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The Anchorage Times

Publisher: BILL J. ALLEN
"Believing in Alaskans, putting Alaska first"
Editors: DENNIS FRADLEY, PAUL JENKINS, WILLIAM J. TOBIN
The Anchorage Times Commentary in this segment of the *Anchorage Daily News* does not represent the views of the *Daily News*. It is written and published under an agreement with former owners of *The Times*, in the interests of preserving a diversity of viewpoints in the community.

Why not cuts?

THE 15 men and women serving on Alaska's Long Range Financial Planning Commission face an awesome task. They are to come up with a credible and politically palatable plan for state government to eliminate its annual half-billion-dollar fiscal gap.

They have the next three months to develop their recommendations. The apparent options are to reduce expenditures and/or raise revenues.

Ask 100 Alaskans at random about which option they prefer, and you'll probably get 100 agreeing to cut spending. However, you may get 100 different answers about where specific cuts should be made.

A logical first consideration should be among those programs that are unique to Alaska. Which would you eliminate or reduce?

Permanent Fund Dividends	$585 million
School debt reimbursement	$103 million
Longevity Bonus Program	$73 million
Municipal Assistance	$34 million
Pioneers' Homes	$30 million
Permanent Fund Corp.	$27 million
UA Outreach Colleges	$18 million
PF Dividend Hold Harmless	$22 million
Power Cost Equalization	$19 million
Tourism Marketing Council	$5 million
Contract Jails	$4 million
Mount Edgecumbe School	$2 million

July 13, 1995

These programs enjoy various degrees of popularity and will be tough to cut. Besides, unless you're willing to give up your Permanent Fund check, you can't get the necessary $500 million to $600 million annual savings from this group alone.

It's even more difficult to target the state's obligations to provide education and fund formula programs that grow each year with increases in population and inflation:

K-12 education	$660 million
University of Alaska	$167 million
Medicaid	$143 million
Corrections	$129 million
AFDC	$59 million
Adult Public Assistance	$39 million

How about state government's operations? State salaries require about $530 million a year. Contracts total $220 million; supplies and buildings, about $50 million; and, travel another $20 million.

We could eliminate operations of state government to make up the deficit, but our problems would become much worse because we wouldn't have any money coming in and no state services — just general chaos.

In short, the easy answer to solving the fiscal gap — cut spending — may be much harder than it looks.

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Why not jobs?

THE TWO options heard most often about how state government can balance its annual budget involve spending cuts and taxes. There is a third alternative that must be added to the mix.

Besides spending less money or increasing tax revenues, economic development is a key component of the solution for bridging the state's half-billion-dollar-a-year fiscal gap.

There may not be another Prudhoe Bay bonanza to fall into our lap, but as the owner of more than 100 million acres of undeveloped land with a broad range of resource development potential, Alaska always has that possibility. In addition to oil, we have a lot of natural gas and coal waiting to be developed.

And while none of Alaska's industries can compare to oil in the ability to generate revenues for the state treasury, Alaska must continue to broaden its economic base and stimulate growth in the mining, fisheries, tourism and timber industries.

First, though, we must make sure that Alaska remains competitive in the world arena as an area where companies want to invest.

The governor and the Legislature made a good start this year in telling private industry that Alaska is open for business. Positive steps included passage of the royalty adjustment bill for petroleum development, the mining exploration incentive bill, the timber salvage bill and approval of a measure authorizing the lease of state lands along the Dalton Highway.

But more must be done.

There is little advantage for Alaska and the state's ability to address budget woes if resource development goes to Outside businesses and Outside workers.

Alaskans must be the ones who benefit from the harvest and production of state resources. When newly created jobs and new business opportunities go to Alaskans, the state realizes the benefits of the unemployed going off welfare to instead collect pay checks.

Development of Alaska's resources should be tied to increased investment in Alaska's infrastructure — for maintenance and new construction of roads, ports, airports as well as for schools, parks, playgrounds and facilities that improve the quality of life.

And resource development must include value-added work in Alaska wherever possible — creating more jobs and making it possible for new generations to choose to live in Alaska and raise their families here.

The 15 men and women serving on Alaska's Long Range Financial Planning Commission, we are confident, will give close attention to the merits of the state's role in stimulating and guiding economic development.

For a majority of Alaskans, the creation of new jobs and new employment opportunities is the preferred option for our long range financial security.

July 15th

The Plan in More Detail: What it Means in Three, Five, and Ten Years

Taxes/Fees: Increases user fees (including vehicle registration fees), taxes on alcohol, tobacco, motor and marine fuel, and tourism and fisheries. FY 05 includes 305.0 from an income tax.

Permanent Fund: FY 96 earnings for dividends. In future years, existing general fund (GF) sources decrease because 25% of oil revenues are diverted to PF. A prescribed percentage of the endowment also will flow from PF to the GF. Dividend pool is decreased $50 million for three years at which time it is frozen.

	FY 96	FY 98	FY 00	FY 05
Revenues				
Existing GF Sources	1,952.0	1,753.0	1,799.0	1,782.0
Oil Export Ban		20.0	20.0	20.0
Increased Taxes/User Fees		195.0	223.0	585.0
Subtotal	1,952.0	1,968.0	2,042.0	2,387.0
Permanent Fund				
Interest Earnings	565.0			
Endowment Earnings		683.0	796.0	1,119.0
Total Revenues	**2,517.0**	**2,651.0**	**2,838.0**	**3,506.0**
Expenditures				
State Budget	2,476.0	2,406.0	2,423.0	2,948.0
PF Dividends	565.0	465.0	415.0	415.0
Total Expenditures	**3,041.0**	**2,871.0**	**2,838.0**	**3,363.0**
What Happens to Fiscal Gap:	**-524.0**	**-220.0**	**0**	**+143.0**

State Budget: Decreases by $100 million over three years which requires additional cuts to absorb inflation and population growth such as in K-12 education. Commission recommends developing performance measures to evaluate program effectiveness as a basis to identify savings and reductions. After the gap is filled (FY 2000), spending starts to increase.

The Permanent Fund: From $15.4 to $30.6 Billion

A primary goal of the commission's plan was to develop a plan in which declining oil revenues were replaced with a sustainable source. Their recommendation: do all the state can to increase the state's savings in the Permanent Fund so it will earn more in the future, thereby replacing lost oil revenues.

	FY 96	FY 98	FY 00	FY 05
Permanent Fund Balance	**$15.4 billion**	**$18.7 billion**	**$21.7 billion**	**$30.6 billion**
How the Balance Doubles (in million$):				
Increased dedicated oil revenues		244.0	263.0	256.0
Constitutional Budget Reserve Surplus	607.0	25.0	94.0	237.0
Excess PF earnings			1291.0	
Inflation Proofing	429.0	(automatic in future years)		

"Fiscal Notes" is a project of the Alaska State Chamber of Commerce. Information is compiled and written for the State Chamber by Cheryl Frasca. It is distributed to organizations, who fax it to their members. ***If you get more than one copy or no longer want to receive "Fiscal Notes"****, contact the organizations of which you are a member. For other comments, suggestions, contact the Chamber's Anchorage office at 278-2722; fax 278-6643.* ***Please copy and distribute "Fiscal Notes" to others interested.***

ALASKA ★STATE★ CHAMBER OF COMMERCE

FISCAL ◆ NOTES

A BUDGET UPDATE FROM THE ALASKA STATE CHAMBER • ISSUE #15 • OCTOBER 2, 1995

Fiscal Plan Recommended: Map to Fiscal Stability and Sustainability

The Long Range Financial Planning Commission met its October 1 deadline to recommend a plan on how to bridge the state's growing fiscal gap. The commission will present its plan to the Governor and legislative leadership at a 9 a.m. briefing this morning.

Endowment Proposed

The commission proposes to recast the Permanent Fund as an endowment with a constitutionally-prescribed percentage paid out each year to support government services. A cornerstone of the plan is to increase deposits to the Permanent Fund in early years so the Fund's future earnings are greater when Alaska's revenues from oil are less.

Plan's Goals: Stability and Sustainability

The 15-member commission's charge was to develop a three, five, and ten year plan. It determined any plan it presented must meet two fundamental tests: long term stability and sustainability. *Stability* meant identifying mechanisms by which the state's revenues could be protected against the impact of oil price fluctuations. *Sustainability* meant that closing the gap in the short term (five years), with it only to reappear shortly thereafter, was not enough. Instead, it had to be sustainable over a longer term.

Plan's Key Elements

Permanent Fund Endowment

- Establishes the Permanent Fund as an endowment by prescribing a percentage of its value that will be available annually to support government services and pay dividends. (Commission proposes payout rate of 4% of the fund's 5-year market value).
- Increases the current deposit of 25% of all oil and gas revenues to 50%. These funds, which currently go into the state's general fund, will be diverted to the Permanent Fund (about $250 million each year.)
- Corrects problems with the constitutional budget reserve fund so it functions more as a cushion against revenue fluctuations (its original intent). The fund consists of onetime disputed oil tax settlements. Whenever the fund's balance is greater than $1.5 billion, the plan deposits the surplus in the Permanent Fund.

(Because these all require constitutional amendments, voter approval will be necessary.)

State Spending

- $100 million in budget cuts over three years. During this same period, the state's population is projected to grow by 30,000 and inflation to cumulatively increase 9%. Per capita general fund plus dividend spending would drop from $4,938 in FY 96 to $3,941 in FY 99.
- $50 million cut over three years in Permanent Fund dividend pool; it is then frozen. Individual dividends would be about $630.

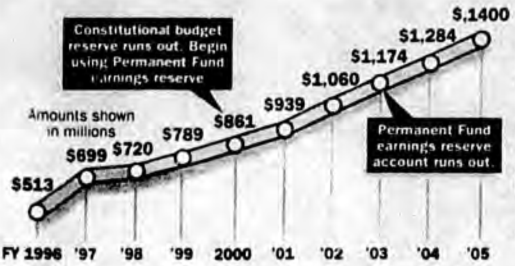
Revenues

State's annual mix of revenues are "diversified" by capturing more from traditional state sources:

- "Sin" taxes (alcohol and tobacco) increased
- User fees and vehicle registration fees increased
- Highway and motor fuel taxes increased
- Increased revenues from fisheries and tourism
- Income tax reimposed (proposed for 2002 at one-half the rate of the state's tax when it was repealed in 1979).

Alaska's fiscal gap: Potential causes and cures

The fiscal gap will get only worse



Assumptions

- Dollar amounts are not adjusted for inflation.
- Oil prices remain stable, with only minor fluctuations.
- Oil production declines gradually from 1.5 million barrels a day now to 1.1 million by 2005.
- No change in the formula for paying Permanent Fund dividends.
- Yearly population growth is 1.6 percent.
- K-12 school enrollment grows at 2.5 percent, and state education spending keeps pace.
- State agency expenses grow at half the rate of population growth (0.8 percent).

Where the state spends its $3.9 billion

Detailing the "big three"

Agency operations ("the bureaucracy")	
Health and Social Services	$195 million
University of Alaska	$167 million
Corrections	$130 million
Transportation and Public Facilities	$130 million
Public Safety	$85 million
Administration	$75 million
Courts	$46 million
Natural Resources	$43 million
Fish and Game	$41 million
Commerce and Economic Development	$37 million
Legislature	$31 million
Community and Regional Affairs	$31 million
Education	$31 million
Law (plus $16.8 million in reserve funds)	$20 million
Environmental Conservation	$18 million
Governor	$15 million
Revenue	$12 million
Labor	$9 million
Military and Veterans Affairs	$6 million

Formula programs (cash transfers) and other	
K-12 education	$660 million
Medicaid	$145 million
Longevity bonus	$72 million
Local government aid (muni assistance, revenue sharing, property tax exemptions, renter rebate)	$60 million
Aid to Families with Dependent Children (welfare)	$59 million
Miscellaneous, including office leases and rural electric bill subsidies	$78 million
School debt reimbursement	$80 million
Other state debt	$29 million
Loan programs and transfers	$19 million
Supplemental appropriations	$20 million
Capital projects	$116 million
Permanent Fund allocations	
Dividends	$575 million
Inflation proofing	$441 million
Earnings reserve deposit	$202 million

Some spending cut options

Cut programs unique to Alaska	
Permanent Fund dividends	$575 million
School debt reimbursement	$80 million
Longevity bonus	$72 million
Municipal aid and revenue sharing	$58 million
Pioneers homes	$30 million
Power cost equalization (rural electricity subsidies)	$19 million
Maximum privatization	
Privatizes pioneer homes, ARCS, arts council, vocational schools, Harborview, tourism marketing, seafood marketing.	$54.2 million
Contracting out	
Park management, motor vehicles, road maintenance, etc.	$11.8 million
Salary and benefit concessions	
Maximum projected savings	$96.1 million
Cut nonmandated local aid	
Muni assistance and revenue sharing	$58 million
Capital matching grants	$20 million
School debt reimbursement	$80 million
Local jails	$4.4 million
Senior tax relief	$1.5 million
Social service grants	$1.8 million
Discretionary K-12 school aid	$66 million

Program by program cuts*	
Public assistance excluding AFDC	$42.6 million
Mental health grants	$25.8 million
Developmentally disabled grants	$20.6 million
Alcohol and drug abuse grants	$18.2 million
Day-care assistance	$11.2 million
Regional nonprofit Native grants	$10.7 million
Seafood marketing	$8 million
Senior programs	$7.6 million
Health grants	$7 million
Tourism marketing	$5.4 million
Vocational schools	$5.1 million
Medical aid to individuals excluding Medicaid	$5 million
Harborview	$4.5 million
Domestic violence grants	$4.5 million
Public broadcasting	$4.4 million
Child-care grants to groups	$2.8 million
National Guard benefits	$1.1 million
Rural development	$1.1 million
Agricultural development	$1 million
ARCS	$0.8 million
Arts council	$0.6 million
Public offices commission	$0.6 million
Alcoholic beverage control	$0.6 million
Cultural programs	$0.1 million
Other grants to service providers	$27.1 million

*excludes items listed elsewhere

Revenue options

Statewide property tax	
Per mill levied	$28 million
Statewide personal income tax	
Per 1% of tax on federal taxable income. Nonresidents pay $7.5 million of the bill	$74.5 million
Statewide sales tax	
Per 1% of tax. Excludes food, health and social services	$58 million
Employment tax	
Per each $100 charged to a worker	$40 million
Fish tax	
If rate raised to 4 percent on all fish	$2.5 million
Statewide lottery	
	$10 to 20 million
Aviation fuel tax	
If exemption for foreign flights eliminated.	$10 million

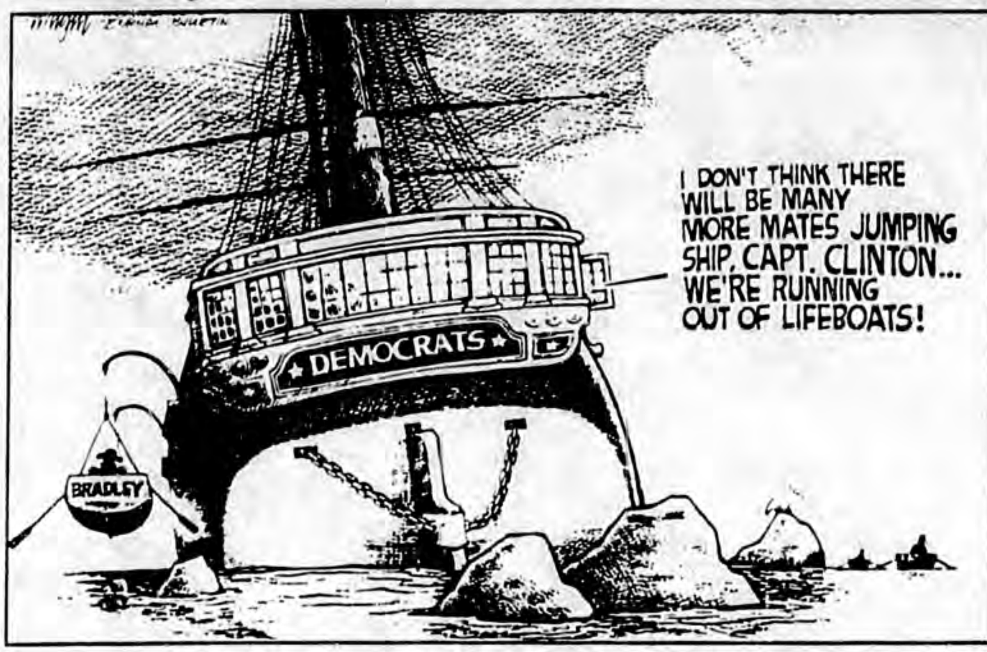
Marine fuel tax	
If raised from 5¢ per gallon to national median of 21.9¢	$28.2 million
Fisheries royalty	
With 4 percent royalty	$19 million
If rate equals oil and gas royalty	$60 million
Tobacco tax	
If $1 per pack increase	$57 million
Alcohol tax	
If raised from 3¢-4¢ per drink to 10¢	$19 million
Highway motor fuel tax	
If raised from 8 cents per gallon to national median of 21.9 cents for all users	$58.7 million
New economic development	
Commission notes oil, gas, minerals and timber prospects are highly sensitive to taxes and royalties. No major contribution projected.	

Source: Preliminary report of the state's Long-Range Fiscal Planning

ce of The Times

Are Alaskans ready for additional taxes?

This is the fourth in a series of excerpts from the report issued by the Alaska Long-Range Financial Planning Commission, which is examining the state's fiscal gap.



The commission recognizes that taxes impose costs on individuals and businesses. Economic burdens can impair economic development, although it is widely known that most accept the necessity of paying taxes and ask only that the burdens be imposed fairly and for important services.

Alaska repealed its personal income tax in 1980, and has traditionally allocated to local government the use of property and sales taxes.

Four major new taxes can be parts of a solution to address the state's fiscal gap:

Statewide real property tax. The state can expect to receive approximately $28 million annually for each one mill of real property tax in addition to the amount the state receives now from the oil and gas property tax. There are difficulties in collecting property taxes in the unorganized borough, and costs of tax administration may exceed collections.

Statewide sale tax. The Department of Revenue estimates that each 1 percent of statewide sales tax that exempts food, health and social services, would generate $58.9 million annually. Sales taxes are easy to collect because the seller, in effect, is the tax collector and it spreads the tax burden widely to all purchases of goods and services. In addition, it captures some revenues from non-residents visiting Alaska. An argument against sales and use taxes is the tax creates the largest proportional burden for those who have lower incomes. In recognition of this, many jurisdictions exempt food and other categories of essential goods and services.

Individual income tax. The Department of Revenue estimates that each 1 percent tax on Alaskans' federal taxable incomes would raise $67 million, with non-residents adding another $7.5 million.

Employment tax. The Territory and later the state levied a tax of $10 per employed person. The proceeds were used to fund education. Reinstitution of this tax at a level of $100 would yield approximately $40 million, based on current labor force estimates, with approximately 8 percent of that amount paid by nonresident workers. This tax creates a heavier proportional burden for low-wage earners than for persons in high-income brackets.

Other options include increasing other taxes. For instance:

The state could increase its highway motor fuel tax, now at 8 cents per gallon, to the U.S. median tax rate of 21.9 cents. That would yield up to $58.7 million additional revenue. Increasing the marine motor fuel tax from the current 5 cents-per-gallon to the average U.S. median tax rate of 21.9 cents would raise $28.1 million.

A repeal of the current exemption from the state's aviation motor fuel tax for foreign flights would raise $10 million.

Eliminating exemptions to the raw fish tax and taxing all fisheries at the rate of 4 percent would produce additional revenue of $2.5 million. Increasing the fishery resource landing tax from 3.3 percent to 4 percent would raise $1 million.

Increasing the state's tobacco tax by $1 per pack would bring an additional $42 million annually. An increase in the tax on chewing tobacco to 55 cents would bring in $370,000 annually. Increasing the tax on alcoholic beverages from the current 3-4 cents a drink to 10 cents a drink would raise an additional $19 million.

Another area offering a potential for raising revenues is resource taxes and royalties. There are diverse views as to what impact taxes have on new resource development or the continuation of existing resource-based industries.

For instance, the state presently collects approximately $343,000 from the mining license tax. This is a tax levied on the net value of resources, primarily gold and coal. Because many of Alaska's mineral resources, other than oil and gas, are now in an early state of development of mines and markets, the commission notes that a thorough examination of the economic impact of taxes or royalties on the minerals industries is needed.

The commission did not undertake an analysis of the tax and royalty that the state's timber resources could support. Such an amount is not likely, however, to be significant in closing the fiscal gap.

If the state were to enact a fish royalty tax modeled after existing royalties on non-renewable resources, and set the rate at 4 percent, it would produce $19 million annually. Establishing royalty rates on fish comparable to those on oil and gas would raise $60 million annually from commercial fishermen.

No discussion of potential revenues would be complete without considering increased taxes or royalties on the state's oil and gas resources. Alaska's revenue shortfall is the result of a major decline in oil production. This means that the oil and gas industry is also suffering from the same decline in revenues and, at the same time, experiencing increasing production costs.

Finally, charitable gaming represents a potential new source of income to the state. Periodically proposals for a statewide lottery emerge. A statewide lottery could probably yield about $10 million to $20 million.

Next: Using the Permanent Fund and promoting development.

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Full disclosure

TWENTY CENTURIES ago, Roman satirist Lucius Annaeus Seneca wrote, "Do not ask for what you will wish you had not got." It is advice the Alaska Long-Range Financial Planning Commission may wish it had heeded before issuing its report on the state's fiscal gap earlier this month.

Among the commission's recommendations for how to improve the budget process is a suggestion that the state adopt a policy of full disclosure. Report ALL income and spending each year, the panel suggested.

By coincidence, less than a week after issuing its advisory, the commission got what it asked for — and may have wound up with a bit of egg on its face as a consequence.

The Legislative Budget and Audit Committee released a study that tracks state spending over the past 10 years. On one hand, it shows that money spent out the state's general fund increased a reasonable 9 percent.

However, the report doesn't limit itself to the general fund. It highlights a tremendous growth in the number of state spending categories that were placed off budget and out of the public eye since 1985. State spending from these accounts more than tripled from $260 million in FY85 to $792 million this year. Federal funds that are used to operate state government also tripled over the decade from $226 million to $740 million.

Added to general fund expenditures, these two spending categories boost state spending for the current fiscal year to more than $3.8 billion, not the $2.4 billion the public was told about. Additionally, over the past decade the study shows overall spending has increased $1.2 billion — a whopping increase of 47 percent!

According to Budget and Audit Committee chairman, Rep. Terry Martin, the executive and legislative branches have been "playing a shell game" with the public. Martin shared his findings with his colleagues last Friday.

More than three dozen major off-budget accounts have been created since 1985. Included are such things as the Marine Highway System fund which will generate about $74 million this year, the UA student tuition fund producing $54 million and revenue from operations of the International Airport that will produce $44 million.

These revenues and service fees once were deposited in the general fund, then allocated by the Legislature. Now they're earmarked as they're earned and not reported as general fund expenditures.

The Long-Range Financial Planning Commission may have fallen victim to the ruse because in its report issued this month (and excerpted this week in the Voice of The Times), it credits the Legislature and administration for successfully holding down spending.

With total state spending increasing some 47 percent since 1985, no praise is in order.

Fuller A. Cowell
Publisher

Howard Weaver
Editor

GOLD MEDAL FOR PUBLIC SERVICE, 1976, 1989

Michael Carey, Editorial Page Editor
Patrick Dougherty, Managing Editor

Gerald E. Grilly, Publisher, 1984—1993
Katherine Fanning, Editor and Publisher, 1971—1983
Lawrence Fanning, Editor and Publisher, 1967—1971
Founded in 1946 by Norman C. Brown

Trouble ahead for Alaskans

So how would you close the fiscal gap? A chance to speak up

Since oil started flowing at Prudhoe Bay, Alaskans have been liquidating their most valuable liquid asset at an astonishing rate. What took millions of years to accumulate will be used up in a single generation.

Draining Prudhoe Bay allows today's Alaskans to live beyond their personal means. Not only do we have a high level of government services with no statewide sales or income tax; the state hands out yearly checks of nearly $1,000 to every resident.

Alaska can't count on such prosperity to continue much longer. The oil-price bust of the mid-1980s was the first warning. Now, Prudhoe Bay has passed its peak production, and the new North Slope fields coming on line are smaller and less profitable.

As the easy money ends, the coming choices get harder. Some critics say state leaders still prefer to duck those hard choices and avoid dealing with the unpleasant reality ahead. Others say elected officials have ratcheted down spending as much as voters will tolerate.

This dispute aside, one thing is clear: Absent another lightning-strikes-twice oil boom, something is going to have to give during the next few years.

The state's gap between spending and income is half a billion dollars, and at current rates, it will nearly triple to $1.4 billion in the next decade.

The longer we wait to close the gap, the worse the day of reckoning when it finally comes. Alaska can buy time by continuing to spend savings accounts, which hold $3 billion, not counting the constitutionally protected Permanent Fund.

But simply spending these reserves is a sucker's game. It allows Alaskans to do nothing for a few years, while the impending disaster escalates. When judgment day arrives, all readily available money to cushion the blow will be gone.

With this prospect in mind, the Legislature created a commission to document the fiscal gap, identify options for closing it and build a consensus behind a solution. Today's editorial carries charts and tables summarizing the commission's information, so that Alaskans can ponder the options for themselves.

We encourage you to use the information to sketch your own plan for filling the fiscal gap — and then communicate your views to the commission. A schedule of hearings follows:

All hearings are by teleconference, with the commission based in Anchorage:

Sept. 11	7 p.m.	Interior/North sites
Sept. 12	7 p.m.	Southcentral (except Anchorage)
Sept. 13	7 p.m.	Anchorage
Sept. 14	7 p.m.	Southeast

Information: Legislative Information Office or the fiscal planning commission staff, 258-8165. The commission also will take public comment at its meetings Sept. 16 and Sept. 30 in Anchorage. The comment period starts at 11 a.m.

Numbers game?

Not in this case

Some critics claim the state's long-term fiscal planning commission hasn't presented a true picture of Alaska's addiction to government.

It's true, the group's preliminary report does leave out substantial pass-through spending, such as federal grants of roughly $1 billion, plus user fees such as tuition at state universities, state ferry tickets, drivers licenses and the like.

It's also true that these omissions understate the scope of government spending and may obscure some potential difficulties ahead. For example, if the feds try to save themselves money by dumping more responsibilities on states, such as Medicaid and welfare, Alaska's financial troubles will worsen.

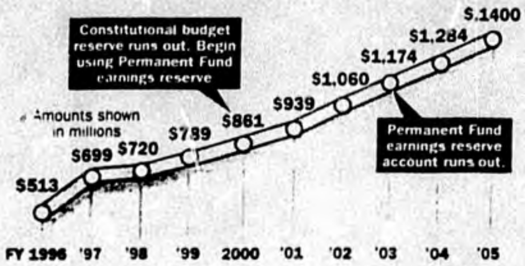
Imperfect as it may be, however, the commission's work is not fatally flawed. The commission has made good progress toward its primary goal: exploring ways to put the state's finances on sounder footing for the future. What gives this debate special urgency is the growing chasm between the services Alaskans demand from the state and the oil dollars available to pay for them. The commission naturally focused its attention here, on options for closing the fiscal gap. Very little of the federal aid or other revenues omitted in the analysis can be used to fill the void.

More important than what the commission's report excludes is what it includes — Permanent Fund earnings. At nearly one-third the state's spendable income, those earnings are a key source of financial flexibility and shouldn't be considered "off-book."

To cope with the fiscal gap, Alaska must wrestle with difficult and divisive questions about the appropriate size and scope of government. Information from the commission has its limits, but it's sufficient to help Alaskans advance this important debate.

Alaska's fiscal gap: Potential causes and cures

The fiscal gap will get only worse



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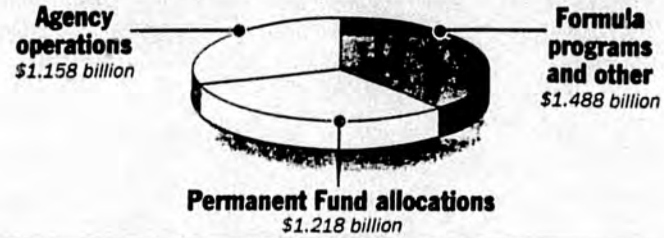
Where the state spends its $3.9 billion



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Natural Resources	$43 million
Fish and Game	$41 million
Commerce and Economic Development	$37 million
Legislature	$31 million
Community and Regional Affairs	$31 million
Education	$31 million
Law (plus $16.8 million in reserve funds)	$20 million
Environmental Conservation	$18 million
Governor	$15 million
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Capital projects	$116 million

Permanent Fund allocations	
Dividends	$575 million
Inflation proofing	$441 million
Earnings reserve deposit	$202 million

Some spending cut options

Cut programs unique to Alaska	
Permanent Fund dividends	$575 million
School debt reimbursement	$80 million
Longevity bonus	$72 million
Municipal aid and revenue sharing	$58 million
Pioneers homes	$30 million
Power cost equalization (rural electricity subsidies)	$19 million

Maximum privatization	
Privatizes pioneer homes, ARCS, arts council, vocational schools, Harborview, tourism marketing, seafood marketing.	$54.2 million

Contracting out	
Park management, motor vehicles, road maintenance, etc.	$11.8 million

Salary and benefit concessions	
Maximum projected savings	$96.1 million

Cut nonmandated local aid	
Muni assistance and revenue sharing	$58 million
Capital matching grants	$20 million
School debt reimbursement	$80 million
Local jails	$4.4 million
Senior tax relief	$1.5 million
Social service grants	$1.8 million
Discretionary K-12 school aid	$66 million

Program by program cuts*	
Public assistance excluding AFDC	$42.6 million
Mental health grants	$25.8 million
Developmentally disabled grants	$20.6 million
Alcohol and drug abuse grants	$18.2 million
Day-care assistance	$11.2 million
Regional nonprofit Native grants	$10.7 million
Seafood marketing	$8 million
Senior programs	$7.6 million
Health grants	$7 million
Tourism marketing	$5.4 million
Vocational schools	$5.1 million
Medical aid to individuals excluding Medicaid	$5 million
Harborview	$4.5 million
Domestic violence grants	$4.5 million
Public broadcasting	$4.4 million
Child-care grants to groups	$2.8 million
National Guard benefits	$1.1 million
Rural development	$1.1 million
Agricultural development	$1 million
ARCS	$0.8 million
Arts council	$0.6 million
Public offices commission	$0.6 million
Alcoholic beverage control	$0.6 million
Cultural programs	$0.1 million
Other grants to service providers	$27.1 million

*excludes items listed elsewhere

Revenue options

Statewide property tax	
Per mill levied	$28 million

Statewide personal income tax	
Per 1% of tax on federal taxable income. Nonresidents pay $7.5 million of the bill	$74.5 million

Statewide sales tax	
Per 1% of tax. Excludes food, health and social services	$58 million

Employment tax	
Per each $100 charged to a worker	$40 million

Fish tax	
If rate raised to 4 percent on all fish	$2.5 million

Statewide lottery	
	$10 to 20 million

Aviation fuel tax	
If exemption for foreign flights eliminated.	$10 million

Marine fuel tax	
If raised from 5¢ per gallon to national median of 21.9¢	$28.2 million

Fisheries royalty	
With 4 percent royalty	$19 million
If rate equals oil and gas royalty	$60 million

Tobacco tax	
If $1 per pack increase	$57 million

Alcohol tax	
If raised from 3¢–4¢ per drink to 10¢	$19 million

Highway motor fuel tax	
If raised from 8 cents per gallon to national median of 21.9 cents for all users	$68.7 million

New economic development

Commission notes oil, gas, minerals and timber prospects are highly sensitive to taxes and royalties. No major contribution projected.

Source: Preliminary report of the state's Long-Range Fiscal Planning

Worksheet for balancing the state budget

	Example	FY 1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Spending cuts	$54.2 million from max. privatization										
	$72 million from longevity bonus										
	$20 million from capital matching										
	$80 million from school debt										
New revenues	$40 million from employment tax										
	$28.1 million from marine fuel tax										
	$57 million from tobacco tax										
Total Cuts + new revenues	$351.3 million										
Projected gap	$513 million	$513 million	$699 million	$720 million	$789 million	$861 million	$939 million	$1,060 million	$1,174 million	$1,284 million	$1,400 million
New gap Total - projected gap	-$161.9 million										
Reserves Total for all years may not exceed $3 billion	+$161.9 million										
Balanced?	Yes										

Alaskans deserve to know real figures in state's budget

By DAVID M. DeSONIER

There are two glaring omissions in the Preliminary Report of the Long Range Financial Planning Commission. First, the report completely ignores more than $2 billion in annual spending and fails to mention that total state spending is about $6 billion per year. Second, the report gives no relevant information about how Alaska's spending compares to other states.

Those who prepare Alaska's state budget could learn much from the facetious bumper sticker that reads, "Eschew Obfuscation" (meaning "make things clear"). Admittedly, the state budget is convoluted and complex; still, one would not expect the 15-member commission to be easily duped into excluding more than $2 billion in annual spending from their analysis, but that is exactly what happened. The commission's report leads readers to the mistaken conclusion that the state will spend only $3.7 billion in 1996, which is an absolute falsehood. In reality, the state will spend $5.9 billion in 1996 ($4.7 billion in the budget, plus $1.2 billion of Permanent Fund earnings).

The $2.2 billion of spending the commission conveniently ignored is what legislators refer to as "nongeneral" funds. In addition to the often-discussed $2.5 billion "general" fund spending, the additional $2.2 billion "nongeneral" spending is a well-hidden, rarely discussed, "off budget" account which is seldom mentioned by the Legislature. By shifting spending to "nongeneral" categories and then discussing only "general fund" spending, citizens have been easily bamboozled into believing state spending is being held in check.

COMPASS
POINTS OF VIEW FROM OUR COMMUNITY

The commission's report excludes "nongeneral" funds and, therefore, mistakenly concludes that spending has remained relatively flat. In reality, the "off budget" operating budget has *tripled*, growing by more than $1 billion since 1985! The Legislature has been playing a shell game with state spending, and the commission has apparently decided to promote this deception by ignoring more than $2 billion of so-called "nongeneral" spending.

The second area in which the commission's report falls short is in its failure to give any meaningful data to help citizens determine an appropriate level of state spending. In the private sector, companies have become accustomed to "benchmarking," the process of comparing oneself with peers. The state government could learn much by comparing its spending levels to that of the other 49 states.

The following benchmarks come from "State Rankings 1995: A Statistical View of the 50 United States," published by Morgan Quitno Press.

1) Alaska's state government spends more than *three times* the average for all 50 states. Alaska ranks No. 1 in spending, at $9,069 per person, while the U.S. average is only $2,882.

2) Hawaii ranks No. 2 in spending at $4,808 per person, about *half* what Alaska spends.

3) Forty-five states manage to rein in spending at under $4,000 per person.

4) State government debt for Alaska is *five times* the average, at $7,403 per person.

5) Alaska ranks No. 2 and has *2.6 times* the average number of state employees per capita.

6) Alaska state employees are the highest paid in the nation, earning 33 percent above average.

7) Alaska spends twice the national average on education, $8,100 per pupil. In per capita terms, Alaska ranks first in education spending; in per pupil terms, Alaska ranks fourth. (Recently newspaper stories pointed out that some private schools in Anchorage charge only about $3,000 per student.)

8) Alaska ranks No. 1 in amount paid to each family receiving Aid to Families with Dependent Children, paying in excess of two times the national average.

The commission should have shared facts such as these to help citizens determine what might be a more reasonable level of spending. They should have told us about the entire $6 billion spent annually, rather than hoping no one would notice the $2.2 billion they failed to mention. They could have noted that a mere 10 percent reduction in state spending ($600 million) would essentially eliminate the current deficit and yet still allow Alaska to spend at more than *2.7 times* the national average (thus retaining its No. 1 position as the most extravagant spender of public funds).

If the commission expects citizens to seriously consider their report, they must: 1) be forthright with Alaskans regarding the true size of our government and discuss candidly the entire $6 billion spent annually, and 2) discuss earnest, rational cuts in government spending to levels more in line with expenditures in other states.

□ David M. DeSonier is the business manager of the Kuparak oil field. He is employed by Arco Alaska Inc. The views expressed here are his own.

...absurd. A current U.S. Geological Survey

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To Melissa Louse | From Jan

Co./Dept. LRFPC | Co. Brian Rogers & assoc

Phone # | Phone # 452-2463

Fax # 258-6869 | Fax #

FAIRBANKS DAILY NEWSMINER 8/18/95

State doesn't need taxes, it needs to revise priorities

Fred Pratt

The state's new Long Range Financial Planning Commission is moving ahead as expected, dreaming up ways to get its hands into your pockets.

The 15-member panel is a creation of incumbent politicians to address how they will fill the gap between their spending and the expected decline in state oil revenues.

At a meeting in Anchorage last weekend they agreed on things like bringing back the state income tax, raiding your Permanent Fund dividend checks, greatly increasing taxes on gasoline, alcohol and cigarettes, and cutting government programs by 10 to 15 percent.

We should keep in mind that this is not a commission seeking to solve a problem. It is a creation of politicians to help lobby the public for what they want. It serves the interests of the politicians who spend this money, not the people who supply it, and it's members are people who are part of the problem rather than the solution.

Their orientation is that there's not a problem with how the state spends money. Their only problem is that you and I don't give them enough.

The core of their claim is that we should pay taxes. They say we've been getting a free ride, so now it's time to pay the toll.

But there's no way we should have to pay taxes in a state that produces more than 1 billion barrels of state-owned oil a year. This money comes from royalties on oil owned by the people of Alaska, and taxes extracted by the authority of the people of Alaska.

Nobody pays taxes in other major oil-producing countries. Iraq historically has produced about the same amount of oil as Alaska, and they make enough from it to pay for all their 20 million inhabitants' education and health care, plus build one of the largest armies on earth. Similar comparisons could be made about other nations like Venezuela and Kuwait.

Yet managed by our politicians in Alaska, the same amount of oil production can't take care of only a half million people without charging us $8 to camp on state land or $10 to stand in line to renew an auto license.

The problem isn't declining revenues, it's booming spending. Despite the long-predicted tapering off of oil revenues, the State of Alaska has yet to make one major change in the way it spends money.

The politicians cover that with a haze of talk about cutting budgets. But even when they are successful in cutting a small state appropriation, they still won't change the way they spend money. That's the key to bringing revenues in line with expenditures.

The politicians have written laws that require certain levels of spending on state and local programs set largely outside the legislative budget-writing process, and these laws now determine the majority of the annual budgets. In order to cut state spending the Legislature and governor must change these "program expenses," but they refuse to do so.

Instead, they dip their hands into your pockets for what they call "revenue enhancements." They claim you will be paying to keep up a particular service, but it never works that way because the money they raise just goes to feed the inefficient system.

The past Legislature and governor adopted fees for visiting state offices, fees for parking at state waysides, fees for launching canoes from state land and fees for everything else they could think of. Did the lines at the Division of Motor Vehicles get shorter after we began paying $10 for the privilege of standing in them? The commissioner of the Department of Transportation and Public Facilities (DOT/PF) told the new planning team that we need to triple the state gasoline tax in order to see our roads adequately maintained.

Will this really triple the maintenance effort we see on our highways? Will we start seeing DOT/PF give construction contracts to low bidders, rather than to higher bidders at greatly increased prices like was done on Farmers Loop Road? Will we get new facilities that don't have to be closed after two years, like the Peger Road bridge addition is now? These little problems happen even when the people in DOT/PF are among the highest-paid state employees. Will taxing the gas you burn to drive to work to pay them even more make them efficient? Other new taxes and fees are just as suspect. First, they fall very disproportionately on the poor. Second, Alaskans can't drink enough booze, smoke enough cigarettes or drive our gas hog pickups enough miles to balance the state budget, no matter what the tax levy.

Yet the same Legislature and governor who created this commission just proudly passed a law reducing royalties paid by major oil and mining companies in Alaska.

That should show us what changes have to be made.

Fred Pratt is a longtime reporter and observer of Alaska politics.

Renew America ... well as Newt ... benefit.

In case you ... and haven't yet ... Vanity Fair, the ... Sheehy's 12,000-w... most caught Mu... journalistic eye w... lude discussing Gi... sex life during his ... You almost have t... Newt, especially ... young daughters ... one particularly lu... did journalism rea...

One answer to t... provided by Joseph ... eral journalist, in ... piece titled "Getti... the September issu... azine. Nocera ar... savage media cam... feated Ronald R... nation of Robert ... Supreme Court in ... some kind of turni... disintegration of ci... American politics." ... distortions" of the ... liberal Democrats ... as the ideological ... Legree.

Thus did the g... "borking" enter ... According to "Safi... ical Dictionary," ... "attack viciously ... appointee, especiall... sentation in the m... borking just won't ... portrays conservati... catures of Lani ... Henry Foster's bel... tat replays of the e... of the original Bork.

But this still do... plain what happene... this week. As N... Bork was "brought ... on the basis of hi... or, more precisely, ... opponents presente... for public consum... same was true of M... Dr. Foster. But in ... Gingrich is being ... on the basis of his ... ideology, and that ... exactly. Not even ... who despised Robe... tics wanted to pictu...

So who took B... next plateau of me... did the journalist... current political ... sexual history b... gueur? Any Gingr... reads Vanity Fai... should turn to the ... issue of the ... monthly, The Am... tator, in which Da... counted Bill Clin... sexual past with ... most indistingu... those Ms. Sheehy ... contemporaneous ...

TO THE **EDITOR**

End of the week

Ketchikan Daily News SATURDAY 9-9-95

Fiscal coping

By LEW M. WILLIAMS JR.
For the Daily News

Next week, Alaskans can hear about the seriousness of the state's fiscal problem and give an opinion on how to solve the problem.

The state's Long-Range Financial Planning Commission holds public hearings throughout Alaska next week. The first for the Interior and Northern part of the state will be at 7 p.m. Monday in the nearest Legislative Information Office. The hearing will be conducted by the Commission throughout the state via the network of LIOs. The Commission will be headquartered in the Anchorage Legislative Information Office.

The same occurs for the Southcentral part of the state at the same time through LIOs Sept. 12, for Anchorage area residents Sept. 13 and for Southeast Sept. 14.

First off, Alaska does not have the problem of being broke. It has more than $18 million in cash in such things as the Permanent Fund, the Budget Reserve and squirreled away in other accounts. It also has more than 104 million acres of state land. That not only is more state land than held by any other state, that is more land area than the total area of any state except Texas. And 600,000 Alaskans pay no state income tax. More than one-half of the state's residents live in Anchorage and Fairbanks and pay no sales tax. Taxes are a resource relatively untapped in Alaska.

The problem is where to put our resources so we can pay our bills rather than run a deficit. Alaskans have been acting like an individual overdrafting his checking account because he doesn't want to move anything out of savings or deposit all of his paycheck in checking.

After public hearings next week and after public committee meetings on Sept. 16 and Sept. 30, the Commission will make recommendations to the Legislature and the governor.

The options are simple: Make further cuts in state government, including programs that Alaskans seem to want; tap the Permanent Fund earnings, which is unpopular because of the misunderstanding that it means cutting into the principal and cutting dividends; sales taxes and fees such as sin taxes, fishing taxes, motor fuel taxes, corporate income taxes, oil and gas taxes or enact such taxes as the individual income tax, a royalty tax on resources other than oil and putting on state sales or income taxes; or, encourage more economic development.

Encouraging economic development won't solve much because oil is the only resource paying more than the cost to the state to administer it. Timber, mining, fisheries and tourism all cost the state government more than it collects on the resources, unless taxes and fees are raised.

Also, economic development takes time. Even if everything goes smoothly, it will be more than 10 years before oil can be produced from the Arctic National Wildlife Refuge. By that time, if nothing is done, Alaska will have run out of reserve funds five years previously.

Observers tell us what most likely will be recommended will be a combination such as cutting state services and government; increasing sin and fuel taxes, followed later by enacting new taxes such as income or fish royalty taxes. A state sales tax and a state property tax are pretty well ruled out as being reserved for local government.

Local governments will need them because among the recommendations might be one to cut state government costs by dumping more on local governments.

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Is there a financial problem in the first place?

Yes.

Alaska depends upon oil and gas production for [illegible] percent of the revenue to run the state. Production is falling at the major producer, Prudhoe Bay. The price of oil fluctuates between $9 and $32 a barrel making financial planning difficult when every dollar change in the price of oil affects state revenue by $120 million.

State politicians have been trying valiantly to reduce the cost of state government but they haven't been successful enough to close the fiscal gap between revenue and expenses. The cost of government has been cut by 25 percent in the past five years if inflation is figured in. But in actual dollars, over 10 years, the general fund budget (not counting Permanent Fund revenue and dividends) has grown from $2.25 billion in 1985 to $2.35 billion in 1995. The other problem the state has is population growth of 1.6 percent per year. The population of the state is actually up 52 percent since oil revenue began flowing into the treasury in large amounts in 1979.

Although the number of state workers per thousand Alaskans is the lowest since before 1979, the increase in population has an uncontrolled effect on state costs. Someone has to issue those dividend checks. Formula programs, such as mandated support for education based on school enrollment, have to be paid. So do longevity bonuses for seniors and Medicaid and Medicare.

***

Alaskans actually pay one-third the amount in state and local taxes that average Americans pay in other states.

Unlike other states where more people means more income from income or sales taxes, more population in Alaska means more cost to the state. The average family of four living in Anchorage with an income of $50,000 a year receives enough in Permanent Fund dividends to offset all local and state (vehicle) taxes and have $2,148 left over, according to the Commission's early report. By comparison, a family of four with the same income in Seattle pays $3,227 in state and local taxes with no offsetting dividend. And the same family in Billings, Mont. pays $4,024 in state and local taxes with no offsetting dividends.

It is understandable that this can't go on for Alaskans, especially as the population continues to grow and Prudhoe Bay oil production falls further. This year, the state is spending $513 million more than it expects to take in. That gap is projected to grow to $1.3 billion by 2000. If nothing is done, by 2000 the state will have drained all of its reserve funds except the Permanent Fund. The $513 million this year to balance the budget came from the Budget Reserve Fund, the Alaska Housing Finance Corp., the Alaska Industrial Development and Export Authority, the Executive Life Insurance legal recovery effort and from some state land sales. It is those sources, except land, which will be depleted in five years.

***

What the Commission wants to hear next week is preferences in solving the problem. Just testifying to what an individual is opposed to does not solve the problem.

What's helpful is to recommend how much further to cut state services and which state services to cut before enacting taxes or developing other sources of revenue. Recommend what taxes, fees and revenue sources should be tapped and when.

A copy of the Long-Range Financial Planning Commission preliminary report is available at the local Legislative Information Office. It details many of the subjects mentioned above.

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State's spending appetite outgrows income

This is the second in a series of excerpts from the report issued by the 15-member Alaska Long-Range Financial Planning Commission, which is examining the state's fiscal gap.

The commission used FY79 as a starting point because it was the first full year of petroleum revenues from TAPS and the last state budget prepared before the tripling of state oil revenues.

Alaska's population has grown 52 percent since 1979. Unlike other states, the state's revenues do not grow as population grows. While the overall budget has grown, real per capita spending is at the same level as it was in 1979.

Projections for future years show that the biggest areas of spending growth will be formula grants to individuals, groups, and schools, and the corrections and criminal justice budgets.

Excluding Permanent Fund Dividends, Alaska today spends more than twice as much per capita as the national average.

Part of this might be due to Alaska's size and geographic isolation from other states. Because of the wealth of the state in the early 1980s, Alaskans came to expect a higher level of services.

Additionally, Alaska performs many services at the state level that are provided by counties or municipalities in other states. Education, criminal prosecution, correctional facilities and road maintenance are primarily state-provided in Alaska, while these services are local in other jurisdictions. Some expenditures like the Longevity Bonus and Permanent Fund Dividends are unique to Alaska.

How much revenue does the state of Alaska receive?

It will receive $3.2 billion in general fund revenues and Permanent Fund earnings during FY96. We will receive $1.5 billion from petroleum revenues, $1.2 billion from Permanent Fund income (including the $441 million reserved for inflation-proofing), and $480 million from other sources.

In addition to the $3.2 billion dollars in general fund and Permanent Fund revenue, the state also receives and expends federal funds and other funds derived from revenue generating activities.

The major sources of revenue to the state are oil and gas rents, royalties and bonuses, oil and gas properties tax, severance taxes and corporate income taxes.

"APPARENTLY, APPEASING THE AZTEC RAIN GOD IS WORKING, BOB."

The state has a number of small sources of revenue, generally excise taxes or charges and fees for service that annually generate approximately $125 million. These revenues are paid into the general fund.

Other revenues, such as interest on the Four-Dam Pool and the Railbelt Energy Fund, which funds the Power Cost Equalization Program, and repayments on mortgages received by the Alaska Housing Finance Corp. are not considered part of general fund revenues.

The constitution directs the earnings of the Alaska Permanent Fund to be deposited into the general fund unless otherwise provided by law. The Legislature has not treated those earnings as available for appropriation in the same sense as tax receipts, and the earnings remain in the reserve account until appropriated for dividends or inflation-proofing.

Additionally, Alaska is fortunate to have more than $3 billion in cash reserve funds. These substantial reserves constitute one of the primary fiscal tools the state can, and has, used to temporarily fill the fiscal gap. However, these large reserve balances also have a negative side, in that the use of these reserves can delay for several more years the difficult actions necessary to close the fiscal gap, with the potential for suddenly magnifying the state's fiscal and economic problems when the reserves finally are exhausted.

Any choice made to address the fiscal gap will have an adverse impact on Alaska's economy. Failure to make fiscal choices now, however, will have a worse impact on Alaska's economy when reserves run out.

For each $100 million per year removed from Alaska's economy, the gross economic effect is similar, whether it's $100 million less in state spending, $100 million less in Permanent Fund Dividends distributed to Alaskans or $100 million more collected in taxes and user fees from Alaskans.

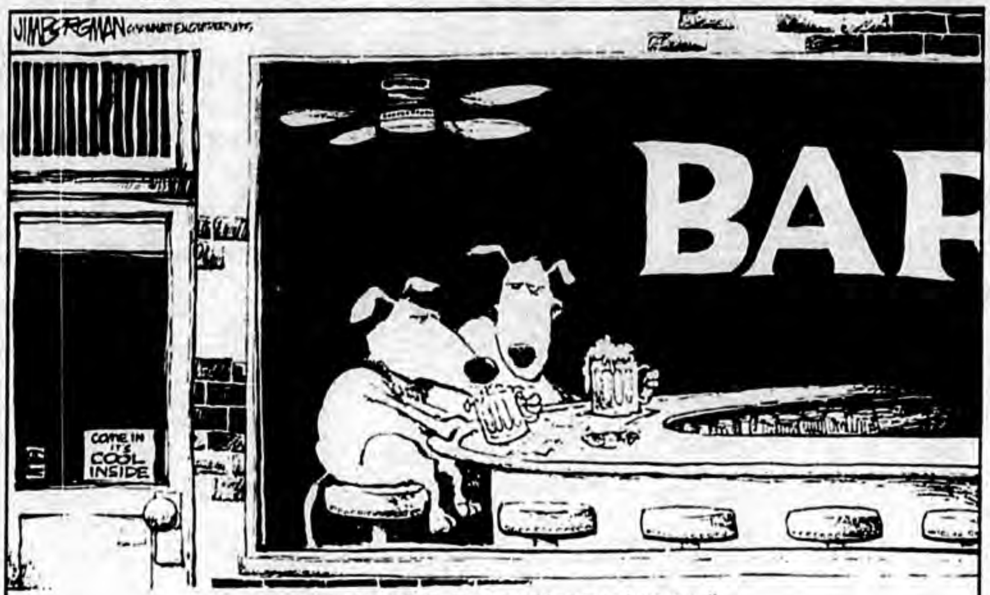
For any one family or region of the state, the choice could make a big difference. The effects of the options can also be differentiated by income level. Reimposing a state income tax hits upper income residents higher than lower income residents; reductions to the Permanent Fund dividends are proportionally greater on lower income residents.

Next: Cutting government spending will hurt.

ce of The Times

Alaska's fiscal gap: It's real and growing

The 15-member Long-Range Financial Planning Commission appointed earlier this year by the governor and Legislature to recommend a fiscal plan for Alaska issued a 50-page, preliminary report earlier this month. This is the first in a series of excerpts from that report.



"THE HECK WITH THIS 'DOG DAYS' STUFF..."

The state of Alaska spends more than it takes in each year, and has done so for six of the past nine years.

This year, the commission estimates the state will spend $513 million more than it takes in — this is the fiscal gap. Over the next 10 years, this gap will grow. Based on assumptions adopted by the commission, it will grow to over $1.3 billion a year by the year 2000 unless the state takes corrective action.

State spending has been reduced by 5 percent per year for the past five years (in inflation adjusted terms). The Legislature, the governor and state agencies are working to close the gap by cutting expenditures and holding the line on the growth of expenditures.

Efforts to date have not been enough to offset the decline in revenues. However, without this steady attention to reducing expenditures, the gap could soon have forced drastic reductions in services and programs, loss of the Permanent Fund, or significant new taxes.

Alaska has significant oil reserves and a growing Permanent Fund. We have a Constitutional Budget Reserve fund established to minimize the effect of declining revenues, but that fund and other savings accounts are being spent at a rapid rate. The Constitutional Budget Reserve will be exhausted in five years if we do nothing. Other reserves will be depleted shortly thereafter.

There are two primary reasons for the fiscal gap. First, Alaska bases its budget on non-sustainable revenue sources. We count on reserves to fund a budget larger than we can afford in the long term. Second, there is a rapid decline in Prudhoe Bay oil production. The state of Alaska depends upon oil and gas revenues for half its income (80 percent if we exclude Permanent Fund earnings). The decline in production brings a decline in state revenues.

Alaskans have known all along that oil revenues were finite. North Slope oil production rates started falling in 1991 and will continue to do so until the fields are no longer economical to produce. Potential new fields are unlikely to replace the loss in production from the North Slope.

The volatility of Alaska's revenues complicates the fiscal gap by creating fiscal instability. Fiscal instability is the roller coaster ride caused by unpredictable oil price fluctuations (from a low of $8 per barrel to a high of $32 per barrel in the past 15 years), and the resulting ups and downs in expected state revenue flows. At today's oil production rates, each $1 per barrel change in oil prices causes a $120 million shift in state revenues.

The twin trends of declining revenues due to diminishing production and increasing expenditures due to rapid growth of population combine to increase our fiscal problems each year in the foreseeable future.

The "moving target" aspect of the fiscal gap problem makes it more difficult to fix, because we don't know how large the gap may actually turn out to be, or how much time we have to fix it.

What can be done to close the fiscal gap? The commission is considering six categories of fiscal choices, some or all of which can be used in combination:

- Cut spending.
- Use reserves and other state assets.
- Raise revenues through economic development.
- Raise taxes and user fees.
- Use Permanent Fund income.
- Increase oil production from new or existing fields.

Each of these fiscal choices has an effect on Alaska's economy and on the lives of the people of Alaska. The effects can vary, by region of the state, by income level, or by the kind of business in which a person works.

The commission at this time is not endorsing any specific recommendations, but expects to make its recommendations from among the choice that are being presented, supplemented by any ideas which come out in public hearings.

The commission is interested in public comment on the issues raised in this report. You can contact the commission at:

State of Alaska
Long-Range Financial Planning Commission
716 W. 4th Ave.
Anchorage, AK 99501

The electronic mail address is:
LRFPC%legis@state.ak.us

The commission will hear public comment during the following hearings:

Sept. 11 for Interior/North
Sept. 12 for Southcentral
Sept. 13 for Anchorage
Sept. 14 for Southeast

All hearings begin at 7 p.m. and will be held at the Legislative Information Office Conference Room at 716 W. 4th Ave. and teleconferenced to other LIO sites.

The commission will also hear from the public during its regular meetings at the Anchorage LIO on Aug. 26, Sept. 16 and Sept. 30. These meetings begin at 11 a.m.

Commissioners want to know which fiscal choices are preferable to others, and why. They believe that in order to close the fiscal gap, Alaska will have to use portions of several choices, and they want to know if Alaskans have suggestions on timing of these fiscal choices — what should come first, and why?

Next, spending habits and revenue flow.

The Anchorage Times

Publisher: BILL J. ALLEN

"Believing in Alaskans, putting Alaska first"

Editors: DENNIS FRADLEY, PAUL JENKINS, WILLIAM J. TOBIN

The Anchorage Times Commentary in this segment of the *Anchorage Daily News* does not represent the views of the *Daily News*. It is written and published under an agreement with former owners of *The Times*, in the interests of preserving a diversity of viewpoints in the community.

Generation gap

ACCORDING TO the Alaska Department of Labor, some 606,000 people now call Alaska home. That's up about 12 percent from the 540,000 who lived here 10 years ago. It's a respectable increase. A closer look, however, indicates Alaska may have some problems.

While the overall population has grown, it has shrunk for certain age groups. There are fewer young adults between the ages of 18 and 34 living here today than there were a decade ago. Their number has decreased by almost 10 percent.

Thousands of young men and women — beginning their careers, starting their families — apparently have moved out to seek their fortune and life's challenges elsewhere. The only other age group that has decreased, it follows, are babies. Their number is about 4 percent less today.

At the other end of the age spectrum, the story is the reverse. Senior citizens, 65 and older, have grown in number by 60 percent. They are by far the fastest growing segment of Alaska's population.

Middle-age and pre-retirement-age adults, ages 35 to 64, have increased in number, too — by some 36 percent.

Other population statistics that warrant concern include a substantial increase in the number of public welfare recipients. The number of residents receiving aid to families with dependent children has more than doubled since 1985. So have food stamp recipients and individuals receiving adult public assistance.

Are there reasons why certain age groups are finding the state unattractive and are leaving, while others come to a different conclusion? Are state fiscal policies causing this situation to occur? These are questions Alaskans should be asking.

There were valid reasons why the state enacted laws to reward its pioneers and provide such things as ample retirement packages for long-term, government employees, the Longevity Bonus program and personal property tax exemptions.

At the same time, back when the state believed it had unending oil wealth, it established generous public assistance programs that provide recipients more than double than what is provided in Washington and other states. Can we still afford to do this?

Today, Alaska faces a fiscal crisis. The state spends a half-billion dollars more each year than it receives in revenues. Some people suggest we enact an income tax or an employment tax to give the state more money to spend.

Think about it. Wouldn't that cause more young families to move out of the state? Doesn't it make better sense to cut the level of state spending, reduce the amount of state payments to individuals and groups, and instead stimulate the economy to produce new job opportunities and put more people to work?

We believe so.

Alberta shops for pointers in using oil cash

By LISA SCAGLIOTTI
Daily News business reporter

Twenty years ago, a government flush with oil money decided to create a special fund to act as a savings account and improve the quality of life for its citizens.

■ **DEFICITS:** Albertans can sympathize with their brethren in Juneau. B-1

That government was not Alaska, and the fund was not the Permanent Fund. Instead, it was Alberta, the province just east of British Columbia. Over the years, Alberta's Heritage Savings Trust Fund invested — sometimes badly — in its own economy and financed government services.

Today, the $8.4 billion (U.S.) fund is stagnating, losing value to inflation. Albertans are rethinking its management with an eye toward making it more of a traditional investment fund with income that will grow each year.

"Frankly, I think we took the wrong turn," said Jim Dinning, Alberta's provincial treasurer, who is the Heritage Fund's top manager. Dinning visited Alaska this week.

Like Alaska, Alberta's economy de-

Please see Back Page, FUND

FUND: Alberta has second thoughts

Continued from Page A-1

pends heavily on natural resources, particularly oil and gas development and production. Like Alaska, Alberta set up a special oil-wealth savings account in 1976.

But the two funds followed very different paths.

Alaska started on a conservative investment track with most of its money in bonds. Within a few years, it gained a fierce following among Alaskans as it began doling out annual dividend checks to every qualified resident. Even during the darkest years of the late-'80s recession, the state continued to deposit a portion of its oil royalties into the fund.

The Heritage Fund followed a different tack. Alberta began by putting 30 percent of its oil wealth into the account. The money was invested in cash, stocks and loans to other Canadian governments. It also helped pay for Alberta construction projects in a disastrous wave of '80s economic development.

"We wanted to be economic engineers. We got into forestry. We got into a magnesium plant," Dinning said. "We got into cellular phones and we even got into a meat packing plant — and we lost our shirts!"

While Alaskans debated whether to invest their Permanent Fund in Alaska business ventures, the fund steered almost completely clear of in-state projects, said Dave Rose, former Permanent Fund Corp. executive director.

"We didn't engage in province-building as you did," Rose told Dinning. Rose and a handful of Alaska officials met with Dinning this week.

Alberta also wasn't diligent about its deposits to the Heritage Fund. By 1986, as oil prices crashed, the government quit adding to the fund. Since then, the Heritage Fund balance has hovered around $8.4 billion, generating annual income of about $700 million, which is put directly into the province's general budget to pay for government services.

Today, Alberta leaders have sworn off economic development through the Heritage Fund. The goal now is to create a more independent fund that — as the provincial government improves its financial situation — will no longer have to contribute $700 million annually to the budget.

After a series of public meetings, Alberta's provincial legislature this spring accepted recommendations about the Heritage Fund that included: Establishing an independent board of directors; setting specific goals; requiring annual public reports on the fund's progress; and involving private-sector investment managers.

In Alaska this week, Dinning sought pointers from past and present managers of the $13 billion Alaska Permanent Fund.

They stressed the need to shelter the fund's board from politics and to add to the fund each year to offset inflation. They discussed the Alaska fund's mix of investments, which in recent years have shifted to add more higher-risk stocks. They pointed out that state law requires the Permanent Fund to invest in money-making ventures.

And the Alaska officials explained that the annual dividend payout has created a strong and loyal public constituency for the Permanent Fund. It keeps the public interested in the fund and requires its managers to be open about their decisions. "The dividend was designed to protect the fund," Rose said.

Will Dinning recommend a dividend system for Alberta's fund? "It has appeal," he said. "It's not part of the public debate yet, but it is an idea we could consider."

ADN 07 MAR 95

15 to set financial course

The Associated Press

JUNEAU — A group of 15 lawyers, union officials, oil executives, educators and lawmakers was selected to map out a 10-year financial plan for Alaska.

Gov. Tony Knowles, Senate President Drue Pearce and House Speaker Gail Phillips announced the members of the Long Range Fiscal Planning Commission on Monday.

The commission is charged with submitting written recommendations to the legislature by Oct. 1.

"Alaskans must come to terms with our financial situation," said Pearce, R-Anchorage. "The recommendations made b this group of people will affect all of us."

Knowles appointed Bob Loescher o Juneau, Brian Rogers of Fairbanks, Le Gorsuch of Anchorage, Knowles' legislative director Pat Pourchot and Budge Director Annalee McConnell, both of Juneau.

Pearce named Mike O'Connor of Anchorage, Marie Westfall of Ketchikan Hugh Motley of Cooper Landing and Sens Georgianna Lincoln, D-Rampart, anc Steve Rieger, R-Anchorage.

The five appointees named by Phillips R-Homer, were Judy Brady of Anchorage Bruce Ludwig of Juneau, Mary Nordale of Juneau and Reps. Mike Navarre, D-Kenai, and Sean Parnell, R-Anchorage.

"There is a solid feeling among Alaskans that we need to do some long-range planning," Knowles said.

Knowles has said the state's budget deficit would top $2 billion by the year 2000 if no action is taken.

The legislative leaders acknowledged they will not be bound by the recommendations. But, they said, Alaskans made it

PANEL: Named

Continued from Page D-1

clear in the last election that the state's finances must be brought under control.

Rep. Gene Kubina, D-Valdez, was the only member of the House to vote against creating the panel. He said no matter what the panel recommends, the legislature and governor's office still will be responsible for making the decisions on how to proceed.

"We have had conference after conference and meeting after meeting on this," Kubina said Monday.

"We know we are going to get the same choices back. This committee may give it to us in a little different way but the choices will be the same: revenue increases and spending cuts."

FINANCIAL PLANNING COMMISSION

JUNEAU — Here is a list of people appointed to create a financial blueprint for Alaska.

Knowles' Appointees:

- Bob Loescher, a Juneau resident and vice president of natural resources for Sealaska Corp.
- Brian Rogers, a former lawmaker who worked with the University of Alaska system for 15 years and served as vice president of finance.
- Lee Gorsuch, University of Alaska Anchorage chancellor and former president of Commonwealth North.
- Pat Pourchot, a former House and Senate member who is Knowles' legislative liaison.
- Annalee McConnell, Knowles' budget director.

Pearce Appointees:

- Mike O'Connor, an Anchorage resident and president and chief executive officer of Peak Oilfield Service Co.
- Marie Westfall, a Ketchikan small-business owner and a former Revenue and Assessing director for Ketchikan Gateway Borough.
- Hugh Motley, a retired tax vice president for Arco from Cooper Landing.
- Sen. Georgianna Lincoln, D-Rampart.
- Sen. Steve Rieger, R-Anchorage.

Phillips' Appointees:

- Judy Brady, executive director of the Alaska Oil and Gas Association.
- Bruce Ludwig, a Juneau lawyer and former AFL-CIO official.
- Mary Nordale, a Fairbanks private attorney. She was a former state revenue commissioner.
- Rep. Sean Parnell, R-Anchorage.
- Rep. Mike Navarre, D-Kenai.

16

Voice of T

The Anch

Publisher:
"Believing in Alaska

Editors: DENNIS FRADLEY, P

The Anchorage Times Commentary in this segm... nt the views of the Daily News. It is written and pu... of The Times, in the interests of preserving a diversity

FAX to Melissa to include in the Commission's packets - give me a copy also.

Big assignment

FINALLY, AFTER some years of frustration, the state apparently is getting serious about putting its finances in order.

The prospect is especially bright this time around because the Knowles administration and the Legislature are marching together on this effort — through a 15-member Long Range Financial Planning Commission appointed this week.

A year ago, when the creation of such a panel was recommended by one or more citizen groups, legislators rejected it out of hand. But that was then and this is now. And the hope is that this commission's findings will not wind up gathering dust on a shelf, untouched like so many others over the years.

This commission, we suspect, may surprise everyone. If it performs its assignment well, Alaska's elected leaders might even be motivated to take decisive action. Without doubt, such action urgently is needed to put Alaska's financial house in order. Alaska's half-billion-dollar, annual spending deficit is intolerable, and the piggy bank of reserve funds soon will be empty. Unless corrective action is taken soon, this generation can be accused of gross mismanagement of Alaska's assets.

So hopes are high this latest commission will surpass the accomplishments of other blue ribbon panels, study groups and task forces formed in past years to do similar jobs. For Alaska's sake, the Long Range Financial Planning Commission must succeed.

EVEN BEFORE its first meeting, the new panel was off to a good start. It was created jointly by the Legislature and the governor. Its membership represents a good cross section of the state, both geographically and economically. It is bipartisan and balanced. The members are each experts in their fields.

They will not have to do a lot of research — the hard facts are well known by just about everybody. State government spends much more than it receives, and, as state oil production declines, the gap grows wider. Questions to be asked include:

- Should Alaska continue to distribute Permanent Fund checks?
- Should other state entitlement payments continue at levels far exceeding amounts paid elsewhere in the country?
- Should pay and benefits remain high for state employees?
- Should residents continue to be exempt from a state income or other form of tax?
- Where else might spending be reduced and income increased?

By giving the new commission a reporting deadline of this October, the Legislature and governor have set the stage for possible ac-

Let's hea

By WILLIAM J. TOBIN

IT WON'T BE long
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MOVING TO campu
Ayres has been elected
chairman of the board
of Alaska Pacific University. The Alascom
chief, who also is
chairman of the Anchorage Chamber this
year, succeeds Skip
Bilhartz as head of
APU's board. Bilhartz,
former president of
Arco Alaska, continued his service to APU
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Douglas McKay North, ar
Ellen Cole.

Rogers invests time and effort in a plan that offends everyone

Brian Rogers sat on a cement bench in Town Square Thursday afternoon, puffing on his first cigarette in a couple of hours. He'd spent the time at a Commonwealth North lunch in the Egan Center, explaining the Long Range Financial Planning Commission's plan to close the gap between what the state takes in and what it spends each year. But after pouring his summer into the commission's work, he had other things on his mind as well.

MIKE DOOGAN

"I've still got firewood to get in," he said. "I've still got some getting ready for winter projects to do."

Rogers lives in Fairbanks, where winter takes some getting ready for. He is 45, and came to Alaska 25 years ago. He has spent most of his adult life in state government: three years as a legislative staffer, four as a state representative, 10 overseeing budgets for the University of Alaska.

As a legislator, he took part in some of the very decisions that have led to the so-called fiscal gap: the creation of the permanent fund and its dividend program, the repeal of the income tax, the run-up in state spending. Now, Alaskans are used to getting something for nothing, and changing that is not going to be easy.

"One of the things we found is that Alaskans are very polarized on the key issues," he said.

The final version of the plan won't be released until next week, but in his luncheon speech Rogers explained the main points: cut state spending a little, raise taxes on booze, tobacco and gasoline, and change the purpose of the permanent fund from paying dividends to paying for government.

"This plan contains something to offend everyone," he said.

Well, maybe not everyone. There's nothing in the plan about raising oil taxes.

"Why should the oil industry be offended by this plan?" somebody asked Rogers at lunch.

"Well, the industry isn't mentioned in the plan," he shot back. "Maybe they're offended by that."

Part of the commission's problem is that the fiscal gap is so darn theoretical. Economists and policy wonks have been warning for years that the state spends more than it takes in. But thanks mainly to settlements of lawsuits against the oil companies, the state has had plenty of money to pay its bills. Except once, when an oil price crash led to sharp reductions in state spending, which gave the economy a vicious whack.

"If we don't do something like this plan," Rogers said, "the economy will look like it did in '85 and '86."

Even if Rogers is right, I'm not sure the commission's plan is the way to solve the problem. I guess that makes me the same as a lot of Alaskans.

The plan is already taking criticism. I'm also not surprised to find Rogers in the middle of this controversy. He's smart and energetic and he likes to tinker; as a legislator, he had a reputation as a guy with three solutions for every problem.

Thursday, though, he admitted he might not like tinkering so much. The time he spends on the commission's work is time away from his wife and two sons, and the management consulting business he started last winter. It's also time he spends listening to more complaints than support. Rogers didn't sound eager to repeat this experience.

"The governor called me and said, 'Brian, will you be on the commission?'" Rogers said. "And it's hard to turn down the governor. But I think I've learned enough from this to turn him down next time."

☐ **Mike Doogan's opinion column appears in the Daily News each Tuesday, Friday and Sunday. His e-mail address is: mdoogan@pop.adn.com.**

Speak up

Fiscal gap needs public attention

If Alaska lawmakers are ever going to do something about the fiscal gap, they'll need help from the public. Alaska leaders are unlikely to show the necessary courage and forethought if constituents simply decry proposed cuts or attack proposed revenue increases, without suggesting alternatives.

Now is the time for Alaskans to start speaking up. The state's long-run financial planning commission has sketched one way to close the gap. (A written summary is expected to be available Friday. To request a copy, call the commission staff at 258-8165.)

To encourage public discussion, we invite our readers to comment on the commission's work.

Is the fiscal gap real, or is it something that we don't have to worry about right now?

Are spending cuts of $100 million over three years enough? If not, what else would you cut?

If $100 million in cuts is too much, how would you pay for the things you'd like to spare?

Is it equitable to cut Permanent Fund dividends, which are paid equally to all residents, before asking those who are better off to pay an income tax?

What do you think of the big increases proposed in tobacco, alcohol and fuel taxes?

If you don't want to see dividends cut or other taxes increased, how would you make up the difference to fill the gap?

How do you feel about converting the Permanent Fund into a more conventional endowment that pays for dividends and state services?

We'll publish a representative sample of replies. All responses are subject to editing.

Send your comments to: FISCAL GAP RESPONSES, Editorial page, Anchorage Daily News, P.O. Box 149001, Anchorage 99514. You can reply by fax, at 258-2157 or by e-mail at mzencey@-pop.adn.com. The deadline is close of business Tuesday. Include a contact phone or address so we can verify authorship.

Anchorage Daily News

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'Soft landing?'

Here's one way to achieve it

Alaska has no shortage of ways to close the steadily growing gap between the state's yearly spending and its oil income. State government is so generous in so many ways, there's plenty of room for retrenchment and adjustment. The challenge has never been the math involved; it's the politics.

The best hope for a political breakthrough comes from the long-range financial planning commission. Its plan, concluded on Oct. 1 and soon to be formally released, isn't perfect, and it isn't likely to pass the Legislature as is. But the commission has offered a workable approach that deserves to be at the center of this important debate.

The commission's work shows what a diverse group of Alaskans can accomplish with a good faith effort. They produced a realistic mix of spending cuts, higher taxes and user fees, together with a more sustainable plan for the long-term use of reserve funds.

Some elements will require time-consuming constitutional amendments, but lawmakers can begin implementing the plan immediately, with the next budget. (Any serious plan has to include constitutional changes to ensure future legislatures don't abandon it.) Because the constitutional changes require voter ratification, the package can't be implemented without a mandate from the public.

For all those strengths, though, the commission's plan has important weaknesses. It doesn't offer specific spending cuts. It relies heavily on regressive measures like excise taxes and reducing the Permanent Fund dividend, while letting more well-to-do Alaskans escape an income tax for at least several more years. The plan would still allow legislators to blow any new windfalls, such as money from ANWR, and could leave them scrambling for money should oil prices crash again.

Some critics may try to assail the commission's plan as a raid on the Permanent Fund. (When Gov. Knowles was candidate Knowles, for example, he blasted his opponent for daring to consider a more extensive version of what the commission suggested.)

The commission's idea is anything but a raid. In reality, the plan would increase the share of oil money put in the Permanent Fund. And the fund would be managed to ensure its value steadily increases and generates a stable flow of money to pay for dividends and state services.

Alaska will have to find a way to close the fiscal gap, either by design or by default. In the search for the much talked about "soft landing," the commission's report is a good starting point.

CO

Editorial

Good job, well done

Let's give credit to the state Long Range Financial Planning Commission with coming up with a plan to solve the state's long-term fiscal problem, the deficit between expenditures and declining oil revenues. This group of nine citizens, state officials and legislators gave up a considerable part of their summer for this project.

The plan lays out a stiff regime of budget cuts, tax increases on tobacco, liquor, fuel, fisheries and tourism, and a reduction of the popular Alaska Permanent Fund dividend to meet the short-term gap. The plan does balance the budget in five years, the charge given the commission by the Alaska Legislature.

The plan also has an unusual, and some say risky and unnecessary, twist in that its central thesis is to "bulk up" the Alaska Permanent Fund with heavy front-end deposits. The Fund would become an endowment to help support public services. Four percent of a five-year average of its earnings would be available each year. The dividend would continue, though at a lower level.

This strategy is projected to approximately double the Permanent Fund in 10 years. It could become a very substantial source of state revenue.

While the Commission could see a path toward covering the short-term gap in 2000, it made the unusual recommendation because the gap reappears a few years later. Ruinous taxes and catastrophic cuts in spending would appear in 2005 instead of 2000. Only Permanent Fund earnings, which are deferred oil revenues, can solve this problem.

But the Fund needs to be bigger to really do the job. This led the commission to its decision to "bulk up" the Fund.

The strategy does, however, increase the near-term pain. To make money available for Permanent Fund deposits, budget cuts will be more drastic and taxes will be heavier. Alaskans will be asked to pay now, for security later.

This idea has a lot of common sense, but politicians and the public may find it difficult to deal with the long-term. It will be a real challenge to sell this plan not only to the Legislature, which faces the unhappy prospect of having to actually make the budget cuts and raise taxes, but also to the public.

The commission was not unanimous on its recommendations. Still, the majority felt, on balance, it was the best they could do.

We think they did a good job.

Budget plan has few fans

No lawmaker is rushing to cut dividend, levy tax

By **STAN JONES**
Daily News reporter

The latest plan for balancing Alaska's budget has a couple of things in common with most of its predecessors: It calls for bringing back the state income tax and cutting the Permanent Fund dividend paid annually to each Alaskan.

Also like its predecessors, the new plan is getting a cold shoulder from some of the lawmakers who will decide its fate in Juneau — including the two Republican legislators who sit on the panel that created the plan.

■ THE PLAN: Brian Rogers, chairman of the state's Long-Range Financial Planning Commission, will discuss the commission's budget-balancing plan today at a meeting of Common Sense for Alaska. The meeting starts at 11:30 at the Egan Center. For reservations, call 276-7648.

"We're just finding more sources of revenue to fuel this engine that we call state government," said Rep. Sean Parnell, R-Anchorage. "I don't think the public buys into new taxes and dividend cuts and using Permanent Fund earnings when there's no guarantee of reductions in state spending."

When the state's Long-Range Financial Planning Commission adopted the plan by a 10-4 vote on Sunday, Parnell was one of the nays. So was his fellow Anchorage Republican, Sen. Steve Rieger. The two Democratic lawmakers on the commission voted for the plan.

Rieger, who sits on the powerful Senate Finance Committee in the Republican-controlled Legislature, said he voted no because he felt the fiscal gap could be closed without bringing back the income tax.

"I want to be positive, but there are some things in there that are not called for," he said.

Even politicians who aren't talking against the plan are walking softly around the touchy issues of cutting Alaskans' Permanent Fund dividends and, for the first time in more than a decade, taxing their incomes.

Senate President Drue Pearce, for example, said she supports most of the plan, but doesn't see herself as the person who should lead the effort to sell it politically.

Please see Back Page, **BUDGET PLAN**

BUDGET PLAN: Politicians don't cozy up to taxes and dividend cap

Continued from Page A-1

"I don't think a single legislator can be that evangelist," she said. "I think that evangelist has to be the governor."

Gov. Tony Knowles said he's willing to be the evangelist, but he needs time to study the plan. He said he will expect help from legislators.

"I'll sing the song, but everybody's got to sing in this choir," he said.

The plan seeks to bring state spending in line with revenue. This year, the gap between the two is expected to run about $525 million. The difference will be made up by drawing money from a big state savings account called the Constitutional Budget Reserve.

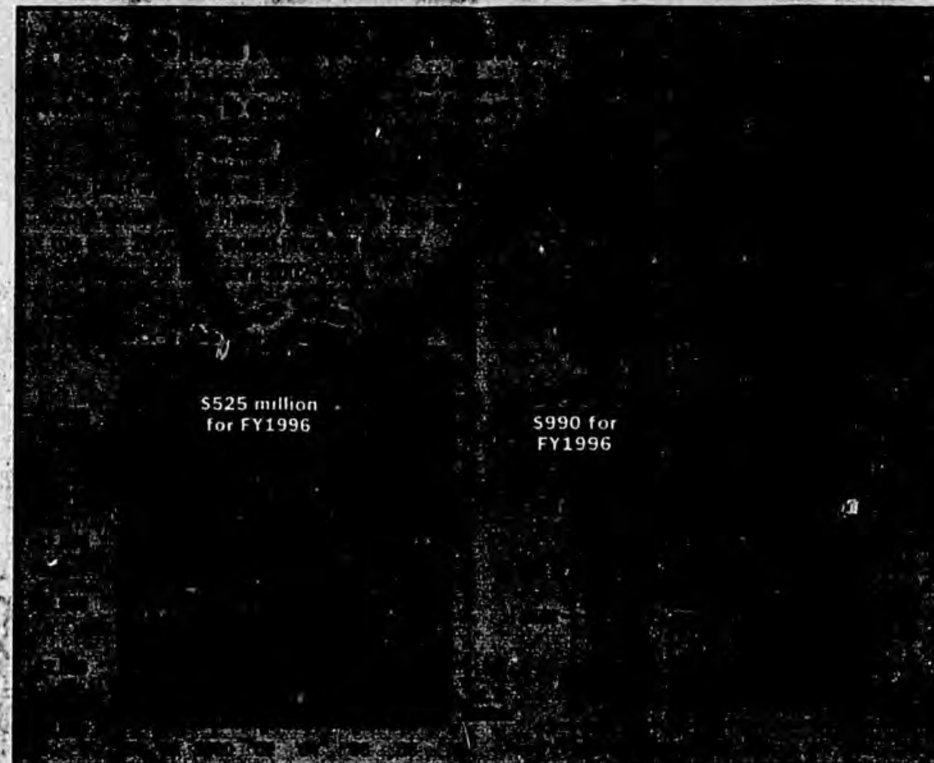
Under the commission's plan, the fiscal gap would drop to zero by 2000. And by 2003, the state would be running a budget surplus of about $200 million a year.

To do this, the plan would stop the growth of the Permanent Fund dividend and — over 15 years — slice its value by more than two-thirds. From $990 this year the dividend would drop to $544 in 2010, according to the commission's projections. Under current law, the commission projects the dividend would grow to $1,788 in 2010.

The plan calls for the income tax — repealed when the state was flush with oil money in the early 1980s — to kick in again in 2002 and be raising $300 million a year by 2005.

In addition, the commission's plan would impose new or higher taxes on gasoline, boat fuel, tobacco and liquor. It would cut $100 million out of the state budget by 1999, then allow it to grow with inflation and population.

And it would divert more oil dollars into the Alaska Permanent Fund while allowing legislators to take a small percentage of the principal directly out of the fund for the first time since it was set up 19 years ago. Those changes would require constitutional amendments, which would have to be submitted to the voters, probably in next year's general election.



Source: State of Alaska, Long-Range Financial Planning Commission — KEVIN POWELL / Anchorage Daily News

"We think it sort of spreads the pain," said Fairbanks resident Brian Rogers, the former legislator who chairs the financial commission. "There should be something in the plan to offend everyone."

But one of the biggest players in Alaska's economy and politics isn't likely to be offended at all. The plan doesn't call for any new taxes on the oil industry. To the contrary, the Legislature this spring — with strong backing from Knowles — voted to lower state levies on oil production from some oil fields.

Knowles budget chief Annalee McConnell, who serves on the commission, predicted oil companies and other firms would love its work because companies are wary of investing in a state with an unstable fiscal climate.

"Industry in Alaska has an enormous interest in seeing a plan put in place," McConnell said. "They have a lot at stake."

The plan would start the dividend cuts next year, while the income tax wouldn't begin until 2002. McConnell said some on the commission were concerned this would hit poor people harder than the rich. But the overwhelming feeling on the commission, she said, was that "we should not implement an income tax until we look at things that are given out regardless of need."

Policy pundits have been wringing hands over Alaska's fiscal gap for years, and countless politicians have won election by promising voters to go to Juneau and cut the state budget. Suggestions that the income tax should be resurrected or the Permanent Fund dividend trimmed have come from Alaska governors at least since the oil-price crash and economic slump of the mid-1980s.

In 1987, then-Gov. Steve Cowper called for reducing the Permanent Fund dividend and said Alaskans should vote to either give it up entirely or accept an income tax.

In the early 1990s, University of Alaska economist Scott Goldsmith published a series of papers warning that Alaska faced a budget crash if it didn't close the fiscal gap and stop living off savings.

In 1992, then-Gov. Wally Hickel convened the "Alaska Economic Summit" to deal with the fiscal gap. The recommendations included bringing back the income tax and capping or cutting the Permanent Fund dividend.

And just last year, Anchorage attorney Roger Cremo once again trotted out his decade-old plan to put all natural resource revenues into the Permanent Fund and allow the Legislature to withdraw money directly from the fund to finance state government.

So far, none of this has resulted in much action. The Permanent Fund dividend gets bigger every year, Alaska still has no income tax, and the operating portion of the state budget has been trimmed only around the edges.

Rogers thinks that, even if the plan doesn't propose new ideas, it could at least offer the political equivalent of a riot shield for nervous lawmakers.

"It's a wonderful opportunity for people to blame us," Rogers said. "If there are any people who want to duck behind some cover, we provide some."

But Parnell, the Anchorage state representative who voted against the plan, says that any politician who backs higher taxes or lower Permanent Fund dividends will be on his own at election time.

"I can't stand up in my district and say, 'Gee, I voted for this because a commission recommended it,'" Parnell said. "I'm the one hanging out there."

☐ Daily News reporter Ralph Thomas contributed to this story.

Welcome Alaska Inter-Tribal Council and Tribal Service Providers Delegates

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Page 11, please

Lawmakers get plan for state fiscal reform

by Jeff Richardson
***Tundra Times* staff**

The Long Range Fiscal Planning Commission has done its job. Now, the governor and the legislature need to do theirs.

"This is a plan for ourselves and our grandchildren. It requires all Alaskans to share in the solution. No action to close the fiscal gap is the greatest threat to Alaska's financial future," says the commission's final report.

The commission was charged by the governor and the legislature to recommend ways to close the increasing gap between what the state spends on programs and services, and what it receives in revenues. This gap is expected to increase to $1.3 billion per year if no changes are made in the state's finances. For six of the last nine years, the state has spent more than it's taken in, requiring reserve accounts to be drawn down substantially. Last month, the commission's 15 legislative, administration and private sector members delivered their prescription for restoring Alaska's financial health.

Recommended for the next three years are a number of significant steps, including further budget cuts. Here are the key features:

Cut spending

• Cut current state general fund spending by another $100 million over three years (including another $40 million in FY 1996, for which a budget is already in place);

• Cut per capita state general fund spending from $4,020 to $3,692 per person over the next four years.

The commission plan contains a number of recommended guidelines to accomplish the cuts in a way that is fair.

Increase revenues

• Increase tobacco taxes by $1 per pack ($43 million/yr);

• Increase alcohol taxes by 10 cents per drink ($20 million/yr);

• Increase the motor fuel tax from its 1961 level of 8 cents per gallon to 22 cents/gallon, and increase the marine fuel tax by 3 cents/gallon ($44 million/yr);

• Increase user fees by at least $3 million per year, double motor vehicle license fees and eliminate auto license fee exemptions ($32 million/yr);

• Establish a new tax to generate at least $20 million/yr from tourists; and

• Increase taxes on fisheries and other resources by $30 million/yr.

Page 12, please

Athabascan Old-Time Fiddler's Festival

It was a fun weekend in Fairbanks, November 9-11 during the 1995 Annual Athabascan Old-Time Fiddler's Festival. Victor Rock, above, searched high and low for partners to dance with while he was not playing. Rock is a fiddler from Shageluk.

Photo by Anna M. Pickett

Court upholds 1993 tribal status list

by Jeff Richardson
***Tundra Times* staff**

Current litigation critical to defining Alaska Native rights of self-governance is complicated, and seems to have no end. Long periods of judicial silence are punctuated by tentative or partial decisions and procedural maneuvers. In the meantime, Alaska Native tribes must try to function as political and social institutions under a cloud of uncertainty as to their authority.

Despite the collective psychological hardship of this protracted waiting game, attorneys advocating for Native tribes take heart from recent movement in a couple of important cases. One of the most significant developments is a recent decision by Federal District Court Judge F. Russel Holland in a case involving Ft. Yukon. Over the objections of the State of Alaska, Holland upheld tribal status for all Alaska Native tribes whose names appeared on a list published in the Federal Register in 1993.

"Tribal status is here to stay," said Heather Kendall, attorney for the Native American Rights Fund in Anchorage. NARF represents several other tribes with pending cases involving tribal status and jurisdiction. "It's too early to tell what the ultimate result of this is going to be. But I don't feel we're going to be going backwards in terms of how the state is dealing with sovereignty issues. The open question is the extent to which tribes will be able to exercise their powers."

In the Ft. Yukon decision, the court expressly did not resolve the question of whether Alaskan tribes enjoyed the status of federal recognition prior to publication of the 1993 list. The state challenged the list, asserting that it was not the proper vehicle for establishing federal recognition. State attorneys argued that each tribe must go through a separate process of proving its existence and legitimacy in court.

"It's home free on the tribal status issue," for most tribes, said Judy Bush, the Alaska Legal Services Corp. attorney representing Ft. Yukon. "That's very good and very positive."

Natives received an important boost from the federal government, which argued that the Secretary of Interior has a competent, long-

Page 12, please

Long-range fiscal plan . . .

Continued from page 1

Rethinking the Permanent Fund

The commission recommends a number of changes in the way the Permanent Fund is used. First would be to establish the fund as an endowment to partially replace declining oil revenues. The endowment would pay up to 4 percent of the fund's five-year average market value to the general fund for dividends and state services. The principal of the Permanent Fund would be protected by building long-term inflation-proofing into the endowment plan. The endowment payout and increased Permanent Fund contribution to the general fund would require voter approval of a constitutional amendment in 19

Another measure to alter the Permanent Fund and make it more available for addressing the budget gap is the recommendation to cap the amount of Permanent Fund dividend checks paid to residents each year. This would not require voter approval, and would be done by reducing the amount available for the dividend program by $50 million per year over the next three years. Under this formula, individual checks would be about $900 next year, $800 in 1997, and stabilize at about $700 in 1998.

In addition, the commission recommends boosting the size, and thus the earning power of the Permanent Fund by making a number of deposits from other accounts and revenue streams and retaining earnings above current levels. These steps also would not require voter approval.

Additional steps

The Long Range Fiscal Planning Commission is seeking a constitutional amendment clarifying the use and repayment procedures for the Constitutional Budget Reserve, a rainy day account whose use by the legislature to fund state programs has been controversial in the past. The commission recommends making sufficient deposits into the CBR to cushion against oil price fluctuations, since oil revenues still account for the vast majority of state revenues.

The commission also called for tighter needs-based scrutiny of state spending plans, and greater accountability to the public.

What about the income tax?

According to commission calculations, if its three-year strategy is followed, the state's budget will be balanced. Expenditures will match revenues. Members recommended a follow-up to its own analysis be done in 1998-99 to make adjustments that would maintain the budget balance over a 5-10 year horizon. In the absence of any new revenue sources, the commission recommends a state income tax in the year 2000 (to take effect in 2002) to prevent the budget gap from reappearing.

The governor weighs in

While four of the commission members voted against the plan—Rep. Sean Parnell, Sen. Steve Rieger, Hugh Motley and Mary Nordale-Gov. Tony Knowles said he intends to push legislators to back the blueprint.

"Already the plan is generating a lot of heat," said a statement released by the governor's office. "But I've been in the kitchen too long to get out now. I've called on legislative leaders—who helped initiate this plan—to devote their efforts to making it a reality beginning on Day One of the coming legislative session."

Knowles noted that the plan has the endorsement of the Anchorage Chamber of Commerce and Commonwealth North.

"We finally have a plan that works and balances Alaska's books. It may not be perfect and new ideas may come forward to make the plan even better. So we need to listen, consider necessary adjustments and make failure to act by our legislators inexcusable," Knowles said.

Commission members include: Brian Rogers (chair), Judy Brady (vice chair), Lee Gorsuch, Sen. Georgianna Lincoln, Robert Loescher, Bruce Ludwig, Annalee McConnell, Hugh Motley, Rep. Mike Navarre, Mary Nordale, Mike O'Connor, Rep. Sean Parnell, Pat Pourchot, Sen. Steve Rieger and Marie Westfall.

Court upholds list . . .

Continued from page 1

standing process for ascertaining tribal status and the legal authority to recognize tribes through the listing process.

Holland's decision came in the case of the Native Village of Ft. Yukon, a tribe who was seeking to have the state give "full faith and recognition" to an adoption

"By adopting a corporate model of land ownership instead of the reservation system, in

Initially, state attorneys vowed to fight Holland's ruling, angering tribal officials who accused Gov. Tony Knowles of reneging on promises to support tribal self-governance. The state later dropped its protest of Holland's decision.

The Ft. Yukon case has been tied to another tribal status case involving Native Village of Venetie. In that

status protest, it has vowed to continue fighting to prevent recognition of Indian Country in Alaska.

"In Holland's opinion, Venetie was not Indian Country because ANCSA amounted to 'a new Native self-determination act' different than laws over Indians on Lower 48 reservations," said Kendall in a report to the Alaska Federation of Natives Convention. "By adopting a corporate model of land ownership instead of the reservation sys-

"I may not agree with what you say but I will

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Long range fiscal work only beginning

The Long Range Fiscal Planning Commission has submitted its final recommendations to Gov. Tony Knowles, Senate President Drue Pearce and House Speaker Gail Phillips. (See related story, page 1). On the whole, we find the recommendations reasonable, balanced and worthy of support.

It is important to note that the commission's work is part of the larger process of funding and operating state government in a way that is cost-effective and responsive to the needs of citizens. That process has some flaws that badly need to be addressed in order to protect the integrity of the commission's work:

On budget cuts - The commission says more cuts are needed in order to achieve fiscal health. We're not enthusiastic about this area of the recommendations, nor the level of cuts recommended. We'd rather see a much earlier imposition of sales tax in order to pay for the services from which we all benefit, including public safety, resource management, highway maintenance, and public health, to name a few. We'll grant the commission its views in this area, with a big condition. We concur with Sen. Georgianna Lincoln of Rampart, a commission member, who argued strongly that cuts should not fall disproportionately on rural Alaska. We are grateful that Brian Rogers, commission chair agrees.

On the impacts of the plan - It was not the charge of the commission to analyze the impacts of its recommendations, though we accept Rogers at his word that all commissioners kept the potential impacts in mind as they deliberated. But if we are to be certain that Alaska Natives are not going to be impacted unfairly, some more analysis needs to be done. This was one of the objectives that prompted Byron Mallott, executive director of the Alaska Permanent Fund Corp., to recommend that a Native Fiscal Policy Summit be held in the near future. Such a summit would be an excellent forum for Native corporation, tribal and community leaders to insure that refinement and implementation of commission recommendations fully enfranchises Native people.

We think the summit is an excellent idea. It would provide a critical opportunity to advance many of the constructive and vital ideas of the Alaska Natives Commission with regard to the viability of Native communities and institutions and the survival of Native culture. We would be happy to contribute our resources to such an endeavor.

Bill

by Paul Swetz

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Budget plan has something to offend everyone

On Monday, the 15-member Long Range Financial Planning Commission wrapped up six months of work by briefing the governor and legislative leadership on its final recommendations on how the state should solve its budget mess. Following is the second half of an excerpt of Commission Chairman Brian Rogers' verbal report.

By BRIAN ROGERS

The commission has some general recommendations on the spending side. First, in the area of salaries and benefits.

A large proportion of state spending is on salaries and benefits for state employees and for the employees of school districts, which are largely funded with state dollars. We recommend the adoption of a retirement incentive program with a new Tier III retirement system.

The new Tier III would reduce retirement benefits for new employees hired after passage of a new retirement system.

In addition, such things as employer contributions might be considered. A retirement incentive plan, together with the Tier III, offers substantial opportunity for personnel savings for state and local governments and school districts.

We also recommend implementation of new geographical pay differentials for non-covered employees and a regularly scheduled look at geographic pay differentials that might be used in negotiations with employees involved in collective bargaining. We recommend that the state undertake a study of salary and benefits for comparable employers, which in some cases would be employers in the Northwest states or in other states or comparable employers in the private sector in Alaska. The state should move over time to peg Alaska's salaries and benefits to the market.

Second, we ask that the administration take a look at opportunities to consolidate administrative support functions, possibly reducing the number of state agencies and looking at more efficient ways of providing public services.

We suggest changes in policy that slow the growth of the major formula programs — slowing the growth of education, the health and social services and the corrections budgets. Unfortunately, the commission did not have enough time to really get into these issues, but we believe that in aggregate there must be changes that reduce that growth.

"Well, sir, you are PARTIALLY right. I AM a 'politician,' but not a 'no good' politician."

We think that others with more time may have some suggestions in this area.

We suggest a look at health plans. We have a lot of public employer health plans — state government, local government, school district, university, and the substantial Medicaid expenditures. The state should look for ways of combining, self-insuring, and other methods to reduce over the long-run the substantial costs of these health plans.

We looked at the Alaska Longevity Bonus program and there were strong feelings on that program as one of the highest cost, non-needs-based programs in the state.

We think that failure to take action will have the state drive off the revenue cliff in three to four years and create a tarnished future for Alaska.

We make the recommendation that if the court were to throw out the current phase-out plan of the Longevity Bonus, that the program be repealed. The state cannot afford that program without the current phase-out plan.

In the local government area, we have several suggestions — such as repealing the senior citizens' tax exemption mandate. The state currently mandates that local government provide an exemption up to $150,000. But the state currently funds only about 15 percent of the cost of that exemption. We recommend that the state requirement be repealed and replaced with a local option that will allow local governments to determine the size of the senior citizen tax exemption that they wish to offer — if they wish to offer one at all.

We suggest shifting inspection functions to local government wherever possible and eliminating state general fund support to troopers in communities with a population of over 2,500 with the ability for those communities to contract with the troopers if they wish to do so.

We have a series of other budget recommendations most of which provide smaller savings. Commission members believe that if we had more time, we would have been able to have a better series of recommendations.

We do suggest looking at issues of privatization and contracting out where there are opportunities to do so, and looking at opportunities for out-sourcing or in-sourcing to allow groups of state employees who are currently providing services to effectively bid to continue to provide that service if they can do it at a lower cost than the private sector.

This plan, we believe, has something to offend everyone.

We think that no one will be happy with every element of the plan, just as for each of the majority members of the commission there are provisions of the plan we don't like. The majority of the commission felt that on balance, however, this was the best plan for closing the fiscal gap.

We hope that the governor and the Legislature will take both the final report — once it is out — and the interim report that lists other choices and use those reports to secure a stable fiscal future for Alaska.

We think that failure to take action will have the state drive off the revenue cliff in three to four years and create a tarnished future for Alaska. We thinks this plan keeps the opportunities that Alaska has and allows us to live within our means.

Brian Rogers, a business consultant in Fairbanks, is a former state legislator and worked with the statewide university system for 15 years. A final, detailed written report from the commission is expected in about two weeks.

Legislator says implementing fiscal plan will be tough

The Associated Press

FAIRBANKS — As Alaska heads deeper into a financial crisis that could see it with a billion-dollar shortfall by the year 2000, the co-chairman of the Senate Finance Committee says politicians can only solve the problem a little bit at a time.

"It will take an awful lot of compromise, consternation and teeth-gnashing on both the budget-cutting and revenue sides to work out the budget," said Sen. Steve Frank, R-Fairbanks. "It won't be done all at once, but will take considerable work over time.

"The budget must be chipped at around the edges — as we have done for years."

A state Long-Range Financial Planning Commission preliminary report last week recommends budget cuts, new taxes and capping the permanent fund dividend.

The plan calls for amending the state constitution to require that 50 percent of all oil and gas royalties be deposited into the permanent fund. Currently only 25 percent of royalties are deposited into the fund from fields developed before 1980, and 50 percent is deposited from fields developed after January 1980.

The plan also calls for reducing the amount paid out as permanent fund dividends from $565 million this year to $415 million in fiscal year 1999. It also calls for a 20 percent reduction in per capita spending for general fund programs, and for taxes on alcohol, tobacco, motor fuels and other taxes that would raise about $150 million a year.

If the whole plan is adopted, the state will have a sustainable long-range spending and revenue plan that replaces declining oil revenue earnings, said commission chairman Brian Rogers of Fairbanks.

THURSDAY, August 17, 1995

Akiak gets OK to scrap government

If voters approve plan, tribal council takes over services, debts

By DAVID HULEN
Daily News reporter

A state commission has given the go-ahead for another western Alaska village to dissolve its municipal government and turn control over to the tribal council.

If voters in the Kuskokwim River village of Akiak say yes in an election this winter — and there's no sign of opposition, according to villagers and state officials — it would become the seventh western Alaska community since 1990 to dismantle its state-chartered local government in favor of the tribal council.

While a federal court ruling two weeks ago may sharply limit the powers of tribal governments in Alaska over tribal lands and people who aren't tribal members, more than 200 tribal councils continue to operate in villages around the state. Alaska law allows communities to scrap their municipal governments and turn services over to other entities, including tribal groups.

The Akiak plan was unanimously approved by the Alaska Local Boundary Commission. The panel stipulated that the tribal council take over services now provided by the city government as well as village debts totalling about $60,000. The next step is for an election to be held sometime after Nov. 1.

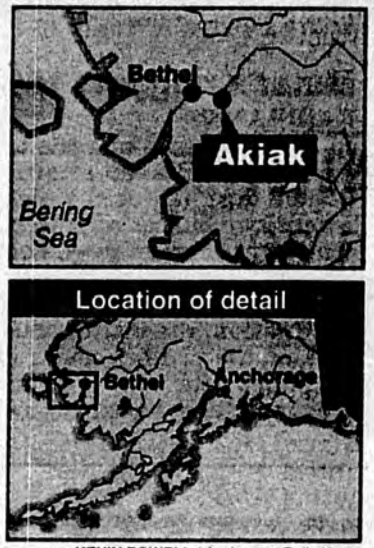
As elsewhere, scrapping the city government will mean less state money — in Akiak's case about $35,000 a year in lost revenue-sharing and municipal-assistance grants, or about one-tenth of the total village budget.

But backers of dissolution argue that state aid is dropping anyway and think a lone tribal council can attract additional federal money. They think cutting out the city government will give people there a more united voice and more authority to keep out alcohol and drugs and develop an economy in one of Alaska's poorest regions.

"Two separate councils like we've had aren't working in the best interest of the community," said Mike Williams, vice chairman of Akiak's tribal council.

Akiak is a Yup'ik village with about 300 inhabitants, and according to the 1990 census only eight were non-Native. The tribal council was set up in the late 1940s. The village was incorporated into a city in 1970, at a time when oil revenue was beginning to

Please see Page B-3, AKIAK



KEVIN POWELL / Anchorage Daily News

AKIAK: State gives 7th western village go-ahead to dismantle government

Continued from Page B-1

flow through the state and officials in Juneau were encouraging communities to adopt municipal governments to deal with a flurry of rural construction projects and new programs.

"There have been questions these past few years about who was responsible for what, and which council was being recognized by outside agencies coming into the village," Williams said. "It created conflicts within the village, within our own families. We have two competing councils that split our community in half. Too many chiefs and not enough Indians."

Akiak's city council has taken no position on the dissolution, said city administrator David Gilila. "It's up to the residents to decide," he said.

The issue isn't new. The nearby village of Akiachak tried to disband its city government in the 1980s. When the boundary commission blocked the effort, the village sued and the legislature rewrote the law, making it easier for municipalities to disband. Akiachak's tribal council took over the city government in 1990.

People in five other villages in the Yukon-Kuskokwim Delta simply shut down their city governments without asking the state, and legislators officially declared them dead last year. Other villages are considering disbanding their municipalities.

The issue has been difficult for state officials. While they have not blocked villagers from disbanding city governments since the Akiachak lawsuit, they have actively tried to limit the power of tribes in Alaska in other areas, such as when tribes have tried to tax outside companies or enforce local criminal ordinances through tribal courts.

"There's a big gray area," said Mike Irwin, commissioner of the Department of Community and Regional Affairs.

In a major decision this month, U.S. District Judge Russel Holland ruled that the tribal council in the Interior village of Venetie — and presumably tribal councils in many other villages — does not have the same sweeping legal authority under federal Indian law as tribes on Lower 48 reservations. Lawyers for Venetie are appealing.

But at the same time, dozens of tribal councils continue to operate in the Bush. Most were set up under federal guidelines, and the Interior Department two years ago recognized some 226 tribal councils in the state and is distributing money to many of them, including Akiak, for social services and other programs.

In a report last month, the state regional affairs agency endorsed the Akiak dissolution, noting that most city services, including the washeteria, power plant and street maintenance, would be assumed by the tribe. Under a proposed agreement with the tribal council, the state will take back village facilities if they're not made available to non-Natives, and the state can sue the council in state court if it fails to pay off the city's debts. Normally tribes have immunity from such suits.

As in many other villages, both Akiak's city and tribal governments get a big chunk of their revenue from bingo and pull-tab sales within the village. That dependence will continue under the dissolution plan. The tribal council anticipates generating $192,000 a year from gaming under a projected budget submitted to state officials — more than one-fourth of its total proposed budget, according to the state report.

The report notes that the figure works out to $2,866 per household annually spent on bingo and pull tabs. The median household income in the village, according to the 1990 census, was $13,571. That means 21 percent of the income in the village will be spent on gaming, the report says.

With no local taxes, village officials often describe bingo and pull tabs as forms of taxation. Williams, the vice chairman of the tribal council, said people in the village have discussed whether it's good to depend so much on gaming proceeds.

"It's a tough question," he said. "It's one of the activities that people do in the villages. In terms of being addicted to it and affecting your family, that's one of the issues that needs to be discussed."

Two people with ideas left off budget panel

While pleased with creation of that Blue Ribbon Panel asked to address budget gaps, I regret neither Roger Cremo nor Dave Harbour is on it. Both suggest provocative concepts which deserve prime consideration; yet, since these have political frailties and are dramatic departures from past practice, I fear the panel will promptly shelve them.

That would be a disservice to all Alaskans since, compared to other proposals I've heard, either could be modified into more politically acceptable and relatively painless means of bridging those gaps.

Briefly, the Cremo plan advocates putting 100 percent of all resource wealth into the permanent fund. (About 10 percent of money just from oil is now so deposited.) Each year a declining percentage would be withdrawn to fund budgets until such time as a presumably sustainable 6 percent annual drawdown was reached.

Pluses: 1) The legislature would know in advance how much it could spend; 2) A comparatively stable source of funding would replace vagaries of oil pricing and other imponderables.

Minuses: 1) A constitutional amendment would be required; 2) No assurance declining annual percentage "drawdown" could

JAY HAMMOND

be sustained without sacrificing the dividend program. Dividends would remain totally unprotected and likely used to balance budgets before making spending cuts or raising money required through more appropriate means such as taxes.

By contrast, the Harbour plan would put roughly 50 percent of our oil wealth into the permanent fund. The other 50 percent (severance taxes) would remain available for appropriation. From expanded fund earnings dividends would increase. Budget shortfalls would be made up through new taxes or user fees.

Pluses: 1) Dividends would increase, thereby making program cuts and/or new taxes or user fees more palatable.

Minuses: 1) Requires a constitutional amendment and passage of new taxes.

For the Cremo plan to receive public support, assurance of continued dividends is probably necessary. This could be provided by creating a separate account in the permanent fund that would treat dividends precisely as they would have been had there been no change in the status quo.

This would, of course, so reduce funds available for government spending each year as to leave the declining annual percentage drawdown of the dividend-reduced fund insufficient to meet that years budget level. To make up the difference, a "sliding scale" income (or other tax) should be imposed. Then, if oil prices should rise or the legislature cut spending sufficiently, the tax required could be reduced accordingly.

Similarly, the sliding scale tax concept should be applied to the Harbour plan.

Because there would be a year's delay before sufficient tax revenues could be raised to fill budget gaps, the budget reserve account should be retained as a buffer. Then should, say, $500 million from the fund be required to flesh out a budget, a tax sufficient to replenish that $500 million would be imposed the following year.

Either proposal seems far preferable, both politically and economically, to alternatives which, while recognizing the need to impose taxes, would forestall or reduce that need by feeding some of your dividend dollars into the equation through imposing a dividend "cap."

Let's not cap dividends. Instead, let's tap them through the sliding scale tax concept, increased user fees and the dividend check-off I proposed in a previous article.

Why?

Because to date no one has answered this question: If more money is needed for government spending, when does it ever make more sense to acquire it by capping dividends (thereby imposing a "head tax" on every Alaskan and only Alaskans) than it would to simply raise that same amount through a tax increase? Roughly 75 percent of it could be paid by those of us who can best afford it from our dividend dollars and the remainder by transient workers and fishermen who now take home about $900 million annually.

Shouldn't they also at least pay a little something for the price of admission?

□ **Jay Hammond is former governor of Alaska.**

Sunday June 4, 95

Two people with ideas left off budget panel

JAY HAMMOND

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Sunday June 4, 95

Sunday 14 May 95

DAVID REAUME

Oil-price surge has firm base

Two months ago, I went out on a limb in a forum sponsored by another newspaper and forecast that the West Coast price of North Slope crude oil would top $17.50 per barrel by the end of the year. Some limb!

Thanks largely to rising world demand, declining production outside of the Organization of Petroleum Exporting Countries and a falling dollar, the West Coast price roared past $17.50 in late March and has fluctuated between $17.90 and $18.75 per barrel since mid-April.

Anyone who has followed this column for the past several years will understand when I say that I was surprised by the suddenness of the surge in oil prices but not by the fact that it happened. Since well before the 1991 Persian Gulf War, I have been explaining to anyone who cared to listen that rising oil prices were quite likely to turn the much ballyhooed state of Alaska fiscal crisis into something better described as a bother.

A comparison of today's West Coast price (about $18 per 42-gallon barrel) to the Alaska Department of Revenue's spring 1995 base-case price forecast for the coming fiscal year ($16.52 average of West Coast and Gulf Coast prices) is revealing. If the new higher prices hold, the deficit for fiscal 1996 will be reduced from the much reported $600 million to something more like $300 million.

If, in addition, prices should happen to rise thereafter at a not outrageous 2 percent per year (after adjustment for inflation), the deficit of nearly $1.5 billion per year forecast by some for the end of the decade simply will not happen.

This turnabout from the price weakness of a year ago has the doomsday forecasters in a tizzy. The tension must be especially acute at the University of Alaska

Please see Page C-4, REAUME

REAUME: Fundamentals solid

Continued from Page C-1

Anchorage Institute of Social and Economic Research, the source of a series of grim projections.

One former ISERite who must really be squirming is Lee Gorsuch, the recently installed chancellor of UAA. In his previous position as director of ISER he was principally responsible for presenting the dire predictions to the university's board of regents and to the Alaska Legislature and governor.

In no small part due to Gorsuch's eloquence and zeal, the university's budget was slashed to the point where buildings are now crumbling on the Fairbanks campus for lack of maintenance, key faculty have departed everywhere and the Juneau campus has been all but reduced to the status of a community college.

Of course, Gorsuch and his former colleagues at ISER can never really be proved wrong. They could always argue that the real fiscal crisis is just over the horizon and that it has only been deferred and not eliminated. But if we pin things down to a more precise timetable, their position is looking ever more extreme.

The five-year odds on a fiscal crisis of the proportions they have been predicting have now shrunk to the imperceptible, largely because the world economy has been restructured and set on a new long-term economic growth path that five years ago only a few optimists thought was achievable. With OPEC's share of world oil production approaching the magic 50 percent mark, oil prices may well be moving onto their own parallel, long-term growth path.

That, of course, is the crux of the issue. Are we really seeing the beginning of a new era in oil price behavior or are we simply seeing a temporary surge?

The May 1 issue of the Alaska Department of Revenue's ReveNEWS suggests that the March/April experience can be attributed to relatively transient factors such as the imprisonment of the two Americans in Iraq, seasonal increases in demand, and weather-induced delays in tanker passage through the Gulf of Alaska.

In my opinion, and let me clearly label it as such, the reasons given by the Department of Revenue are simply those floating about the bars and coffeehouses where traders swap stories, and do not represent the closely guarded views of the oil companies themselves. More is at work here — the "more" being the factors I identified earlier: dramatic structural change in the world economy and a major repositioning of OPEC relative to its customers.

☐ David M. Reaume is a Juneau-based economist. His opinion column appears every fourth Sunday.

12.