167.3	15.9	15.0
Haines Borough	246	277	12.6	328	33.3	436	77.2	610	148.0	0.8	0.7
Juneau Borough	1,821	2,167	19.0	2,802	53.9	3,903	114.3	5,140	182.3	5.6	5.6
Ketchikan Gateway Borough	1,134	1,316	16.0	1,735	53.0	2,398	111.5	3,211	183.2	3.5	3.5
Prince Of Wales-Outer Ketchikan C.	354	501	41.5	715	102.0	919	159.6	1,242	250.8	1.1	1.3
Sitka Borough	700	868	24.0	1,053	50.4	1,295	85.0	1,609	129.9	2.1	1.7
Skagway-Hoonah-Angoon C. A.	238	311	30.7	404	69.7	511	114.7	629	164.3	0.7	0.7
Wrangell-Petersburg Census Area	652	703	7.8	811	24.4	1,019	56.3	1,251	91.9	2.0	1.4
Yakutat Borough	44	58	31.8	82	86.4	117	165.9	177	302.3	0.1	0.2
Southwest Region	1,790	2,134	19.2	2,582	44.2	3,208	79.2	4,224	136.0	5.5	4.6
Aleutians East Borough	92	142	54.3	180	95.7	223	142.4	345	275.0	0.3	0.4
Aleutian West Census Area	108	160	48.1	266	146.3	451	317.6	665	515.7	0.3	0.7
Bethel Census Area	835	946	13.3	1,129	35.2	1,348	61.4	1,726	106.7	2.6	1.9
Bristol Bay Borough	46	56	21.7	84	82.6	104	126.1	144	213.0	0.1	0.2
Dillingham Census Area	247	282	14.2	343	38.9	424	71.7	575	132.8	0.8	0.6
Lake & Peninsula Borough	107	116	8.4	140	30.8	157	46.7	202	88.8	0.3	0.2
Wade Hampton Census Area	355	432	21.7	440	23.9	501	41.1	567	59.7	1.1	0.6

Source: Alaska Department of Labor, Research and Analysis Section, Demographics Unit.

**Projected Population Ages 5-17 by Labor Market Region and Borough/Census Area
Middle Case Scenario, July 1, 1998 - 2018**

Labor Market Area	1998	July 1	(%)	July 1	(%)	July 1	(%)	July 1	(%)	State	State
		2003	Change	2008	Change	2013	Change	2018	Change	Share	Share
	1998	2003	1998 - 2003	2008	1998 - 2008	2013	1998 - 2013	2018	1998 - 2018	1998	2018
ALASKA	144,767	149,307	3.1	147,811	2.1	151,044	4.3	163,411	12.9	100.0	100.0
Anchorage/Matanuska-Susitna Region	70,900	74,948	5.7	73,696	3.9	74,066	4.5	79,328	11.9	49.0	48.5
Municipality of Anchorage	56,621	60,261	6.4	57,465	1.5	54,651	-3.5	55,017	-2.8	39.1	33.7
Matanuska-Susitna Borough	14,279	14,687	2.9	16,231	13.7	19,415	36.0	24,311	70.3	9.9	14.9
Gulf Coast Region	17,322	16,786	-3.1	16,795	-3.0	17,802	2.8	19,683	13.6	12.0	12.0
Kenai Peninsula Borough	11,729	11,307	-3.6	11,691	-0.3	12,876	9.8	14,642	24.8	8.1	9.0
Kodiak Island Borough	3,264	3,376	3.4	3,201	-0.1	3,164	-3.1	3,223	-1.3	2.3	2.0
Valdez-Cordova Census Area	2,329	2,103	-9.7	1,843	-22.9	1,762	-24.3	1,818	-21.9	1.6	1.1
Interior Region	22,703	23,376	3.0	23,116	1.8	23,030	1.4	23,631	4.1	15.7	14.5
Denali Borough	393	348	-11.5	353	-10.2	357	-9.2	395	0.5	0.3	0.2
Fairbanks North Star Borough	18,840	19,822	5.2	19,676	4.4	19,630	4.2	20,031	6.3	13.0	12.3
Southeast Fairbanks Census Area	1,593	1,599	0.4	1,702	6.8	1,828	14.8	1,999	25.5	1.1	1.2
Yukon-Koyukuk Census Area	1,877	1,607	-14.4	1,385	-26.2	1,215	-35.3	1,206	-35.7	1.3	0.7
Northern Region	7,163	7,422	3.6	7,742	8.1	8,542	19.3	10,152	41.7	4.9	6.2
Nome Census Area	2,731	2,858	4.7	3,021	10.6	3,311	21.2	3,865	41.5	1.9	2.4
North Slope Borough	2,232	2,106	-3.3	2,399	7.5	2,715	21.6	3,338	49.6	1.5	2.0
Northwest Arctic Borough	2,200	2,258	2.8	2,322	5.5	2,516	14.4	2,949	34.0	1.5	1.8
Southeast Region	16,022	15,051	-6.1	14,287	-10.8	14,620	-8.8	15,823	-1.2	11.1	9.7
Haines Borough	503	451	-10.3	452	-10.1	483	-4.0	518	3.0	0.3	0.3
Juneau Borough	6,313	6,040	-4.3	5,881	-6.8	6,111	-3.2	6,578	4.2	4.4	4.0
Ketchikan Gateway Borough	2,998	3,100	3.4	3,144	4.9	3,447	15.0	4,060	35.4	2.1	2.5
Prince Of Wales-Outer Ketchikan C.A.	1,637	1,495	-8.7	1,389	-15.1	1,415	-13.6	1,494	-8.7	1.1	0.9
Sitka Borough	1,853	1,639	-11.5	1,444	-22.1	1,334	-28.0	1,320	-28.8	1.3	0.8
Skagway-Hoonah-Angoon C. A.	839	659	-21.5	544	-35.2	481	-42.7	462	-44.9	0.6	0.3
Wrangell-Petersburg Census Area	1,682	1,467	-12.8	1,239	-26.3	1,156	-31.3	1,170	-30.4	1.2	0.7
Yakutat Borough	197	200	1.5	194	-1.5	193	-2.0	221	12.2	0.1	0.1
Southwest Region	10,657	11,724	10.0	12,175	14.2	12,984	21.8	14,794	38.8	7.4	9.1
Aleutians East Borough	500	429	-14.2	315	-37.0	257	-48.6	244	-51.2	0.3	0.1
Aleutian West Census Area	876	1,031	17.7	870	-0.7	663	-24.3	615	-29.8	0.6	0.4
Belhel Census Area	4,693	5,215	11.1	5,585	19.0	6,083	29.6	6,934	47.8	3.2	4.2
Bristol Bay Borough	325	360	10.8	366	12.6	386	18.8	439	35.1	0.2	0.3
Dillingham Census Area	1,302	1,404	7.8	1,396	7.2	1,442	10.8	1,629	25.1	0.9	1.0
Lake & Peninsula Borough	542	517	-4.6	537	-0.9	605	11.6	702	29.5	0.4	0.4
Wade Hampton Census Area	2,419	2,768	14.4	3,106	28.4	3,548	46.7	4,231	74.9	1.7	2.6

Source: Alaska Department of Labor, Research and Analysis Section, Demographics Unit.

SENATE FINANCE COMMITTEE

SIGN-IN

BALANCED BUDGET PLAN PRESENTATION

NAME: James E. Fisker Sub./Bill No: General
Co./Dept./Title: AK resident for almost 45 years Phone: 262-9601
Address: 171 Farmworth, Loldotica Zip: 99669

Do you wish to testify? Yes No Respond to Questions

NAME: _____ Sub./Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond to Questions

NAME: _____ Sub./Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond to Questions

NAME: _____ Sub./Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond to Questions



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

AGENDA

THURSDAY, 25 MARCH 1999

9:00 A.M.-10:00 A.M.

BALANCED BUDGET PLAN PRESENTATION:

MICHAEL O'LEARY, JR.
CALLAN ASSOCIATES INC.

10:00 A.M.-11:00 A.M.

JIM LYNCH, FOUNDATION TREASURER
UNIVERSITY OF ALASKA

(BILLS PREVIOUSLY HEARD AND/OR SCHEDULED)

SENATE FINANCE COMMITTEE
LOG NOTES
03/24/99

LOG	SPEAKER	DISCUSSION
000	Co-chair Parnell	
044	Phil Okeson	<p>Fiscal Analyst, Division of Legislative Finance was invited to join the committee. He referred to the division handout and explained with the assistance of an overhead.</p> <p>Presentation Objectives: look at the current situation in order to understand the magnitude of the problem.</p> <p>Current Situation with High Oil Prices: total general fund revenues, Petroleum and all other revenues. They are using same projections as used in the Governor's model.</p>
134	Co-chair Parnell	Commented re prices of oil and said that we would deal with this later.
140	Phil Okeson	<p>Continued his presentation.</p> <p>Projected Revenues: Projected General fund Revenues show a downward trend.</p> <p>Current Situation - Assumptions: 3.0% inflation. Should be talking about what's the State's inflation rate.</p>
	Senator Lemam	Inflation may be overstated by 1.1% Have you factored this in?
	Phil Okeson	Not really factored it in. Do use different inflation rates for different projects. But they have allowed for it.
	Senator Torgerson	Governor's plan does not show inflation?
	Phil Okeson	Does have some for the education formula. Other agencies do not have inflation plan. Unreasonable to expect over a 20-year period, however. The model used today is based on 20-year plan.
	Senator Torgerson	Have you talked with the Administration in coming up with a zero percent inflation?
	Phil Okeson	<p>No. Continued under Current Situation - Assumptions: 1.5% Population Growth in K-12 Education Formula Population. 2% Population Growth for Dividend ONLY No Growth in Population for all other Formula or Agency Expenditures.</p> <p>Permanent Fund Total Return of 7.75% Have done better in past years. There is a lot of volatility around the 7.75%. Some years may be double digit returns and other years may show losses or right close around 7.75%.</p> <p>CBR Total Return of 5.5% if less than \$3B and 8.1% if greater than \$3B.</p> <p>Current Situation: Revenues and</p>

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		Expenditures of the State. Permanent Fund Dividends per Capita. Cannot touch the principal because it is protected by constitution.
	Co-chair Parnell	Asked to explain this further.
	Phil Okeson	Must realize gains in order to cover inflation. Alaska Savings Accounts. Savings Account Analysis.
	Co-chair Parnell	Current Situation -Savings Account Analysis. Is this all savings account?
	Phil Okeson	All savings account. They are inflation proofing.
	Senator Torgerson	Is this all in one account?
	Phil Okeson	No. Do not make distinction of where the State keeps their money. The key is how the purchasing power is maintained. However, the graph shows that we are not keeping up with the purchasing power. Budget Deficit - Fiscal Gap vs. Savings Account Earnings Used to Fill Fiscal Gap. If we are not careful with our fiscal gap we may be "killing the goose that lays the golden egg".
	Senator Wilken	Asked for clarification of why gap falls off in 2001.
	Phil Okeson	Offered a brief explanation.
	Senator Torgerson	Said the 7.75% does not make sense.
	Phil Okeson	First call is on dividend. More earnings being used. Amount available to fill the deficit is very small. Percentage of Capital Gains Realized. Mechanisms presently used combine to make things go bad quickly.
	Co-chair Parnell	Specific graph was done at his request.
	Phil Okeson	Unrealized gains no longer available to sell.
	Senator Torgerson	Dividends calculated on 5 years.
	Phil Okeson	Would have to go and check on the exact percentage.
	Senator Torgerson	Taking into consideration any other revenues?
	Phil Okeson	No revenues added that they do not know about at this time.
	Senator Torgerson	Afraid leaving the impression this is the path we are going down, however all facts have not been presented at this time.
	Phil Okeson	This is only the beginning of the discussion. "Money now is better than money later."
	Co-chair Parnell	
	Senator Kelly	Page 9 of handout asked about growth pattern.
	Phil Okeson	There are still stocks available.

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	Senator Kelly	But cannot turn stocks to cash?
	Phil Okeson	Restraint put on themselves.
	Senator Kelly	Cash available even to go to the permanent fund is not available. You are not earning anything to turn into the principal.
	Phil Okeson	<p>Probably still would, albeit, would be more difficult to earn 7.75%. Would prefer to refer to Permanent Fund. Cannot ever let the permanent fund go below a specific level. Would be better to pose this before Permanent Fund.</p> <p>\$34/bbl Oil Assumptions: Same as Current Scenario. Exceptions: Oil goes to \$34/bbl in FY 2000; oil never goes down from \$34/bbl; in fact it rises every year at the inflation rate of 3% (in FY2020 Oil = \$61.41/bbl) In good years we are going to put money away because in later years we are going to need it.</p> <p>What does all this mean? Model shows that the problem is not a cyclical problem, but rather it is a structural problem. These problems cannot be overcome by riding them out. It needs a structural solution. We will not be saved by oil prices in the long term.</p> <p>Issues Facing the Legislature: Pivotal moment in Alaska's History. Will not be making large deposits. Not a short term/cyclical problem, but rather a long term/structural problem. In response to Senator Torgerson, he explained the large amount of savings usually kept in the earnings reserve account.</p> <p>He referred to the "blow-up" factor. When things go bad, they go bad quickly.</p>
	Senator Phillips	When you refer to "Us" you mean the Alaska public?
	Phil Okeson	Yes. Not just the Legislature.
	Co-chair Parnell	House has set very strict cuts. If reductions can be made this year, that would mean money gained over the next twenty years. More revenues we bring in today the better off we will be in the long term.
	Phil Okeson	<p>That is correct. Model doesn't care if it is cuts or raising revenues. They result in the same.</p> <p>Begin to systematically use the State's Savings Accounts.</p> <p>A combination of the Above. This is the best choice. End result will need a combination of the choices.</p>
	Senator Torgerson	Query.

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	Phil Okeson	Have looked at what the Legislature has suggested. But have not done an indepth analysis. Potential Measureable Goals of a Long Range Plan: Sustainability - Protect the Principal (Traditional)
		(Tape switch to side B at log #597)
		Inflation Proofing Is the goal to protect the purchasing power of the Alaska's Savings Accounts What time horizon is appropriate? Allocations of portfolios change.
	Senator Torgerson	What government looks at their budget for one hundred years? Perhaps with regards to investing?
	Phil Okeson	It is prudent to look at budget over one hundred year period. Alaska's state government is different. We do have potential to think differently. Other states do not have the assets we do. Perhaps we should take advantage of that difference.
	Co-chair Parnell	Is it realistic for us to look at this for one hundred years.
	Phil Okeson	Systematic use of the permanent fund may want to look at over a longer period of time. Cautions a long term financial plan will have to be updated as the years pass. Only accuracy is in the first few years. However, it does provide guidelines. Suggests one could get fairly good detail five or ten year plan. In response to Senator Torgerson...this is a judgment call. Many variables involved which would have major effects. Must be careful incorporating a long term plan. Fascinating number problem.
	Senator Kelly	We have to do some productive spending.
	Phil Okeson	These are only potential suggestions in order to begin the discussion of what choices to choose. Intergenerational Equity: Closely related to Sustainability. All generations are held equal. Many ways there can be intergenerational equity. The question is, do we really want it? This is also a possibility. There are good reasons to do this. Refers to time spent in Washington State. Used up timber, for example, now using the profits for investments. There are benefits to providing for future generations. Stability: Plans ability to weather worst

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		<p>case scenarios. Plans ability to reduce the State's revenue volatility. Predictability: What level of predicability do we want to assume for: Revenue Assumptions, Expenditure Assumptions and Market Assumptions. Implications for Risk and Asset Allocation.</p>
	Senator Phillips	Should be another piece for measurement and accountability.
	Phil Okeson	Limited this to what could be measured.
	Senator Phillips	Voters will be looking at us specifically.
	Phil Okeson	Concurs.
	Co-chair Parnell	Several guests who have come from around the State. Several individuals on line via teleconference. Thanked Mr. Okeson for his time and effort.
	Cheryl Frasca	<p>Invited to join the committee. She referred to her handout from the Fiscal Policy Council of Alaska, Criteria to Evaluate Fiscal Plans. Explained they wanted to provide input and analysis of various proposals. Important choices that will be faced. Explained the evaluation criteria that was used. First was stability: (a) stable and predictable annual flow of revenues; (b) predictable tax regime; (c) stable spending; (d) ability to adjust to changing needs; (e) can be implemented. Sustainability: (a) protects and grows the permanent fund; (b) maintains revenue generating capacity of other financial assets; (c) advances financial investment policies that achieve maximum financial return. Fairness: (a) trade-off's between taxes, dividends, and public services are balanced across all Alaskan households, businesses, and communities; (b) links economic activity and a return to the State treasury; (c) connects Alaskans to financial decisions; (c) provides a smooth transition between any change in the size of dividends, taxes, or public services.</p>
	Senator Torgerson	Governor's plan fair?
	Ms. Frasca	Tax not a fair plan.
	Senator Leman	Not correct statement no one pays taxes. Don't have broad-based income tax or sales tax but do have means for collecting taxes from individuals. Should use the term correctly.
	Ms. Frasca	Agrees with Senator Leman. Thought she said "personal taxes".

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Co-chair Parnell	Asked Ms. Frasca to continue.
Ms. Frasca	All seen what happened with the permanent fund dividend.
Senator Phillips	Define connection with permanent fund dividend. Do individuals really understand this?
Ms. Frasca	Because they receive financial benefit from this, they usually pay more attention, however feels they don't really understand it. If individuals have to pay more would pay more attention. Another point is simplicity. Alaskans tend to be less trustful. Plans must be straightforward and unconfusing. Is the purpose for fund clear? What is it being used for? Complete and full disclosure.
Pam LaBolle	President of Alaska State Chamber of Commerce. Not promoting further cuts across the board. Refers to SB 33. Permanent Fund should be inflation proof first. Whatever left to be filled should be filled with broad-based taxes. She outlined the Chamber of Commerce recommendations:
Co-chair Parnell	Refers to item #2. What does the 30% refer to?
Ms. LaBolle	Said it would relate to the 6.2.
Co-chair Parnell	Organization not going to ask for \$2 billion cuts?
Ms. LaBolle	Responds.
Co-chair Parnell	This year or include a time frame?
Ms. LaBolle	What is the Legislature trying to look at?
Co-chair Parnell	Trying to take as long a view as possible, but perhaps would be about 10 years.
Senator Adams	Would be worried about the stability of the economy. Referred specifically to the loss of jobs with the oil companies. Must look at this 30% reduction suggested by the Chamber of Commerce. This is not acceptable.
Ms. LaBolle	Dealing with businesses.
Senator Leman	Agrees that the approach is rather aggressive. Going to have to change how we deliver education. Make changes to other formula programs. Will the State Chamber support those changes? Referred to page 3 of handout...per capita spending.
Ms. LaBolle	Very interested in participating in looking at all portions of government. Feels sure the Chamber would support Legislature decisions. In response to Senator Torgerson taxes must be fair and equitable to all Alaskans.

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	Senator Torgerson	What does 15% represent? (item #4) (Tape #62, Side A, log 000)
	Ms. LaBolle	The Chamber will be happy to work with the committee.
	Ken Freeman	<p>Executive Director, Resource Development Council for Alaska was invited to join the committee. (statement read into record.) Explained non-profit organization. RDC is a non-profit, economic development organization with a broad statewide base and focus. Members range from individuals to leading companies throughout Alaska's basic resource sectors, including oil and gas, mining, timber, tourism and fishing. Also included in the ranks are Native corporations, construction, labor and a number of local communities. All of these interests come together under RDC to work on common issues - issues which transcend all resource and economic sectors. RDC is represented statewide by a 78-member Board of Directors and a 22-member Executive Committee. The latter of which formulates policy and provides direction to a staff of four.</p> <p>With the fiscal gap as our number one public policy issue this session, RDC helped coordinate the economic summit held last month in Juneau and our resident testified the fiscal gap before the Anchorage Caucus in late February.</p> <p>What many have heard at the economic forum was an assessment of business in Alaska. From the development sectors you heard that low oil prices and a slumping Asian economy have hit Alaska hard. You also heard that the timber and fishing industries are in the tank, both hit hard by weak Asian markets. Timber production is down by 70 percent or more, budgets have been drastically cut and the industry employment has fallen to all-time lows. Meanwhile, the mining industry, which has shown record growth and production over the last several years, is now struggling to cope with low commodity prices.</p> <p>RDC is here today to express their support and encouragement of the Legislature in finding a long-term solution to the State's fiscal dilemma and to offer suggestions on specific tools to develop such a solution.</p>
	Senator Adams	Query.
	Mr. Freeman	Has tried to work with the Legislature and offered suggestions. Lends their support. However, difficult for them because they

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		only deal with particular segments of State agencies. Difficult to see what is important or not.
	Senator Leman	
	Mr. Freeman	Have discussed potential consolidations. Concerned with consolidating programs and who would take over functions. How impacting would it be? Would be extremely careful. Must not jeopardize programs.
	Co-chair Parnell	Incorporates Ralph Samuels written statement into the record. Not able to be present.
	Karen Cowart	General Manager of the Alaska Support Industry Alliance (The Alliance) was invited to join the committee. (statement read into record.) She thanked the committee for the opportunity to provide comment and perspective. Alliance members oppose state income tax to balance the budget. Conclusion: Would provide feedback at their request. Encourages budget dialogue. Counting on the Legislature. Will answer any questions.
	Co-chair Parnell	Called last speaker.
	Roxanna Horschel	Representing the Associated General Contractors Association of Alaska was invited to join the committee. (statement read into record.) State employees should compare more to private employees. AGC feels if all these points were implemented State income tax would not even need to be considered.
	Senator Phillips	
	Senator Leman	Why public construction projects in Alaska cost so much? Asked AGC to provide input. Was told they were doing a study.
	Roxanna Horschel	Study not complete, but willing to share what they have learned. Together solutions can be found.
	Senator Torgerson	Motor fuel tax.
	Co-chair Parnell	Committee has been summoned to the floor. Recessed until tonight at 6:00 p.m. Will continue this meeting tomorrow morning. Will incorporate any written testimony.
		ADJOURNMENT: Recessed at 11:05 a.m. Tape number 62, at log number 402, Side A.

Distributed by Senator Farnell
by Request

Subject: Here is the executive summary. I will also have some Excel charts to finish the packet in 30 Mins.

Date: Thu, 25 Mar 1999 16:43:38 -0900

From: "Glen Biegel" <cmpinc@alaska.net>

To: <Dave_Blaisdell@legis.state.ak.us>

The Alaska Moderator

Executive Summary of Charge-back / Local cost-cutting Commission Budget Proposal called

The Moderator Plan

Before giving specifics, I would like to explain the thinking behind the plan, and also the goals of what I call the Moderator Plan. First a simple statement, we have a 1.2 Billion dollar budget shortfall. This is an indication that we have both structural and institutional problems with the way we expend the money controlled by the State of Alaska. Tony Knowles is credited with the deduction that we cannot close the budget gap even if we released every State employee. I would like to be credited with the idea that we cannot close the budget gap even if we confiscated the wealth of the highest 10% of the wage-earners of the State; at least not for very long. These two extreme statements illustrate a critical part of the thinking behind this plan. A single sided approach is not going to provide the material necessary to build the bridge between where we are now, and where we need to be. Another important inference from these two statements is that we will not escape this budget difficulty without some discomfort.

The goals of this plan are foremost to minimize the discomfort for the Alaskan people and to stabilize the Alaskan economy. I also would suggest the following criteria to be considered against any solution to our budget shortfall: the solution must be fair and balanced, the solution must minimize middle-class flight, each citizen should have an investment in attaining the savings, the plan should not penalize those who do not have children, and/or who are young and just starting their professional lives. A primary concern of the Legislature should also be to implement a solution that the Alaskan people will have to deal with only once, so that it cannot be used as a political weapon time and again. I also would suggest that the varied nature of the State does not lend itself to a centralized solution to reduce spending, the cuts and savings that are necessary will vary wildly from area to area. In summary, the goals of this plan are 1.) To minimize pain, 2.) To be fair and balanced, 3.) To create a self-perpetuating solution of budget reductions, 4.) To remove the political nature of budget-cutting as much as possible, and 5.) To allow for localized cuts in the budget, which differ from area to area.

Keeping these many ideas in mind, I propose the following solution: use the two-sided

approach of a charge-back system against each individual's dividend with the simultaneous institution of local cost-cutting commissions tasked with finding local reductions to alleviate the charge-back. Specifically, each local cost-cutting commission will be tasked with finding 10% reductions in State expenditures in their area every 3 years. The charge-back system is a 10% assessment for State services received by the individual. Any reductions found by the cost-cutting commissions would apply directly against the 10% assessment on the dividend, and relieve the assessment for the following 3 years. A maximum of 80% of an individual's dividend could be assessed for State services, benefits and area expenditures. You will find some examples of how some average citizens would fare in different areas of the State in the extended discussion.

In the same spirit as the Federal base closing commission, the suggestions by each local cost-cutting commission report will be reviewed by the legislature and an up or down vote will be made for each area, or for all cost-cuttings combined. Each cost-cutting commission will be made up of individuals appointed by the legislature, local government and local organizations. Restrictions on certain types of cost-cutting will be given to the commissions to make sure that all applicable Federal and Constitutional mandates are upheld. The boundaries of the commissions will be based upon the School District boroughs.

The cost-cutting commissions could find reductions by privatizing State functions, reducing waste or improving efficiency, eliminating unnecessary expenditures in their area or any number of other approaches to finding the necessary %10 saving for the 3 year period. I would also expect that the State would require 2 or 3 iterations of the 3-year cost-cutting process to attain a sustainable size of government. The goal of the cost-cutting commission is to fully restore each person's dividend, and to choose the State services and the level of services most necessary in that area.

Another hidden benefit of this method of budget reduction is that each and every citizen of the State will have a stake in the budget reductions. The charge-back system against the dividend is a tool unique to Alaska, allowing each person in Alaska to participate in making the difficult determination about what is a truly necessary State expenditure, and whether or not waste in the government will continue to be tolerated.

Sincerely,

Glen M. Biegel, editor of The Moderator found at www.intervine.net

The Alaska Moderator

Expected approaches by the local cost-cutting commissions.

This paper is written to explain what will I expect to occur if the local cost-cutting commissions were instituted.

First I will give an idea about what will be expected in the makeup of the local cost-cutting commissions themselves. First, the legislature would appoint someone who was well versed in the Federal programs that the State is involved in and how the funding for these projects must be approached. The local governments, city, borough, etc would have a contingent on the board that would likely be made up of varied business members who were well known for running "tight ships." These people would know how expenditures can be reduced and services still provided, while optimizing safety and health. The local organizations like the local chamber of commerce, native organizations, or tribal organizations shou'd have full input to these cost-cutting commissions as well. Whether this spells membership or *ex officio* status is a matter to be determined but I would suggest membership.

Example of Area A.

Receives 500 Million in area expenditures.
Receives 500 Million in individual expenditures.

Option 1:

Option 1: Do Nothing: Each person in the area is assessed a portion of the 500 Million in area expenditures, and also their portion of the individual expenditures, including the amount of the dividend. This will be assessed against each adult recipient's dividend.

Option 2: Find reductions in area expenditures.

The road project for the area is assessed at 100 Million. The cost-cutting commission has in its possession a proposal from a private firm to manage the project, which will lead to a cost of 60 Million. Savings 40 Million or 4%.

Find reductions in individual expenditures.

The State support for the arts, and the hold harmless clause is dropped in the dividend program. Savings 10 Million or 1%

5% total savings: dividend restored by 50%.

In the following year, the commission puts in cost controls in the area for

the various departments operating there. Savings 40 Million or 4%.

An additional State project is cut by 10 Million, yeilding the final 1%.

5% + 5% total savings: dividend restored by 100%.

Also remember that the 5% savings will be applied for each of the following 3 years. The same goes for the 5% found in the following year. If there were no further local reductions, the dividends would then be restored 50% for the first year, 100% for the following 2 years, and 50% for the fourth year.

Some alternatives could be put in place to supplement the proposal as it exists. These options are innumerable but I will propose the following 4:

- 1. Any legislation suggested by a local cost-cutting commission that leads to statewide savings is credited 100% for any savings in the local area, and 25% of the savings realized elsewhere in the State.**
- 2. Any agencies found expending money in a wasteful manner will be penalized double the like amount in the following year.**
- 3. Privatization that leads to savings will be credited to the local area for 2 years.**
- 4. Privatization where a contract comes in under budget will be paid in full for the two following years and then at the lower level. The savings will be realized by the local cost-cutting commission.**

I believe a system of cost-cutting commissions would most likely be made up of serious businessmen and women who watch the agencies expending money in their area. Through needs analysis and punitive measures if necessary, would find that the respective area spending is far out of line with the private sector, and therefore unnecessary. In short, I would trust an independent agency tasked with finding the 10% cuts over three years to be able to do so without cutting necessary programs, but by finding efficiency and novel approaches in providing the necessary services of the State.

If you feel that the Moderator Plan could be of some use to the State, I would be happy to present the idea to the legislature in Juneau near the end of March or early April.

Sincerely,

Glen M. Biegel, editor of The Moderator found at www.intervine.net

Distributed by
Senator Parnell by
Request

Subject: Here is the article 'let's put something on the table'. Please distribute to each member.

Date: Thu, 25 Mar 1999 16:26:20 -0900

From: "Glen Biegel" <cmpinc@alaska.net>

To: <Dave_Blaisdell@legis.state.ak.us>

The Alaska Moderator

Let's put something on the table

Proposal for a Citizen Cost-Cutting Commission Program & Further Balanced Budget Information

The Moderator Plan - Introduction

The goals of this plan are foremost to minimize the discomfort for the Alaskan people and to stabilize the Alaskan economy. I also would suggest the following criteria to be considered against any solution to our budget shortfall: the solution must be fair and balanced, the solution must minimize middle-class flight, each citizen should have an investment in attaining the savings, the plan should not penalize those who do not have children, and/or who are young and just starting their professional lives. A primary concern of the Legislature should also be to implement a solution that the Alaskan people will have to deal with only once, so that it cannot be used as a political weapon time and again. I also would suggest that the varied nature of the State does not lend itself to a centralized solution to reduce spending, the cuts and savings that are necessary will vary wildly from area to area. In summary, the goals of this plan are 1.) To minimize pain, 2.) To be fair and balanced, 3.) To create a self-perpetuating solution of budget reductions, 4.) To remove the political nature of budget-cutting as much as possible, and 5.) To allow for localized cuts in the budget, which differ from area to area.

Keeping these many ideas in mind, I propose the following solution: use the two-sided approach of a charge-back system against each individual's dividend with the simultaneous institution of local cost-cutting commissions tasked with finding local reductions to alleviate the charge-back. Specifically, each local cost-cutting commission will be tasked with finding 10% reductions in State expenditures in their area every 3 years. The charge-back system is a 10% assessment for State services received by the individual. Any reductions found by the cost-cutting commissions would apply directly against the 10% assessment on the dividend, and relieve the assessment for the following 3 years. A maximum of 80% of an individual's dividend could be assessed for State services, benefits and area expenditures. You will find some examples of how some average citizens would fare in different areas of the State in the extended discussion.

Simply stated, there are more State services than we can afford. I suggest this charge-back system for State services with a 10% charge for any State subsidy, benefit, or dividend. The charge-back would be paid for through deductions in each individual's dividend check,

depending on the level of area and individual subsidy they receive. A maximum of 80% of a person's dividend can be charged back to the State. Each chargeable region, determined by school borough, will have a citizen commission appointed by the Legislature, local mayor/board, and citizen groups, etc. to be responsible for finding savings in State spending for their area. These savings will cover the full spectrum of budget-cutting from privatization, to cutting non-essential services, to cutting costs on individual State projects. The citizens of the area will receive a 3 year forgiveness of the charge-back for the full amount of any savings found by the individual commissions. Following are examples of how the charge-back works:

Note: amounts listed are estimates and do not necessarily accurately reflect the actual subsidy level from State spending.

Citizen A: Living in Anchorage:

Dividend amount: \$1500

Highway Subsidies (State, not Federal) \$1500/person

Portion of State expenditure due for Courts, Public Safety, Administration, Parks, Etc.
\$1500

Receives \$4,500 in State services, funding, and dividends

Owes \$450 back from the dividend, amount to receive: \$1050

Citizen B: Living in Juneau

Dividend amount: \$1500

Highway Subsidies: \$500

Portion of State expenditures: \$1500

Receives \$3,500 in State services and funding, and dividends

Owes \$350 back from the dividend, amount to receive: \$1,150

Citizen C: Living in Anchorage:

Dividend amount: \$1500,

Highway Subsidies (State, not Federal): \$1500

Portion of State expenditure due for Courts, Public Safety, Administration, Parks, Etc.:
\$1500

Receives public assistance: \$15,000

Receives \$19,500 in State services and funding, and dividends

Owes \$1950 back from the dividend, amount to receive \$300, (100% - 80% = 20% or \$300 minimum dividend)

Family A: Living in Anchorage: 2 Children in public school

Dividend amount: \$3000, (children not assessed)

Highway Subsidies (State, not Federal): \$3000

Portion of State expenditure due for Courts, Public Safety, Administration, Parks, Etc.:
\$3000

State subsidy of public schools: \$7500

Receives \$16,500 in State services and funding, and dividends.

Owes \$1,650 back from the dividends, amount to receive: \$1,350

For each of the above citizens, let us say that the area where they live receives a total of \$1 billion in State subsidy, benefit and dividend. If the citizen commission found \$100 million in savings for their area, the citizens would receive the full benefit of this savings for the following 3 years. Since the \$100 million is 10% of the \$1 billion, the dividend would be fully restored. The hope is that a 10% reduction in State spending is realized through local cost-cutting commissions every 3 years. Because of this 3-year relief, there is a three-to-one incentive to find the local area reductions rather than pay for the current level of spending through the dividend charge-back. Finding 10% every 3 years would keep the dividends at full strength regardless of the amount of individual or area subsidy. After a period of 6 to 10 years, we may receive enough revenue, and have enough in our savings account, to sustain the more modest level of Government with a full dividend. Clearly, the hope is that the areas where State subsidies to over \$10,000 a year per citizen would be under great pressure to realize the 10% savings of State services and subsidies. These areas will, of course, have more options to cut than less highly subsidized areas. If they could accomplish this, they also would receive the full dividend.

Benefits of this system are that all citizens pay some of the cost of Government. Regional citizen commissions would review State spending in their area and determine where waste is taking place. Each citizen would have great interest in receiving the best services and response from their Government, as they would be paying for any waste or poor service through their dividend checks. Children's dividends would not be assessed the charge-back. Services from the State given to children would be assessed through the parent's dividend. People in Alaska will not continue to accept waste when it has a direct effect on their own livelihood, and will, therefore, only want to pay for what is absolutely necessary.

This plan can only be properly viewed in the context of the alternative plans that currently exist. Remember that the goals of this, and I believe of any truly workable plan, are 1.) To minimize pain, 2.) To be fair and balanced, 3.) To create a self-perpetuating solution of budget reductions, 4.) To remove the political nature of budget-cutting as much as possible, and 5.) To allow for localized cuts in the budget, which differ from area to area. Tony Knowles' plan to implement a 10% addition to the level of Federal taxation with

initial broad exemptions can also be measured against these 5 items.

Knowles Income Tax Plan:

- 1.) To minimize pain: The claim here is that the "rich" either have no feelings and can thus feel no pain, or that the increase in taxation will not cause those who can "afford it" any pain. Unfortunately, this plan will also affect the young professionals who are just starting out, and trying to pay off their loans for college. They do not have the protection of a multi-member household, and have no children. They, unfortunately for this tax plan, make a little too much money to be considered as poor as they really are.
- 2.) To be fair and balanced: I do not consider charging people to pay for State services that they do not receive to be fair or balanced. We cannot sustain the fairy-land level of expenditure and expect those who receive very little from the System to take on an ever-expanding portion of the payments for it.
- 3.) To create a self-perpetuating solution of budget reductions: Of all the other plans on the table, none respond to this in any way. As long as we can find someone to take additional money from citizens to fund State government, we will be able to significantly hide the true cost and waste in the same government.
- 4.) To remove the political nature of budget-cutting as much as possible: There is no part of the Knowles' plan to reduce expenditures of any kind. We can therefore look at the political nature of increasing revenue. The Knowles tax plan is actually very good on the surface as it relates to this item. We find a select group, the "super rich", and tax them. The actual exposure from this plan comes when the tax is inevitably expanded to include lower levels of income.
- 5.) To allow for localized cuts in the budget, which differ from area to area: The Knowles' plan is very bad at this particular point. It completely shields vast areas of the State from participating in the task of paying for State subsidies that they themselves actually receive. The tax plan would hit the Cities almost exclusively and cause a great disparity and distrust of the Government that transfers so much money from one community to another.

The Cap on the Permanent Fund Divident:

- 1.) To minimize pain: This plan actually maximizes pain. Citizens would have no ability to escape the tax. This would also withdraw vast amounts of money from the State economy and cause our State to undoubtedly slip into recession if it was a severe cap.
- 2.) To be fair and balanced. Also, rich and poor would both fare equally badly. It does have each area of the State contribute to the level of government, and in this it is balanced from area to area.

- 3.) To create a self-perpetuating solution of budget reductions: The cap on the permanent fund does nothing to address expenditures.
- 4.) To remove the political nature of budget-cutting as much as possible: Since there are no budget cuts, there can be no political nature to what does not exist. I would suggest though that removing hundreds of millions of dollars from citizens to spend late in the year will have a devastating effect on the economy. A devastating effect at the specific time that money is needed to boost business from the red to the black.
- 5.) To allow for localized cuts in the budget, which differ from area to area. Same as 4.

The Cost Cutting Commission:

- 1.) To minimize pain: By having a citizen commission that looks for waste and eliminates duplication and excess, we will have the ideal solution. No loss of essential services. The full benefit of the dividend. No additional taxes.
- 2.) To be fair and balanced. The basic idea of the plan is that in each area of the state we can find some amount of reductions and waste. Each area of the State will be responsible for determining the appropriate reductions in their area. In the event that 10% in cuts are not found every 3 years, then the burden is shared among all citizens in that area. I cannot think of a more equitable and simple way to include all citizens than to use both the area subsidies, that all citizens have equal share in, and individual subsidies in the charge-back system. Given the three-to-one rule, I do not expect the commissions to fall below the 10% cost-cutting every three years, very often.
- 3.) To create a self-perpetuating solution of budget reductions: This is truly one of the better aspects of this plan. This is the only plan that allows direct overview of waste in our state government. Once the plan is in place, the system will work every year to continue to reduce expenditures and waste while preserving the local services that are most critical.
- 4.) To remove the political nature of budget-cutting as much as possible: The greatest protection from the difficult decisions of reducing expenditures is to spread the responsibility across a wide area. Local commissions are truly capable of suggesting reductions in their area that will least affect the local economy, while protecting health and safety. The Legislature will have the oversight and implementation powers, but the cuts themselves will be the result of the careful determination of the local cost-cutting commission.
- 5.) To allow for localized cuts in the budget, which differ from area to area. Local control, and the great variety of the State of Alaska cry out for the solution that is powered by local cost-cutting commissions. One area may be more dependent on one form of State subsidy than another. It is the best situation that the local commissions can have the option to find local solutions and reductions that are not dependent on being matched across the State.

Keep in mind that this is just a working set of proposals. I believe the **Moderator Plan** is sound and that the numbers should be worked around by the Legislature to ensure fairness and balance. I would caution that extending the percentage of the charge-back too low or too high may have the negative effect of either removing the incentive for reductions, or being unfair to those who do not receive much in State subsidies. Solutions we need to look at should provide a perpetuating pressure to reduce waste, while identifying critical and necessary State functions. A fair system is one that charges all citizens of the State an equal percentage for services. That way, all citizens have equal interest in reducing administrative waste and expense.

Objections: One of the primary objections is that this charge-back system will hit the rural areas harder than the urban areas. This is due to the fact that the level of State subsidy for the outlying areas is much higher than the cities. While the higher level of subsidy is true, it is also true that these outlying areas will have a much broader number of services and subsidies to choose their 10% cuts from in order to restore their dividends to full status. Also, the dividend charge-back tops out at 80% of the amount of the dividend and is not charged to children, but only to parents. It is only fair that areas that receive high levels of subsidy share to a greater extent in the funding they receive. The number here should be massaged around until a fair and balanced result is found. The overall goal is not to take any money from the dividend. I believe that the three-to-one ratio will create sufficient pressure to reduce State spending that the dividend will likely never, or rarely, be impacted. Finally, I do not think it right to exclude the greatest per capita receivers of State largess from helping to find out how we can reduce our State spending to reasonable levels.

Objection 2: Parents of school children will pay a higher charge-back cost. Parents with school-age children make up about 20% of State households. Again, I think it is not only fair, but also wise, that people who receive State services in some measure pay for them. I also think that there would be a much greater involvement by parents in their child's education if they are charged back some portion of those costs. When we pay for something, we demand results. If schools continue to be "free", we will continue to accept our current rate of 90% failure in their primary mission, to prepare children for college. 18% of children go to college, and, of those, 45% require remedial courses in English or mathematics.

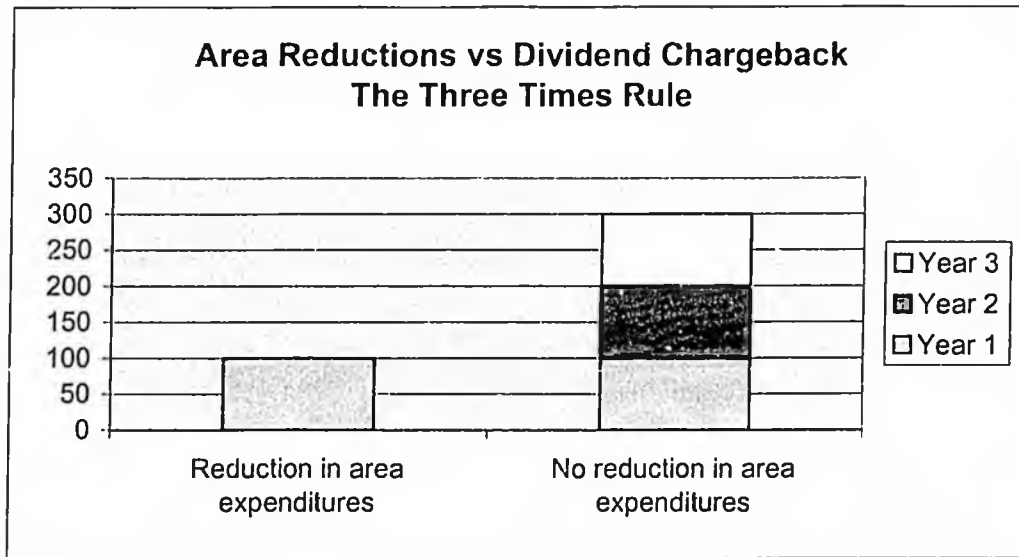
Objection 3: This will hurt the poorest of Alaska's residents. People who receive State largess directly through public assistance have a great responsibility to share in the burden of our unbalanced budget. We are all Alaskans and we all have a responsibility to help when our Ship of State heads for dangerous ground. People on public assistance generally receive over a thousand dollars a month from the State. Our \$1 billion deficit threatens ALL of this money. These recipients of State money will also be very interested in the 10% reduction every 3 years for their area in order to restore their full dividend. Also, their children's dividends are not charged back.

Again, let us look for methods of expenditure reduction that involves everybody in assisting ongoing reductions in spending. We are all going to need to pay if we are to have a chance at closing the large budget gap and still keep our citizens employed and Alaskan (watch for middle-class flight in the Knowles tax doomsday scenario). Shared burden, responsibility, and interest in correcting our imbalance of spending will result in the most wise choices, as well as the fairest choices. I hope the Legislature gives Alaskans a chance to demonstrate that wisdom.

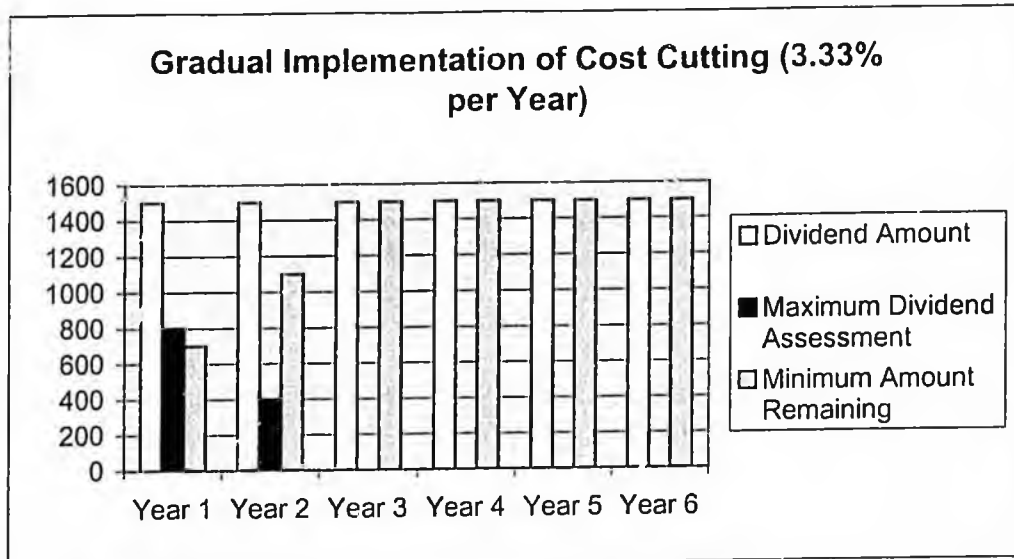
Glen M. Biegel

Editor, The Moderator www.intervine.net

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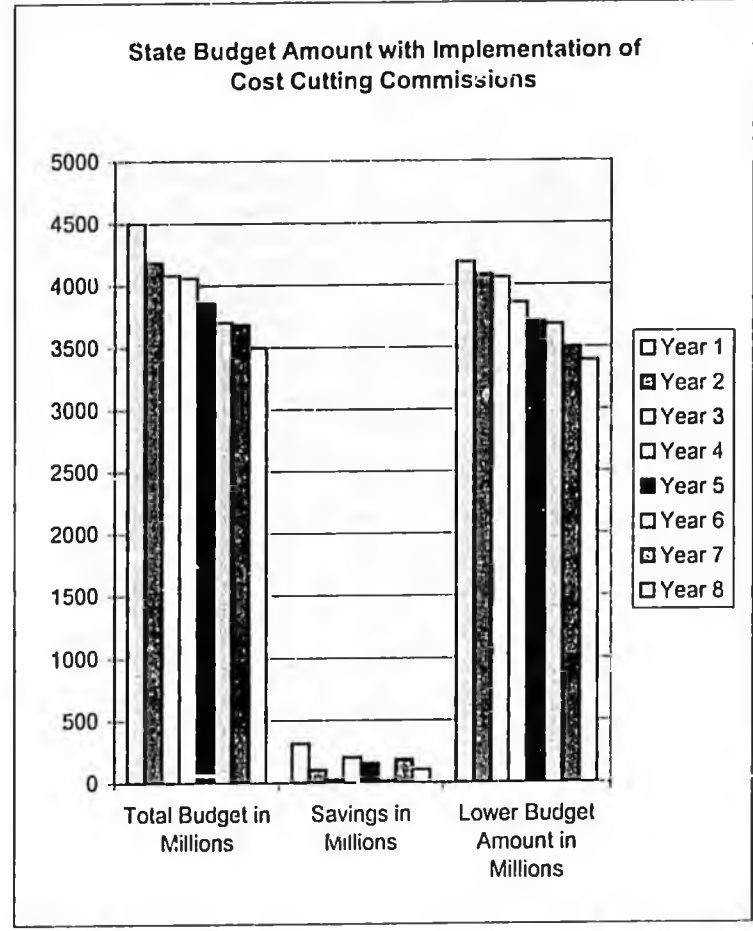
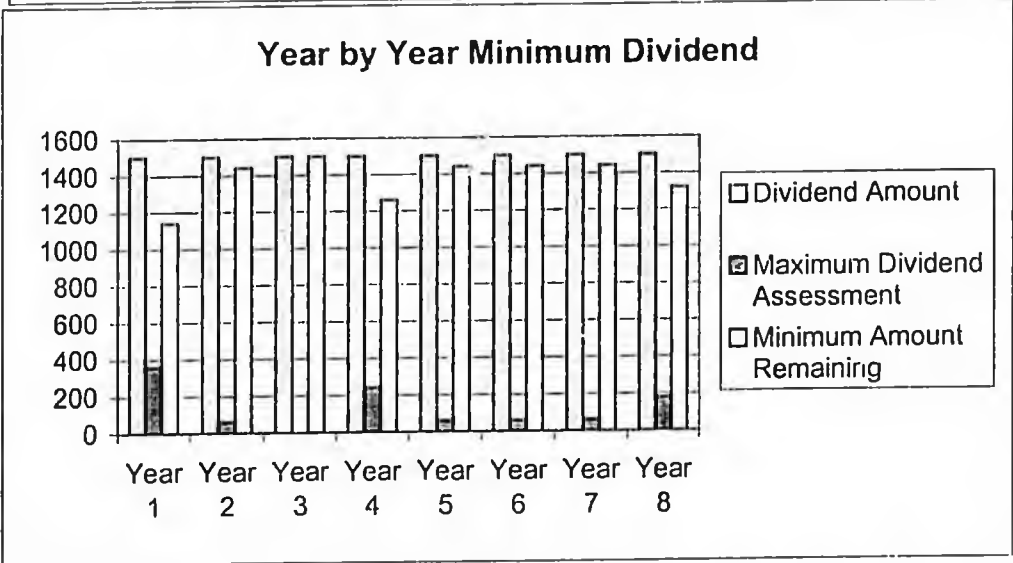
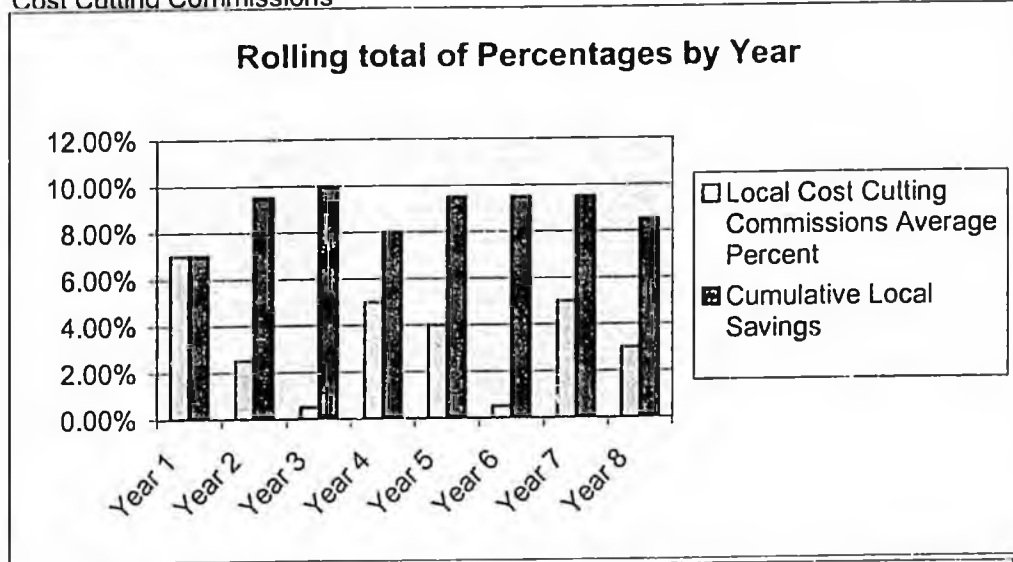


Distributed by Senator Funnell
by Request



Distributed by Senator Parnell
by request

Cost Cutting Commissions



To: Peninsula Clarion

Re: (Alleged) Budget Gap

From: James E. Fisher, 171 Farnsworth Blvd, 99669
Fax: 262-9641(a dedicated line) ph: 262-9601

Is there really a budget gap, when all public resources of Alaska are considered? There have been arguments that such does not exist. Wouldn't other states look at we Alaskans in bewilderment when we claim to be lacking in public resources to the extent of a "budget gap". I hope we aren't believed to be fools.

For a reasonable solution of the touted "budget gap", Alaska needs to accept responsibility for the existing conditions and our needs for the services we get (but are not always ready to acknowledge) from our various levels of government. We do receive essential services, i.e., education, public safety, health, etc. and etc.

First, analysis of cries to "cut the budget" is really a demand to reduce a service of somebody other than the demander. Have any of us heard with any frequency, or at all, from someone asking to cut a budget in which they might be immediately interested? Since we have had about 6 years of budget reductions, further slashes should be avoided.

For the most equitable spread of the costs, a state income tax based on ability to pay is fairest, and would reach even those outside of organized boroughs. It is also the most economical to administer requiring probably not more than 2% of receipts. A sales tax could cost up to 10%, or more to administer, and would badly impinge on the boroughs and cities, so should be avoided.

The most painless for needed revenues would come from Permanent Fund earnings (which are separate from the corpus, or body of the Fund).

Considering all the above, the most reasonable solution to a budget gap will include an income tax, based on ability to pay, and use of Permanent Fund earnings in amount which will enable continued PFD's.

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KIP KNUDSON

810 "O" Place / Anchorage Alaska 99501 / 907/274-8724 / golitely@alaska.net

Members of the Senate Finance Committee:

I want to pull you out of all the nitty gritty budget work, and examine the budget dilemma from the broadest perspective.

The big budget debate breaks down into two main areas:

- spending; and,
- revenues to pay for that spending.

You need to apply two standards to each area:

- spending needs to be sustainable and stable; and,
- revenues need to be sustainable and stable

Just by the nature of people's interest in government programs, spending tends to very stable, and the Legislature is constantly assessing how sustainable each program is. To illustrate how stable spending is, to make a one percent change in total spending takes all the political will and skill that you possess.

Because most of the sound and fury of budget debate centers on spending, I would like to focus your attention on the revenue side of your great debate. Alaskans have suffered a revenue stream that is neither stable nor sustainable.

When California experienced a great downturn in the early 90's, state revenues dropped about 20%. This drop was considered very extreme, and California has only recently begun to recover from the ensuing economic crisis.

Why are Alaskans willing to tolerate a revenue stream so unstable that 50% swings occur on a regular basis? I know you've heard from the oil price experts, and they try to make you feel certain about the future. However, trying to plan budgets around oil price forecasts is like gambling. What do you suppose the Vegas odds were two years ago on the bet that this year you'd be facing a one billion dollar shortfall? Such unstable revenues hardly provide you a basis upon which to build a long-term plan.

Now to the most important point: Alaska's fiscal system allows us to spend in an unsustainable manner. I don't say this to urge you to enact more taxes. You could impose the highest tax burden among the 50 states and still not have established a sustainable revenue stream.

How do other states achieve sustainable revenues? They base their revenues upon population and economic activity. When states lose population or experience economic downturn, it is

usually within a tolerable range, and thus spending can be adjusted without violating the principles of stable and sustainable spending. This finance system works very well for the other 49 states.

Alaska is different.

Congress understood how different we were, and endowed us with natural riches. Much like the land-grant universities of the early United States, we were granted land and resources to help fund government. Congress knew that our population and economy were, and still are, too small to finance government as other states do. I will call the land and resources granted to the state a "resource endowment."

Unfortunately, Alaska never created a formal finance system that could utilize our resource endowment properly.

I hope I can illustrate how we are violating the rules. The oil that we pump out of our resource endowment is the equivalent of principal. The rule that we have incorporated into our Constitution regarding the permanent fund - never allow principal to be spent - is violated every time we sell a barrel of oil, then book most of the cash as "income". We don't have the right to spend most of the cash we make on that barrel of oil, because my future grandkids own some of that oil too. When we let the first big Prudhoe lease in 1969, all but the sustainable cash income from that 900 million should have been set aside to produce income for us and for our grandkids.

Instead, most of the 900 million, and the succeeding billions, were spent immediately, in direct violation of the principles of endowment management.

On a personal level, the biggest asset that most people ever own is their house. Let's use this house as an analogy of how we use cash from oil sales: you sell your house, and then within a year, spend all your proceeds from the sale, equity and capital gain combined. Most would predict that this kind of financial behavior would lead to bankruptcy.

And yet for 30 years, Alaska has spent its assets in just the same disastrous way.

The creation of the permanent fund was a recognition that we should set money aside for the future, and protect it in the constitution. But, back to the house sale analogy, it is similar to saying that spending 75% of your equity and capital gain within one year will set you on the path to a solid financial future.

I haven't gotten very far today in helping you solve the budget worries, but hopefully I have explained the following:

- that sustainable and stable spending is almost a given, considering the political difficulties associated with increasing or decreasing spending.
- also, that we rely on a wildly unstable revenue stream, and spend in a sustainable manner from our resource endowment.

I am very aware of how hard you work on the spending side. Writing the budget is one of your primary constitutional duties, and you don't take it lightly.

But please, realize that Alaska is suffering from a broken fiscal system. Spend some critical months examining how to formalize the proper use of our resource endowment. The rules for this endowment need to be written in our constitution, and good amendments are never written quickly.

I did not get into many details today. Sometimes the simplest concepts are the most difficult to communicate, and I hope I was successful. I am at your disposal to discuss details of how we can begin using our endowment in a sustainable manner. Thank you for your time.

Sincerely,

A handwritten signature in cursive script, appearing to read "Kap Knudson", with a long horizontal flourish extending to the right.

Kap Knudson

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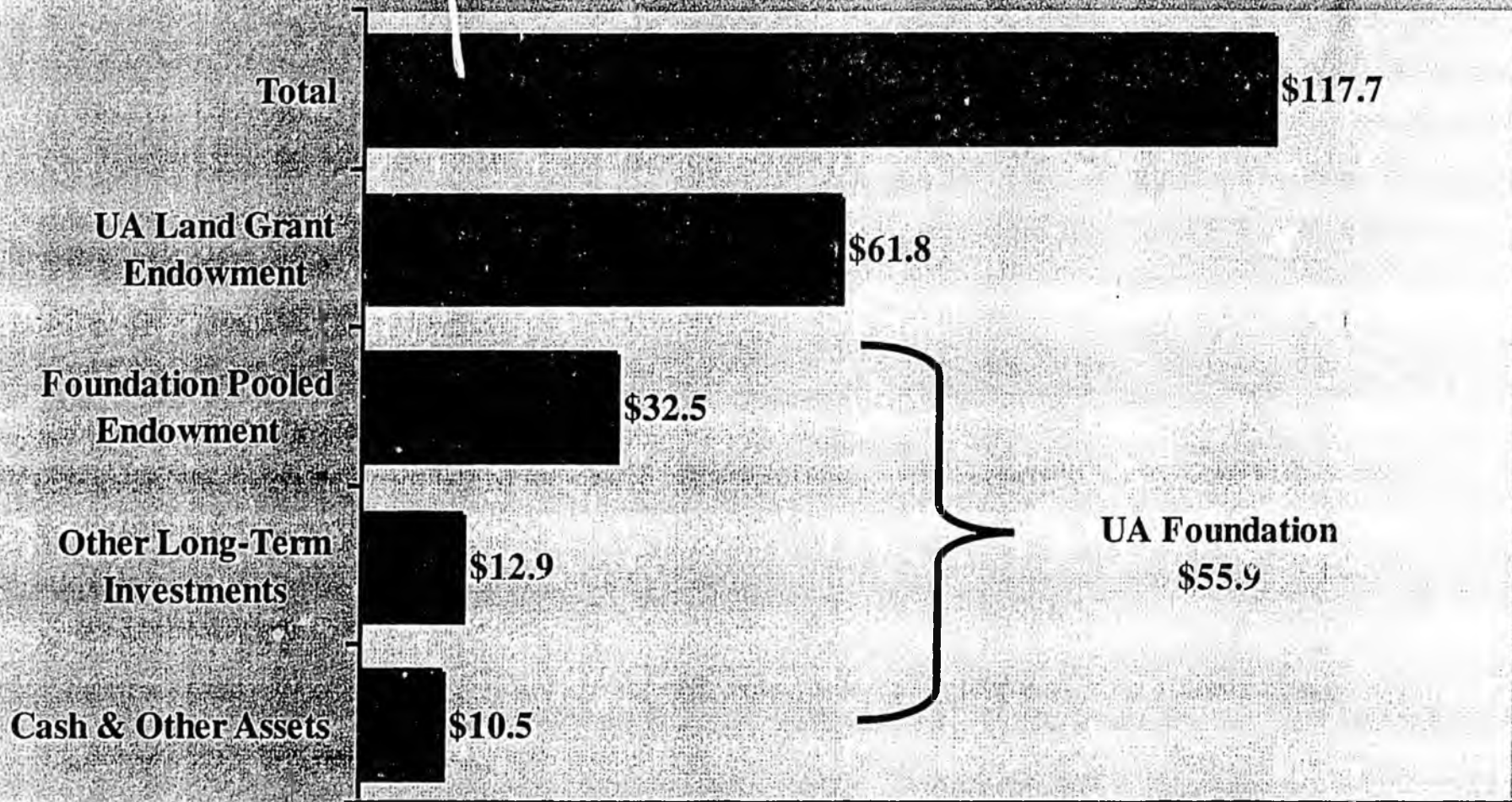
Kap Knudson

**University of Alaska
Foundation**

**Endowment Management
Development**

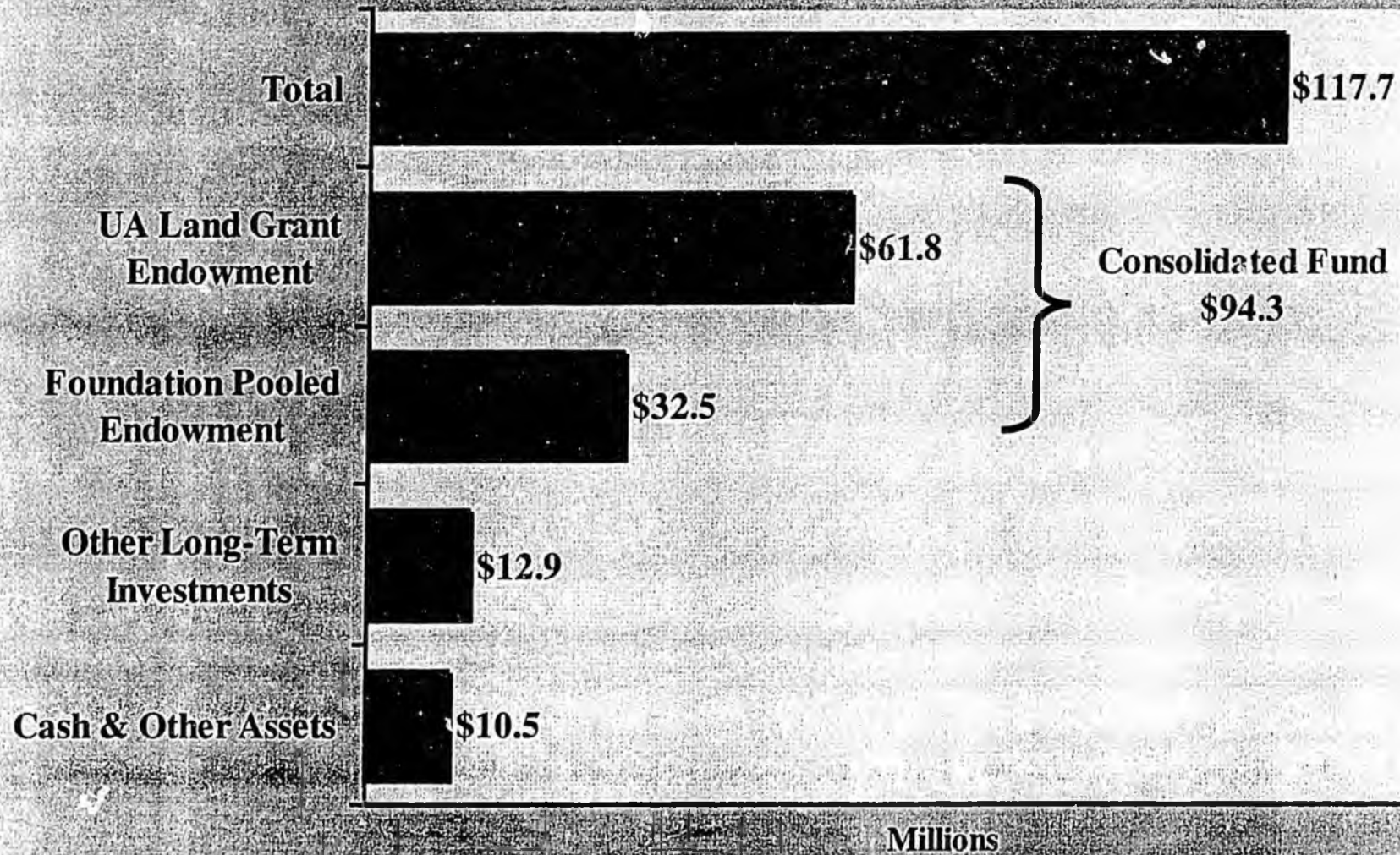
Jim Lynch, Treasurer

University of Alaska Foundation Assets Under Management, December 31, 1998

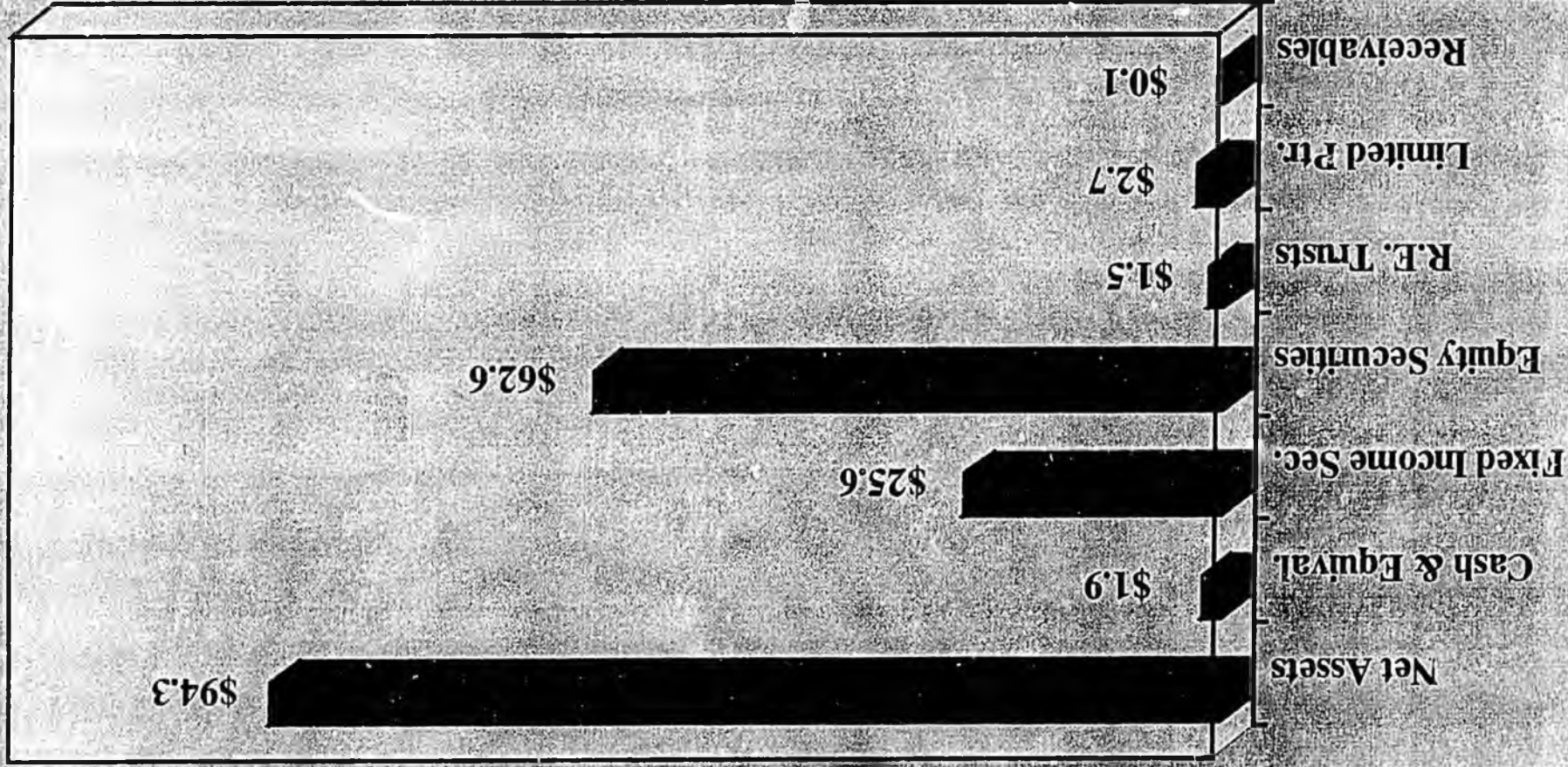


Millions

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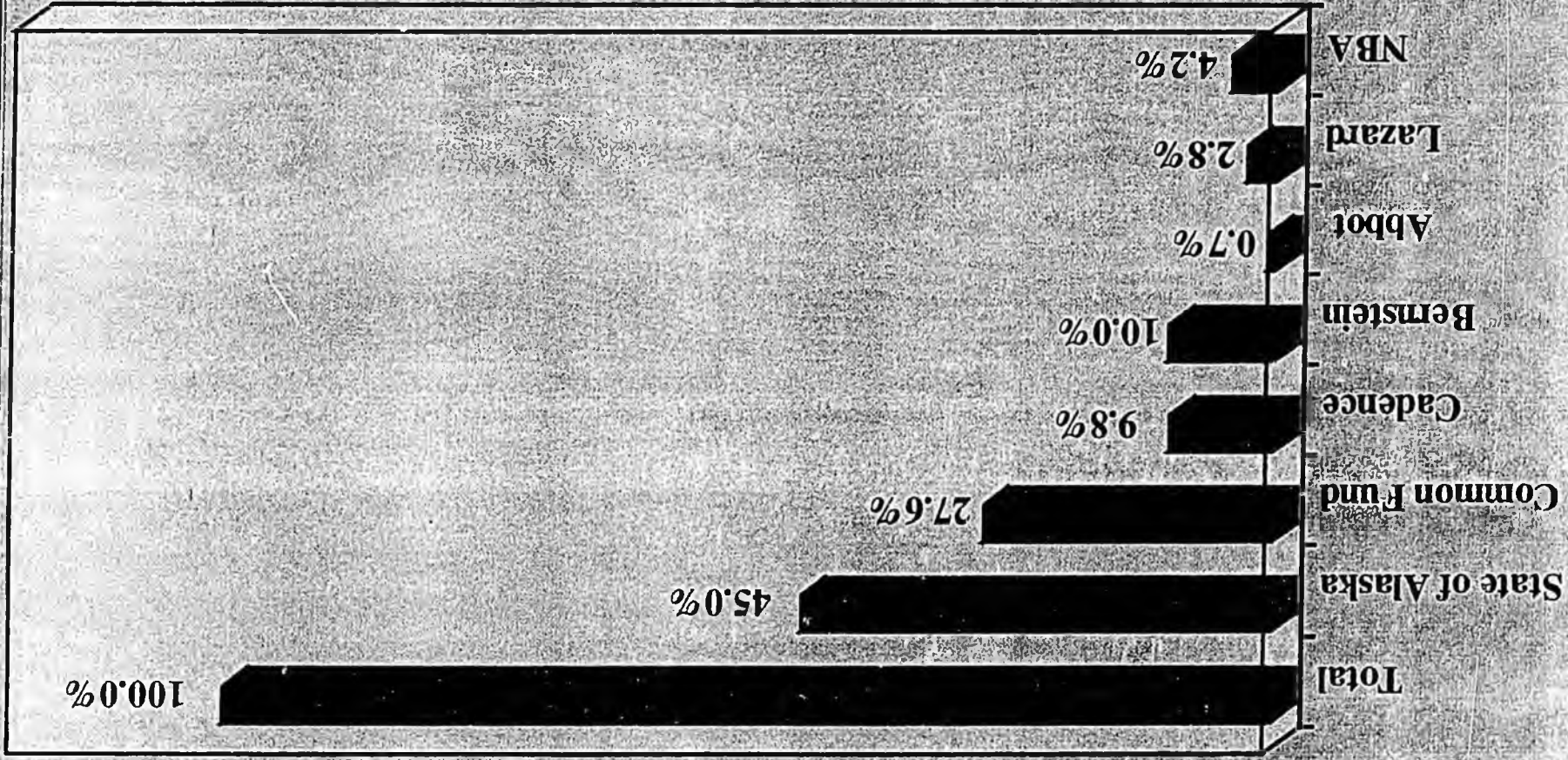


Consolidated Fund Assets
December 31, 1998

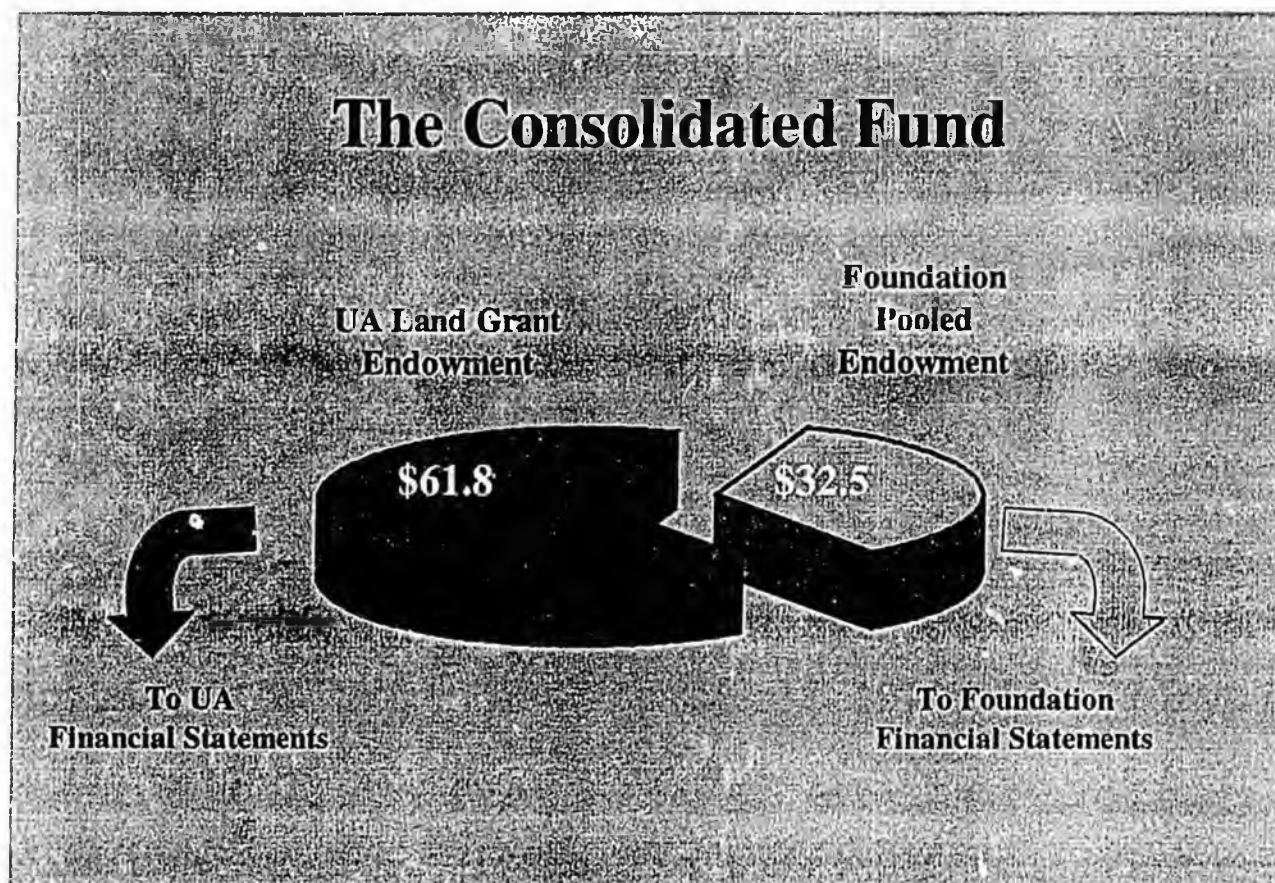


Millions

**Consolidated Fund
Assets Distribution by Manager, December 31, 1998**



University of Alaska Foundation



University of Alaska Land Grant Trust Fund

- 1978
 - ▶ \$2.5 million
 - ▶ All cash and fixed income investments
 - ▶ Spending current income only

University of Alaska Land Grant Trust Fund

- 1989
 - ▶ \$13.9 million
 - ▶ Equities authorized, minimal exposure
 - ▶ Spending current income only, after inflation proofing at CPI

University of Alaska Land Grant Trust Fund

- 1997
 - ▶ \$43.2 million
 - ▶ Spending current income only after inflation proofing at 33% current income
 - ▶ Total return authorized
 - ▶ Consolidated with the UA Foundation's Pooled Endowment Funds

University of Alaska Foundation Pooled Endowment Fund

- 1984
 - ▶ \$1.2 million
 - ▶ All cash and fixed income investments
 - ▶ Spending current income only

University of Alaska Foundation Pooled Endowment Fund

- 1988
 - ▶ \$8.2 million
 - ▶ Balanced fund portfolio, fixed income bias
 - ▶ Unitized pool, total return
 - ▶ Spending 5.5% of market value

University of Alaska Foundation Pooled Endowment Fund

- 1995
 - ▶ \$23.3 million
 - ▶ Spending 5.0% of 3 yr. moving average of market value

University of Alaska Foundation Pooled Endowment Fund

- 1997
 - ▶ \$29.7 million
 - ▶ Consolidated with UA Land Grant Trust Fund
 - ▶ Spending 5.0% of 5 yr. moving average of market value

Endowment Management Conflicting Objectives

- Preserving principal
- Maximizing distributions
- Minimizing payout fluctuations

Endowment Management

Threshold Issues - Reducing Conflicts

- Intergenerational Equity
- Total Return

Intergenerational Equity

- Ability to purchase for future beneficiaries what the endowment can purchase for today's beneficiaries (inflation-proofing)

Total Return - Economics Perspective

- Investing for maximum return
- No distinction between capital appreciation and current income
- No distinction between realized and unrealized earnings

Total Return - Management Perspective

- Disconnects investment decisions from short-term spending considerations
- Spending provision becomes part of long-term investment strategy rather than tactical response to market cycles

Endowment Management

Conflicting Objectives - Trade-offs

- Preserve purchasing power of endowment
- Maximize distributions (current and future)
- Predictable payouts

Strategic Questions

- How much is needed for distribution to the beneficiary (spending)?
- How much is needed to preserve purchasing power (inflation-proofing)?
- Time horizon for major distributions?

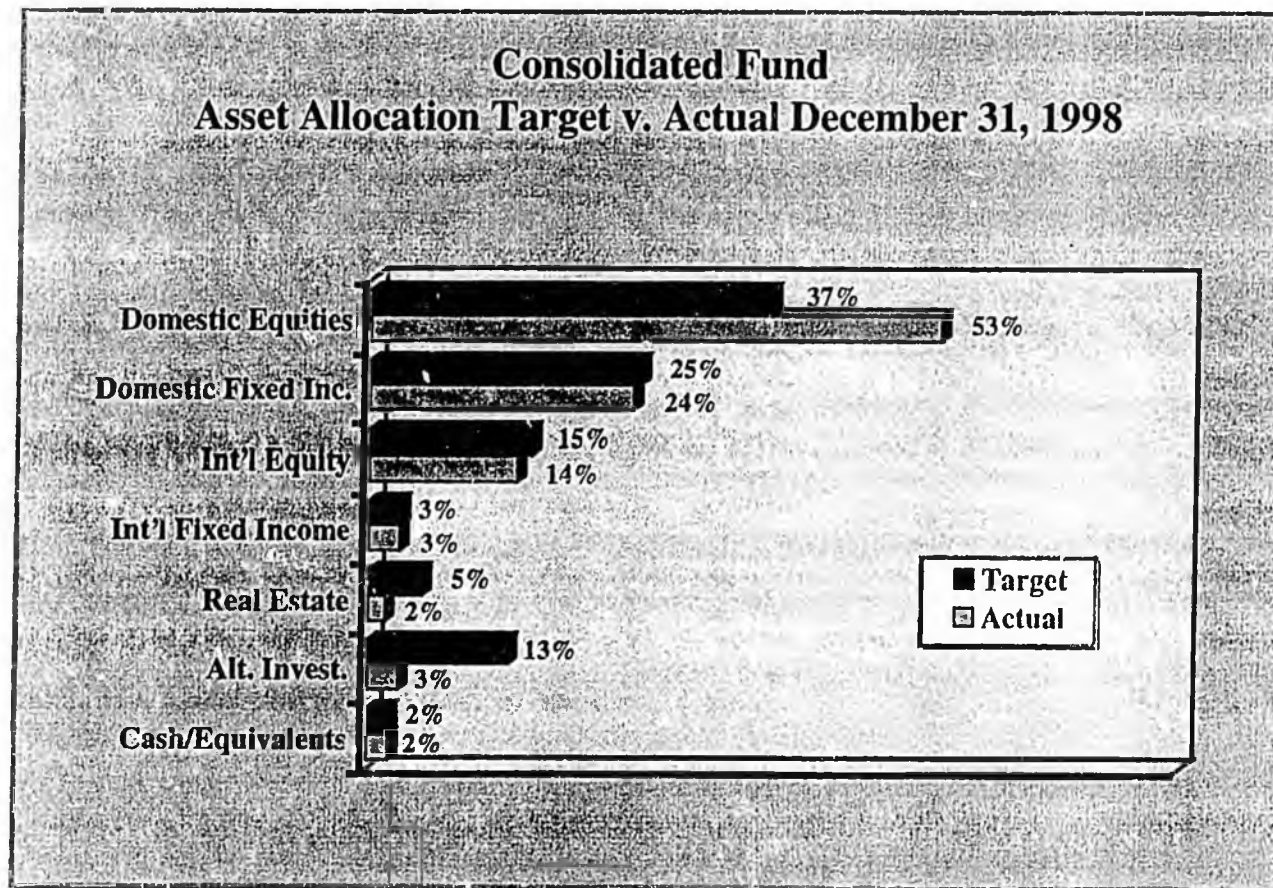
Strategic Issues

- Expected or needed rate of return
- Risk tolerance
- Asset class preference

Strategic Outcomes

- Portfolio asset allocation
- Spending Methodology

Asset Allocation

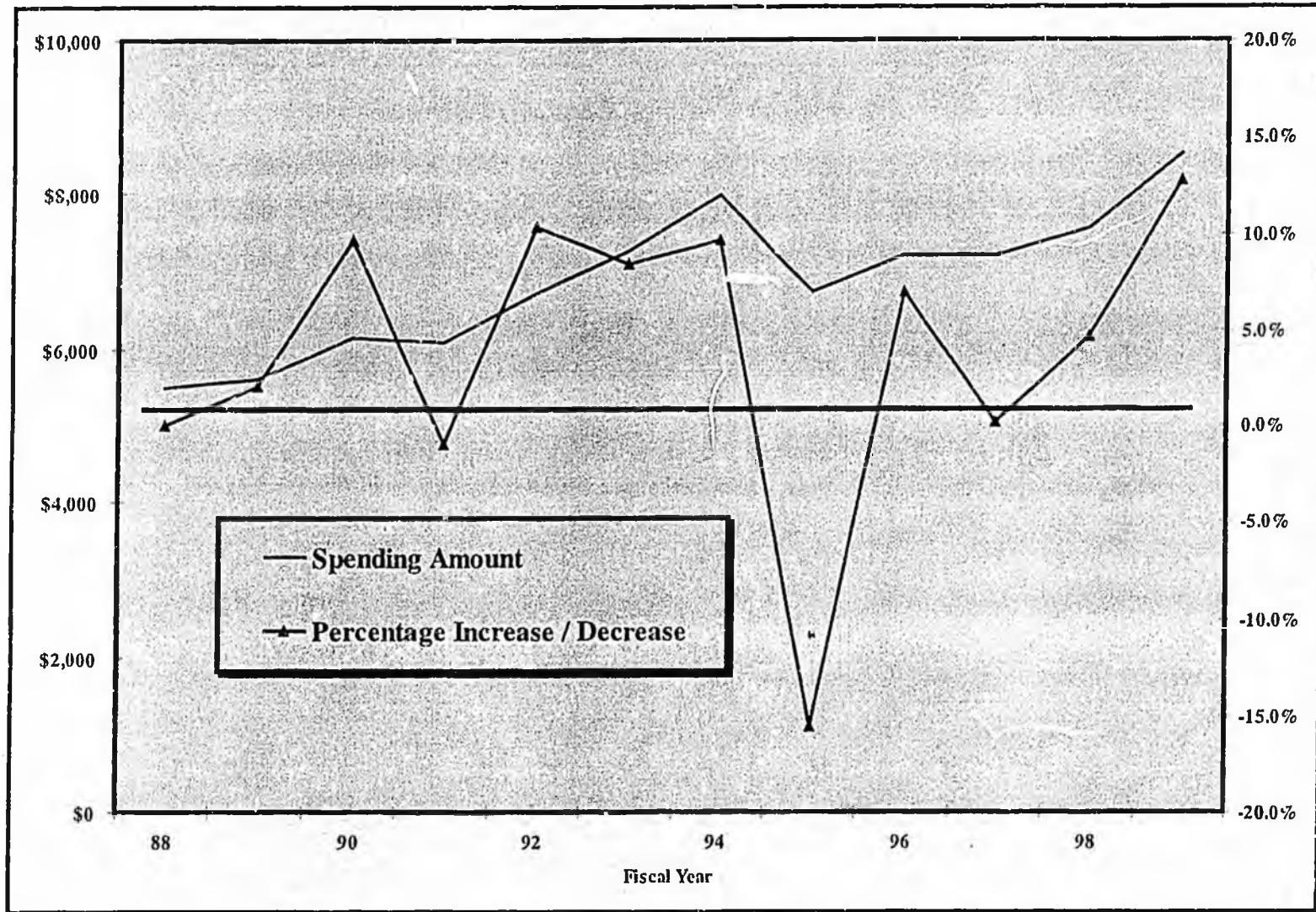


Spending Methodologies

	<u>Utilization</u>
Spend all current income	4%
Spend X% of current income	2%
Spend X% of beginning market value	5%
Spend X% of moving avg. of mkt. value	70%
Increase prior year spending by X%	6%
Decide each year	5%
Other	9%
Total (506 respondents)	<u>100%</u>

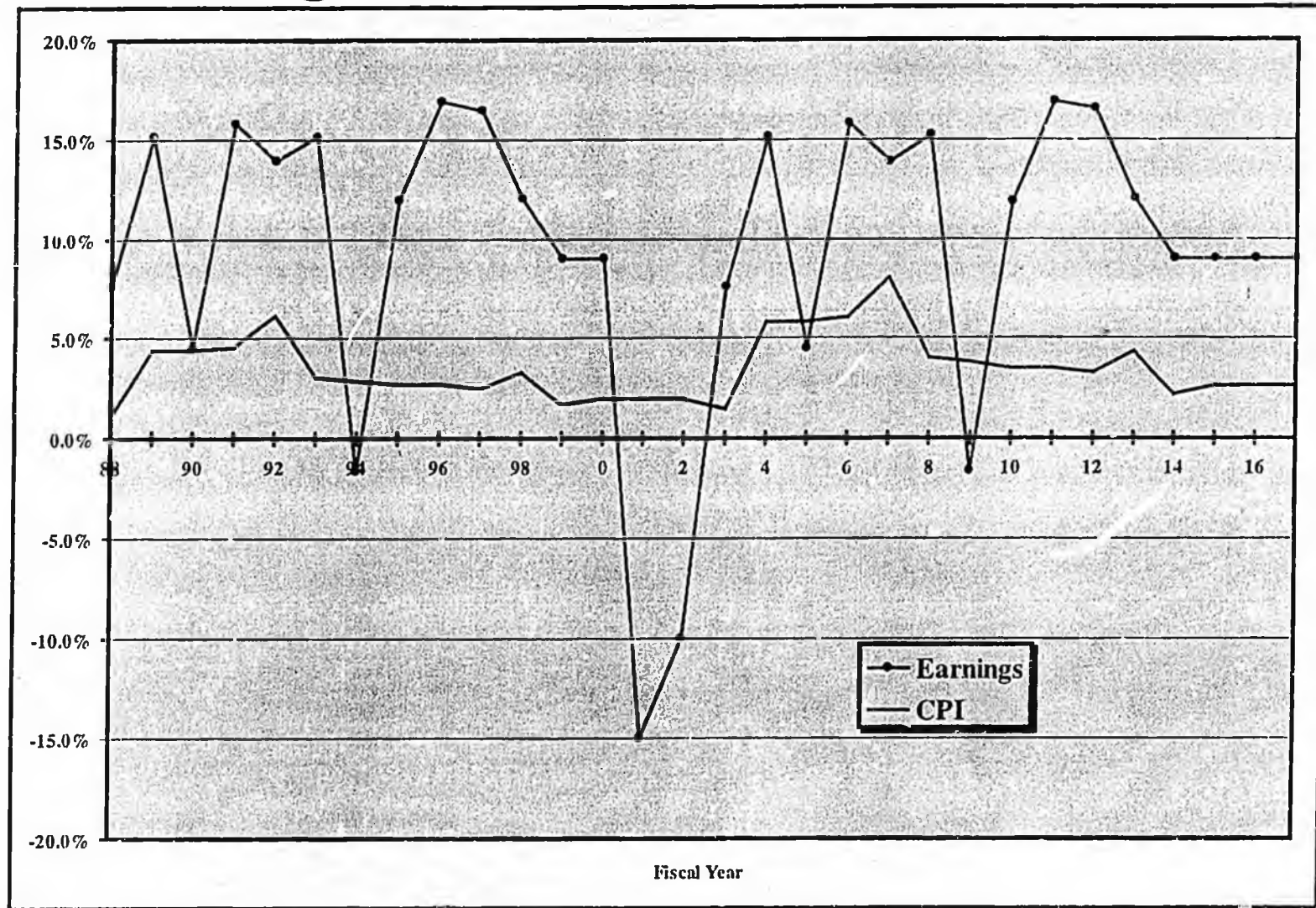
(Source: NACUBO Endowment Survey, 1998)

Theoretical Fund Spending Allowance History



Theoretical Fund

Earnings Rate and Inflation Assumptions

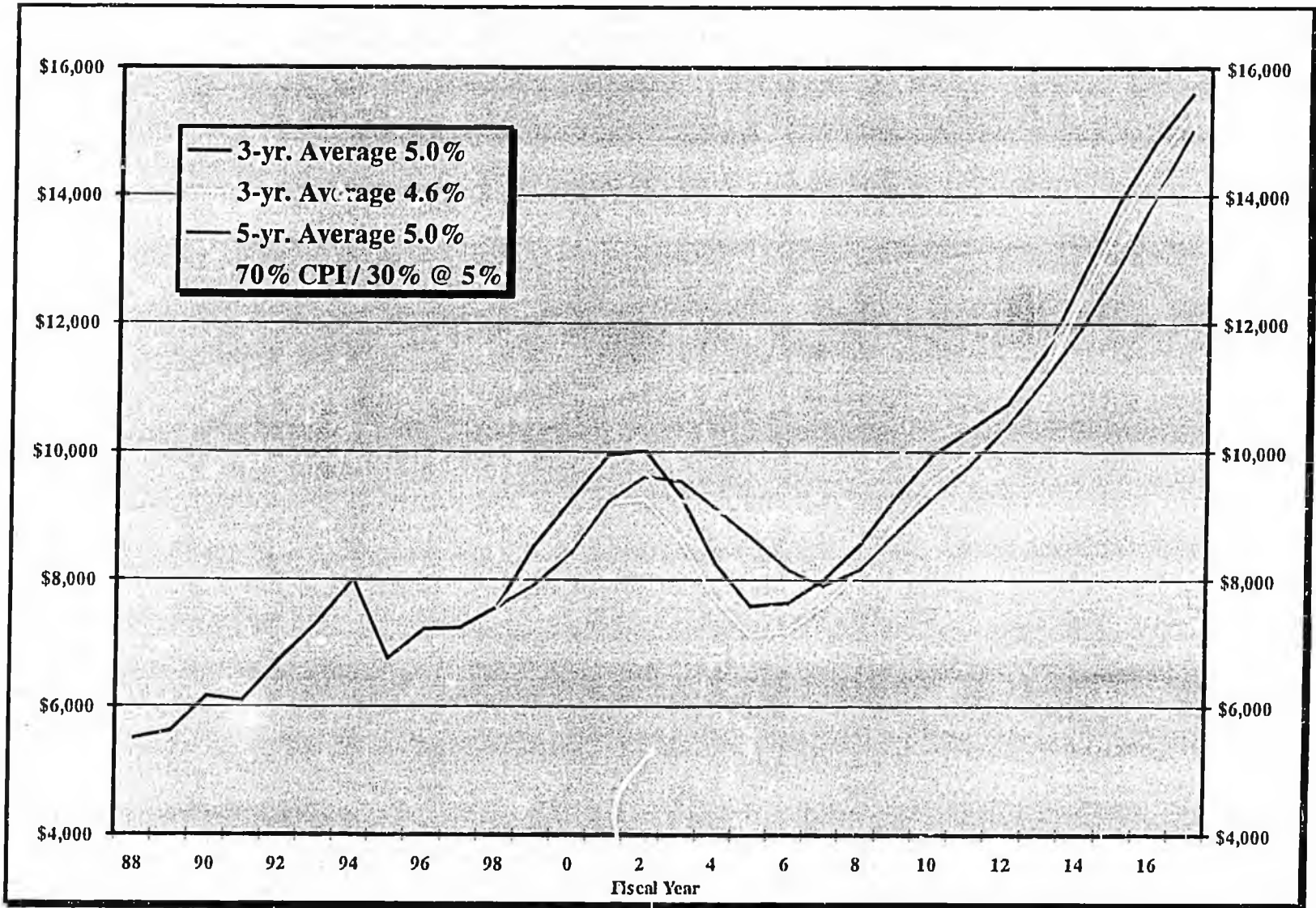


Spending Alternatives Analyzed

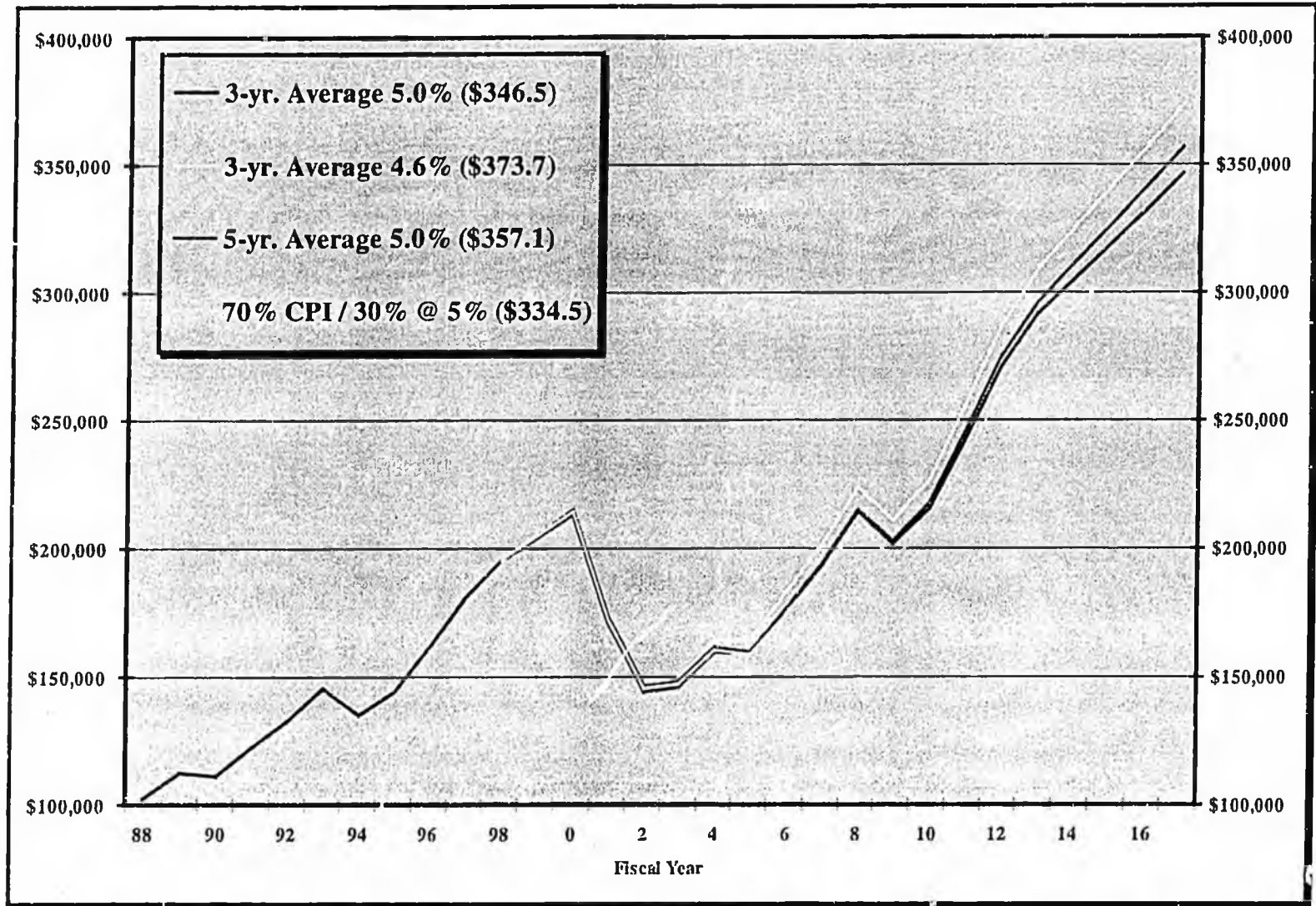
- 3-Year Average Market Value X 5.0%
- 3-Year Average Market Value X 4.6%
- 5-Year Average Market Value X 5.0%
- Yale Methodology - (70% Prior Year Spending adj. for inflation) + (30% of Market Value X 5.0%)

Theoretical Fund Spending Allowance Alternatives

Annual Distribution Amounts



Theoretical Fund Spending Alternatives Endowment Principal Balances





CALL AN ASSOCIATES
March 1999

Michael J. O'Connell
Executive Vice President

Alaska State Senate Finance Committee



1999 Capital Market Projections

Summary of Today's Presentation

- Callan Associates background
- Recap of key concepts, tools & terms
- Review of historic returns
- Callan's 1999 five year projections
- Implications of new estimates

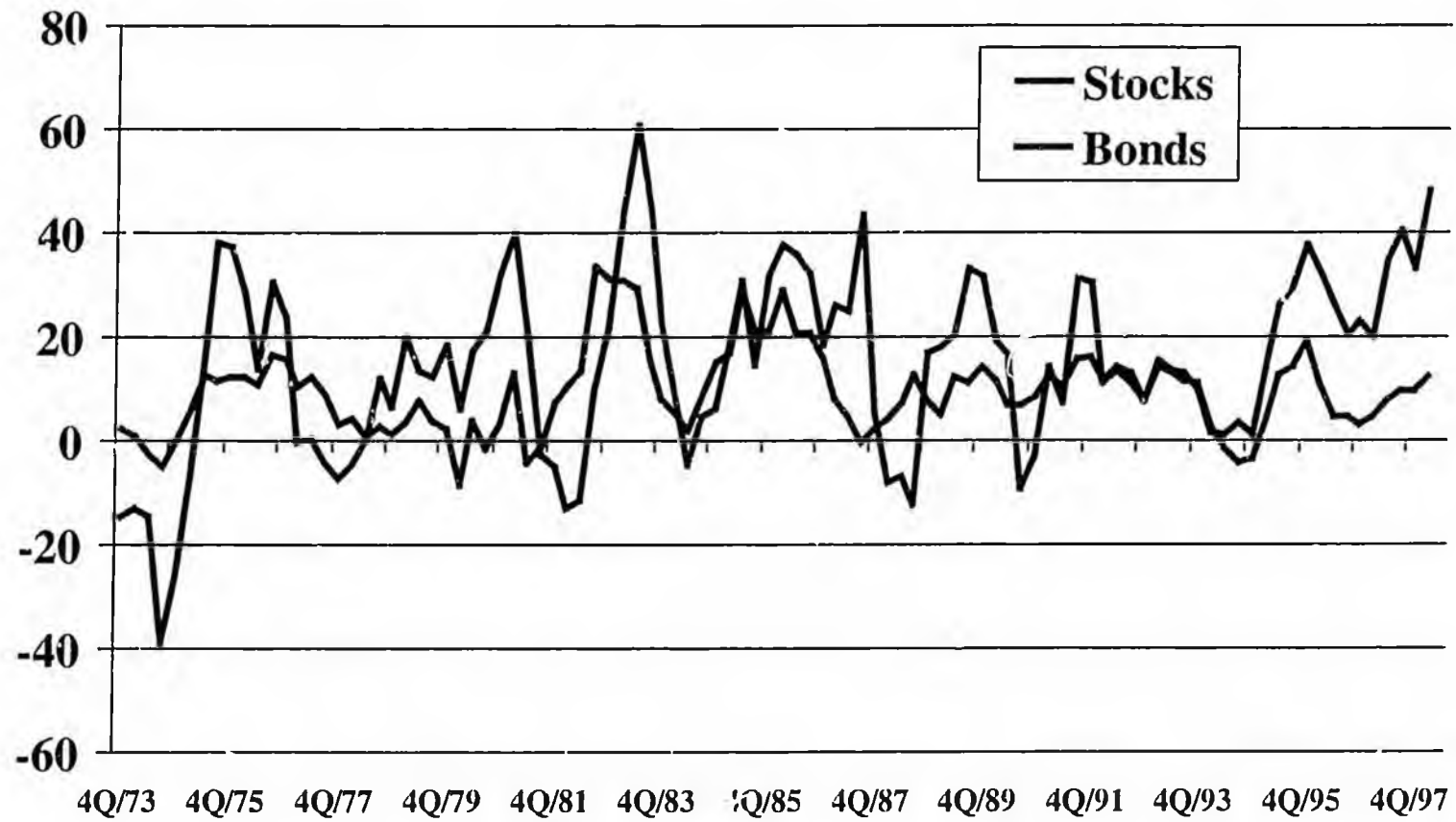
Callan Associates Inc.

- National pure investment consulting firm
- 290+ Institutional clients nationally who in aggregate have more than \$600 billion
- Headquarters in S.F., offices in Atlanta, Chicago, Denver and Morristown, N.J.
- APFC client since 1989, ASPIB client since 1992
- Services include: strategic planning, asset allocation modeling, manager selection & performance evaluation

Michael O'Leary CFA

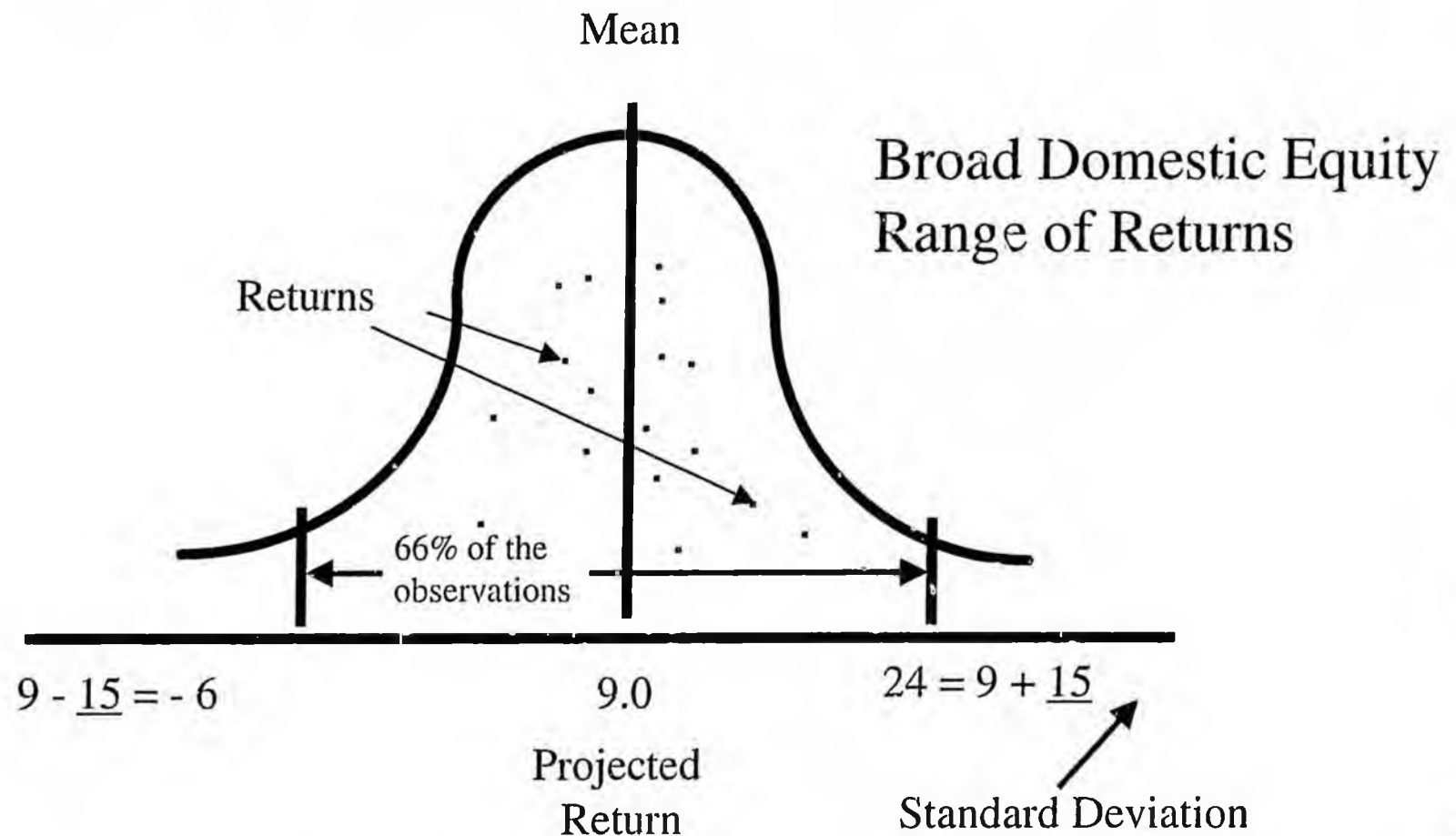
- 30 years of investment experience
- Joined Callan in 1984
- Prior experience with bank trust departments as: analyst, portfolio manager, research director, head of portfolio management
- Currently, Executive VP; member of Management Committee; Vice Chair of Client Policy Review Committee & Chair of Manager Search Committee

Volatility / Uncertainty

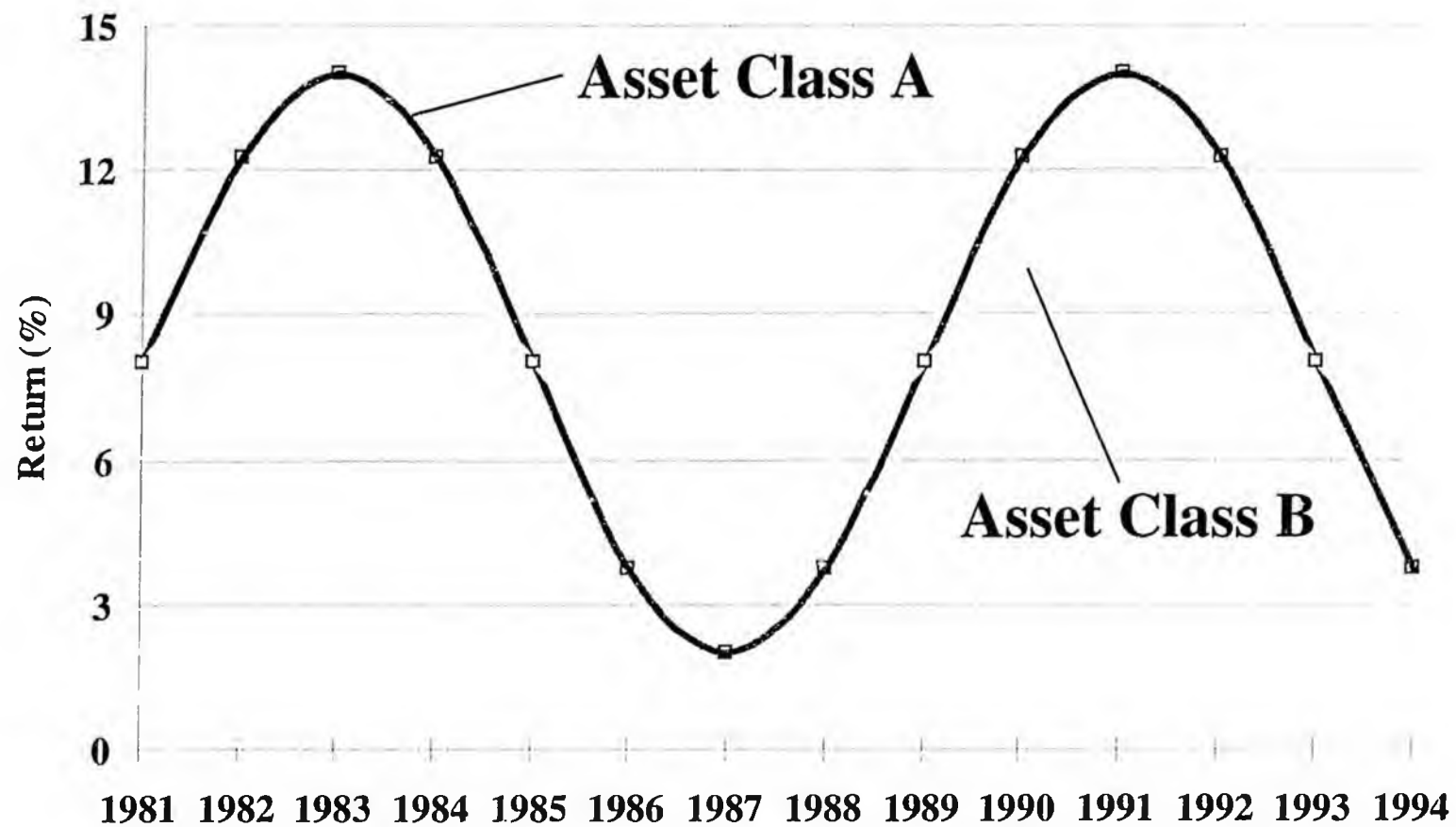


Measuring Risk

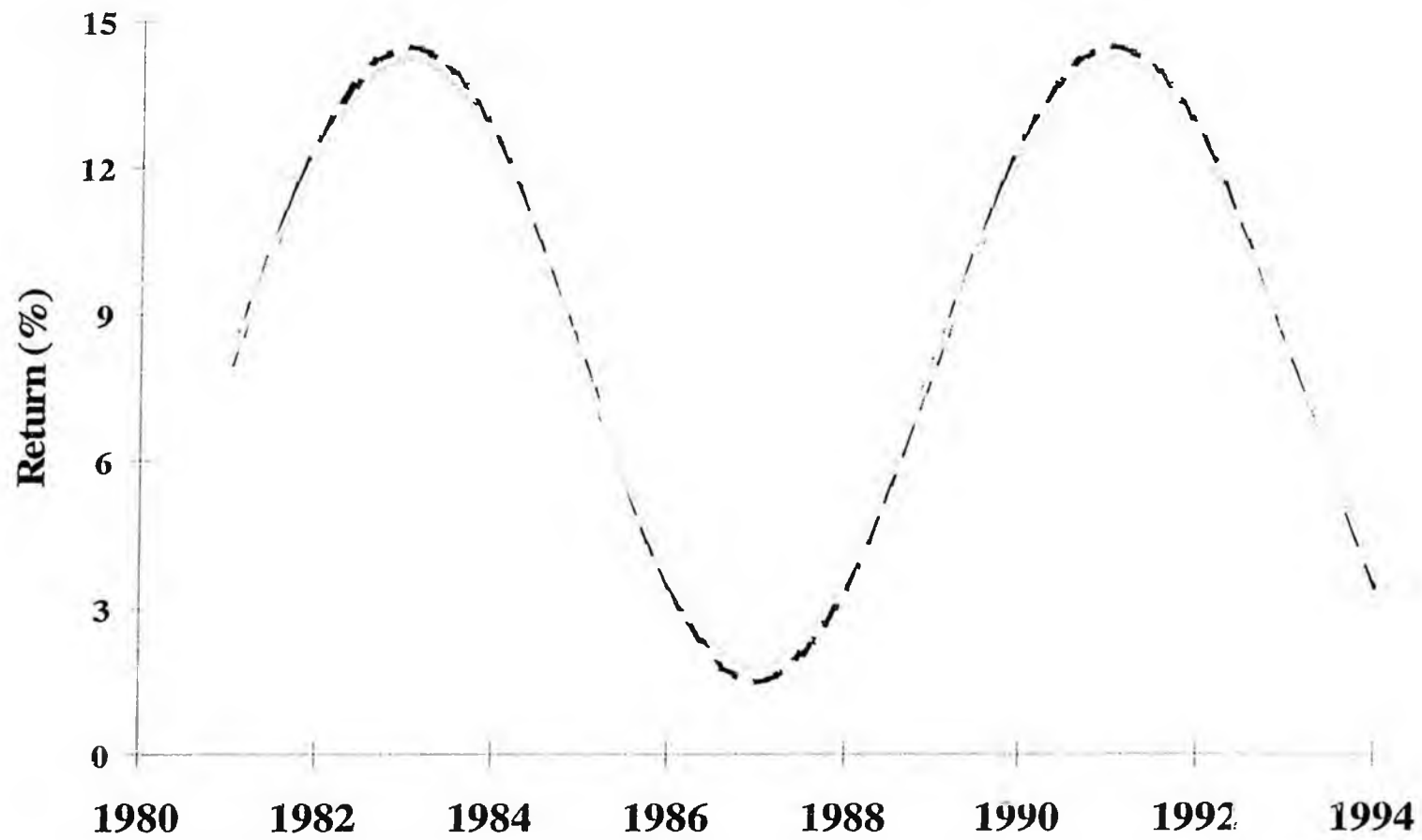
- Standard Deviation - Measures the Variability of Returns from Their Mean



Returns Will Go Up and Down



Perfect Correlation (+1)



Perfect Negative Correlation (-1)

