

SCOMM

101:22

A Plan For Closing Alaska's Fiscal Gap

**The Final Report
of the
State of Alaska
Long-Range
Financial Planning Commission**

Long-Range Financial Planning Commission

**Established by Alaska's Legislature
and Governor in March 1995**

15 Alaskans

- **5 Appointed by Governor Tony
Knowles**

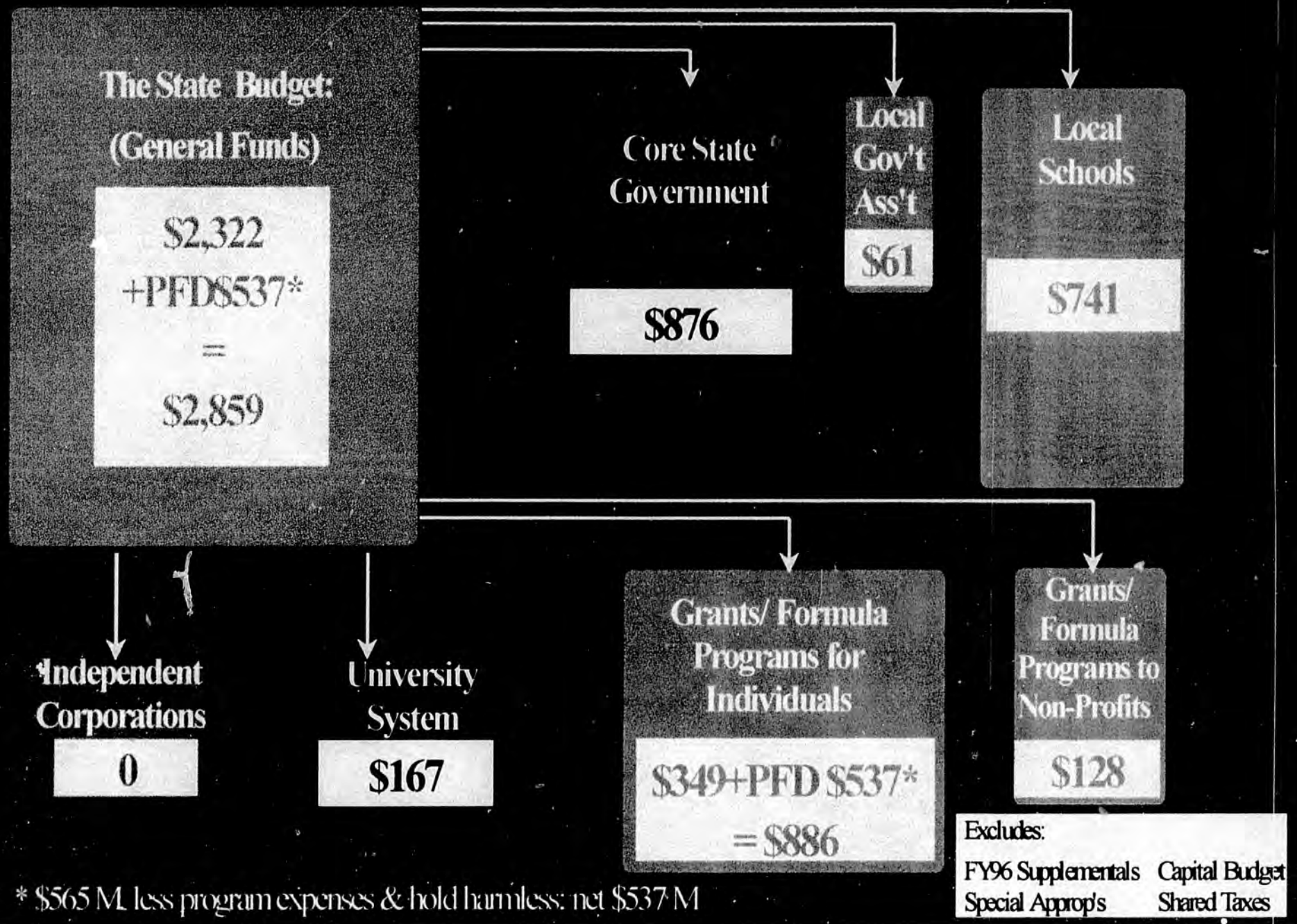
- **5 Appointed by Speaker of the
House Gail Phillips**

- **5 Appointed by Senate President
Drue Pearce**

Long-Range Financial Planning Commission

- **Examine the size of the "fiscal gap"**
- **Look for budget reductions and revenue increases**
- **Examine budget process**
- **Consider impacts of changes on local governments**
- **Hear from the public about the choices Alaskans face**

How Big is the Budget?



How Big is the Fiscal Gap?

- **It is more than all the general fund salaries and benefits paid to all State agency employees**
- **It is almost as much as the whole Permanent Fund dividend program**
- **It equals three-quarters of the entire K-12 public school funding program**

Alaska's Growing Fiscal Gap

Base Case in Today's Dollars

\$3,500
\$3,000
\$2,500
\$2,000
\$1,500
\$1,000
\$500
\$0

FY 96 FY 97 FY 98 FY 99 FY 00 FY 01 FY 02 FY 03 FY 04 FY 05

Revenues

Expenditures

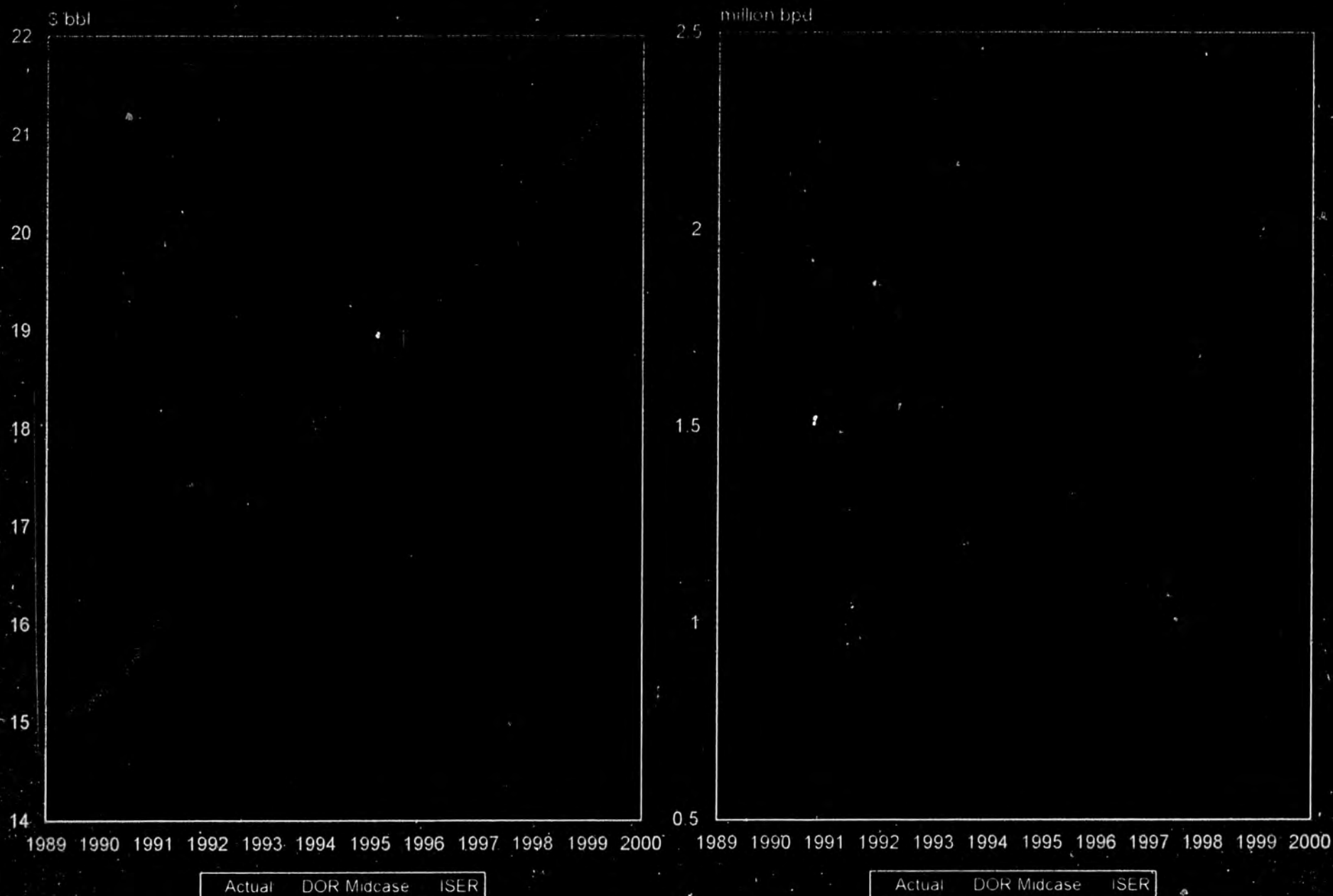
Are We Crying Wolf?

The Gulf War oil price increase in FY90-91 provided much higher revenues than forecast

The budget has been cut more than ISER predicted

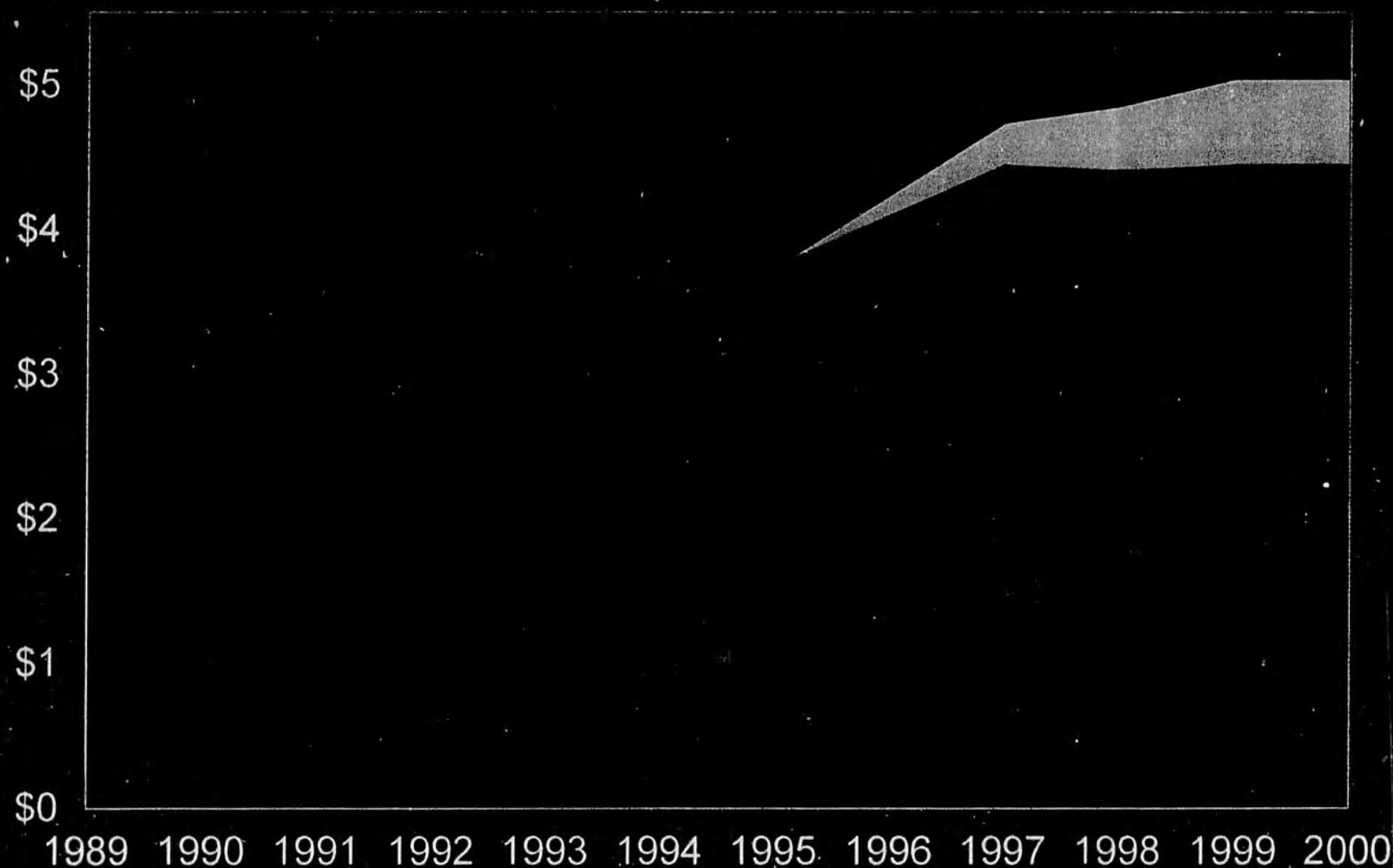
Oil settlements have been over two times as large as ISER predicted

Oil Prices & Production



Cumulative Settlement Amounts

billion \$



Actual ■ DOR Projection ISER

The Plan Recommended By This Commission

- **Creates a new philosophy for State revenues**
 - Permanent Fund income begins to replace oil revenues**
- **Enhances our ability to save for future generations**
- **Imposes some spending discipline on the State**
- **Defines a role of the Permanent Fund in Alaska's future**
- **Clears up some of the confusion over cash reserves**
- **Suggests embarking upon some structural changes in State government**
- **Involves the public in the decision making process**

The Plan Closes The Fiscal Gap

It:

- **Cuts spending**
- **Increases revenues**
- **Establishes the Permanent Fund as an endowment**
- **Caps the Permanent Fund dividend pool**

The First Three Years

Budget Cuts

- \$100 million in nominal dollars
 - \$40 million in 1996
 - \$30 million in 1997
 - \$30 million in 1998
- \$300 million reduction in today's dollars (takes \$100 million in cuts and absorbs inflationary increases)
 - Equals a 5% per year reduction in existing services

Spending Side

Recommendations

- **Salaries & Benefits**

- **Adoption of a Retirement Incentive Program**

- ▶ **Tier III retirement plan**

- **Reduce retirement benefits for new employees**

- **New geographical pay differentials**

- **Salary & benefits study**

Spending Side

Recommendations

- Consolidate administrative support functions
- Reduce growth in formula programs
 - Education, Health & Social Services, Corrections
- Review health plans
 - Combine plans & self-insurance
- Longevity bonus program
 - Repeal if courts reject phase-out plan

Spending Side

Recommendations

- **Local Government**
 - **Repeal senior citizens' tax exemption**
 - ▶ **Replace with local option**
 - **Shift inspection functions to local governments**
 - **Eliminate State funding of troopers in communities with population of 2,500 or more**

Spending Side

Recommendations

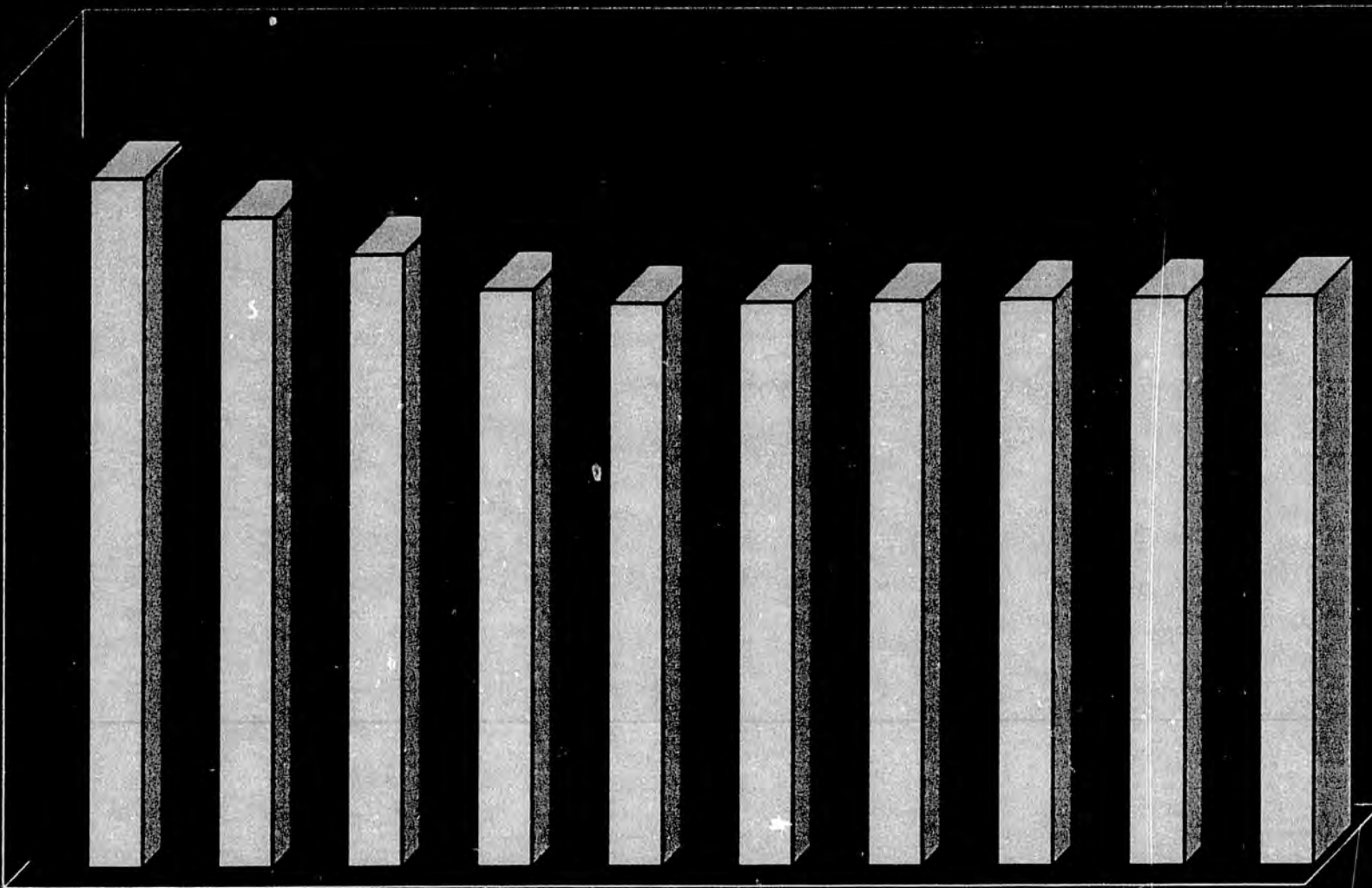
- **Review opportunities for privatization and contracting out**
- **Consider out-sourcing and in-sourcing**
 - **Allow State employee groups to bid against private sector**

Expenditure Comparison

Today's Dollars

million \$

\$3,500
\$3,000
\$2,500
\$2,000
\$1,500
\$1,000
\$500
\$0

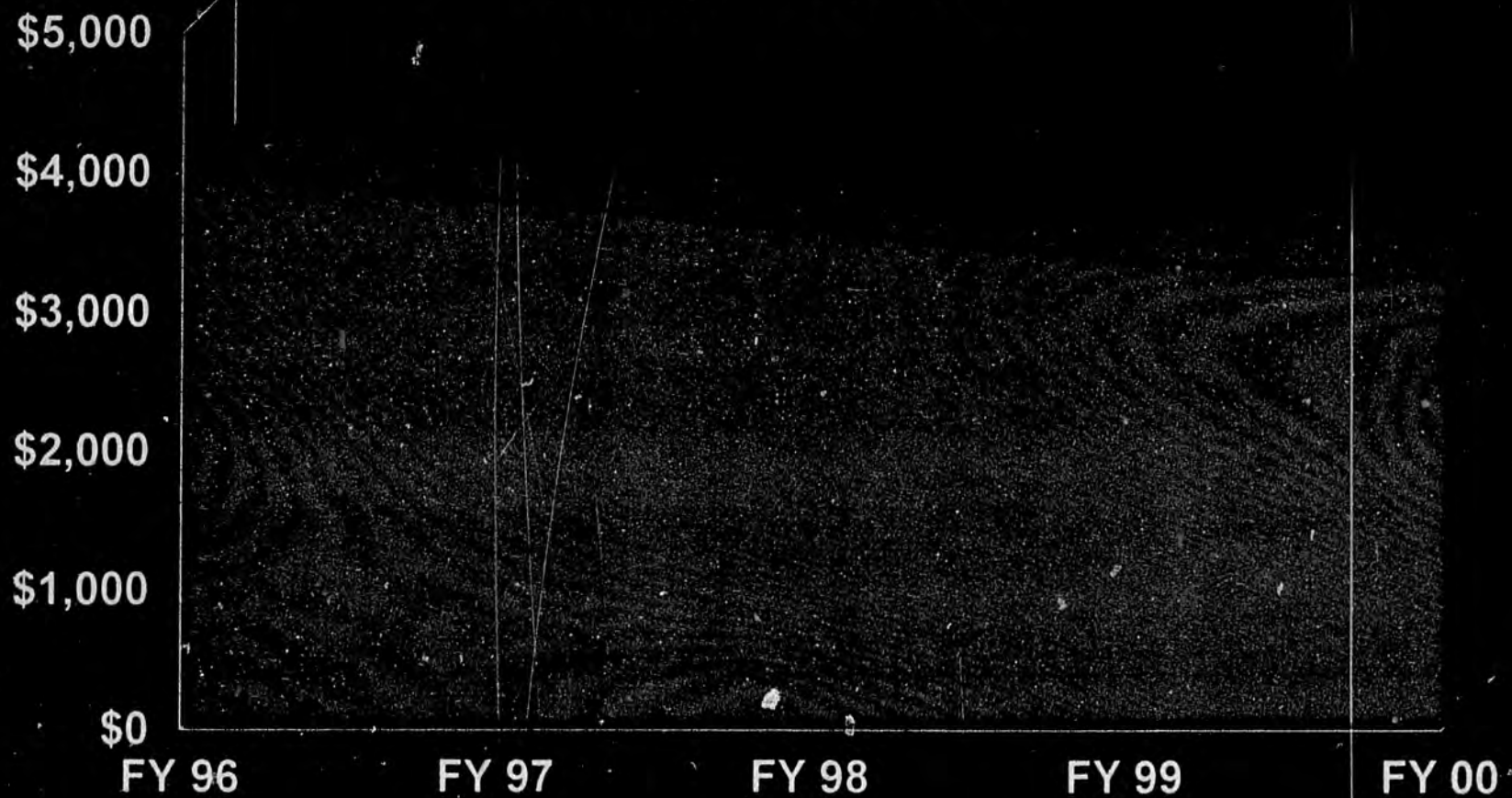


FY 96 FY 97 FY 98 FY 99 FY 00 FY 01 FY 02 FY 03 FY 04 FY 05

Base Case ■ Endowment Plan

Endowment Plan Per Capita State Spending

Today's Dollars



General Fund Operations
Total GF & Dividends

New Taxes & User Fees

\$150 million

- **Dramatic increases in tobacco & alcohol taxes**
 - **\$1 per pack of cigarettes**
 - **10 cents per drink for alcohol**
- **Increase marine motor fuel tax from 5 to 8 cents per gallon**
- **Double motor vehicle license fees**
 - **Eliminate exemptions for motor vehicle fees**
- **Increase user fees**
- **Establish tourism industry taxes**
- **Increase fishery & other resource taxes**

Reinstitute the Individual Income Tax

\$300 million

- When the fiscal gap reappears, reinstitute the Individual Income Tax
 - Repealed in 1980
- Each 1% of tax raises about \$75 million per year
 - Nonresidents would pay about 11% of total tax

Revenue Comparison

million \$ Today's Dollars

\$3,000

\$2,500

\$2,000

\$1,500

\$1,000

\$500

\$0

FY 96 FY 97 FY 98 FY 99 FY 00 FY 01 FY 02 FY 03 FY 04 FY 05

Base Case

Endowment Plan

Permanent Fund Becomes Cornerstone Of Alaska's Fiscal Future

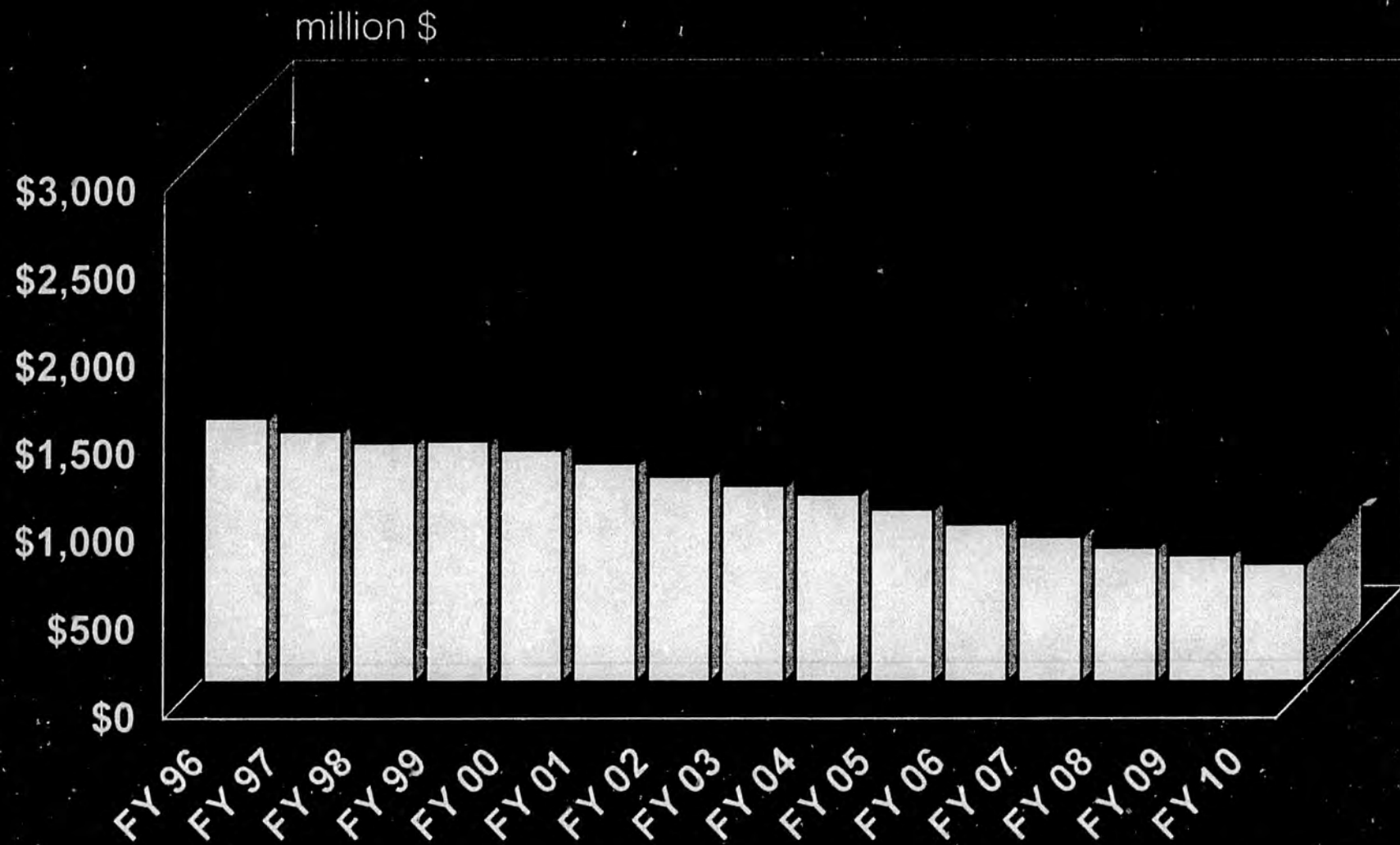
- **Establish Permanent Fund as an endowment**
 - **Set payout rate of 4% of the average market value for the preceding 5 years**
 - ▶ **4% is common for funds across the country**
 - ▶ **Preserves the purchasing power by making large inflation-proofing deposits in good years**
 - ▶ **Smaller inflation-proofing deposits in bad years**

Endowment Plan Insures Growth Of The Permanent Fund

- **Raise dedicated percentage of royalties and bonuses from 25% to 50% of ALL fields**
- **Deposit the entire Permanent Fund Earnings Reserve into the fund**
- **Deposit from the Constitutional Budget Reserve all amounts in excess of \$1.5 billion on an annual basis into the Permanent Fund**

Oil Revenue & Permanent Fund Income

Today's Dollars



LRFPC Base Case

Oil Revenue

Permanent Fund Income

Permanent Fund Dividend

- **Step down the dividend payment**
 - **FY96 payment \$565 million**
 - ▶ **Drop the dividend pool by \$50 million for the next 3 years**
- **Dividend payments**
 - **\$990 in 1995**
 - **\$900 in 1996**
 - **\$800 in 1997**
- **Freeze the dividend pool at \$415 million**

Permanent Fund Dividend Pool

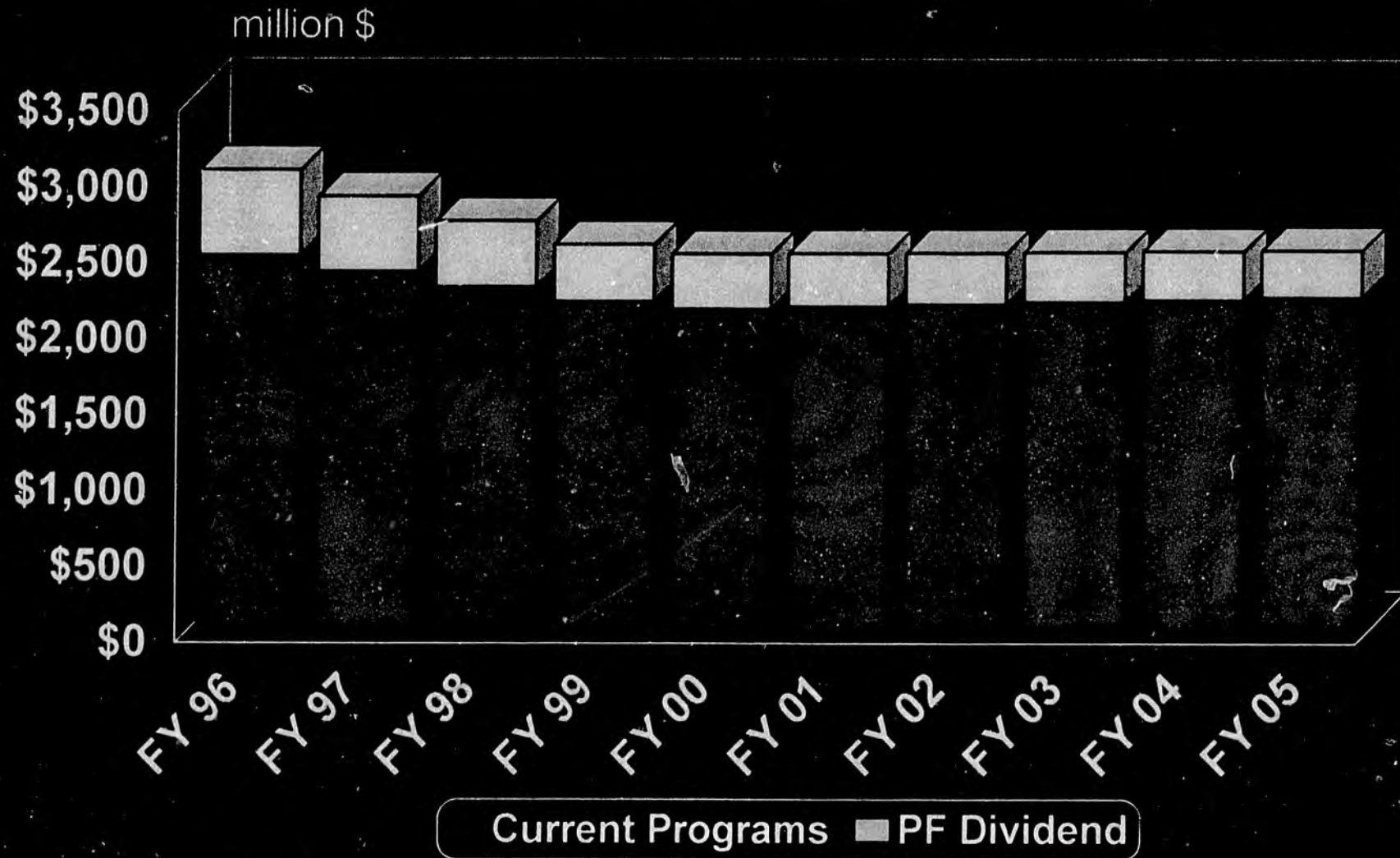
Today's Dollars



Endowment Plan Base Case

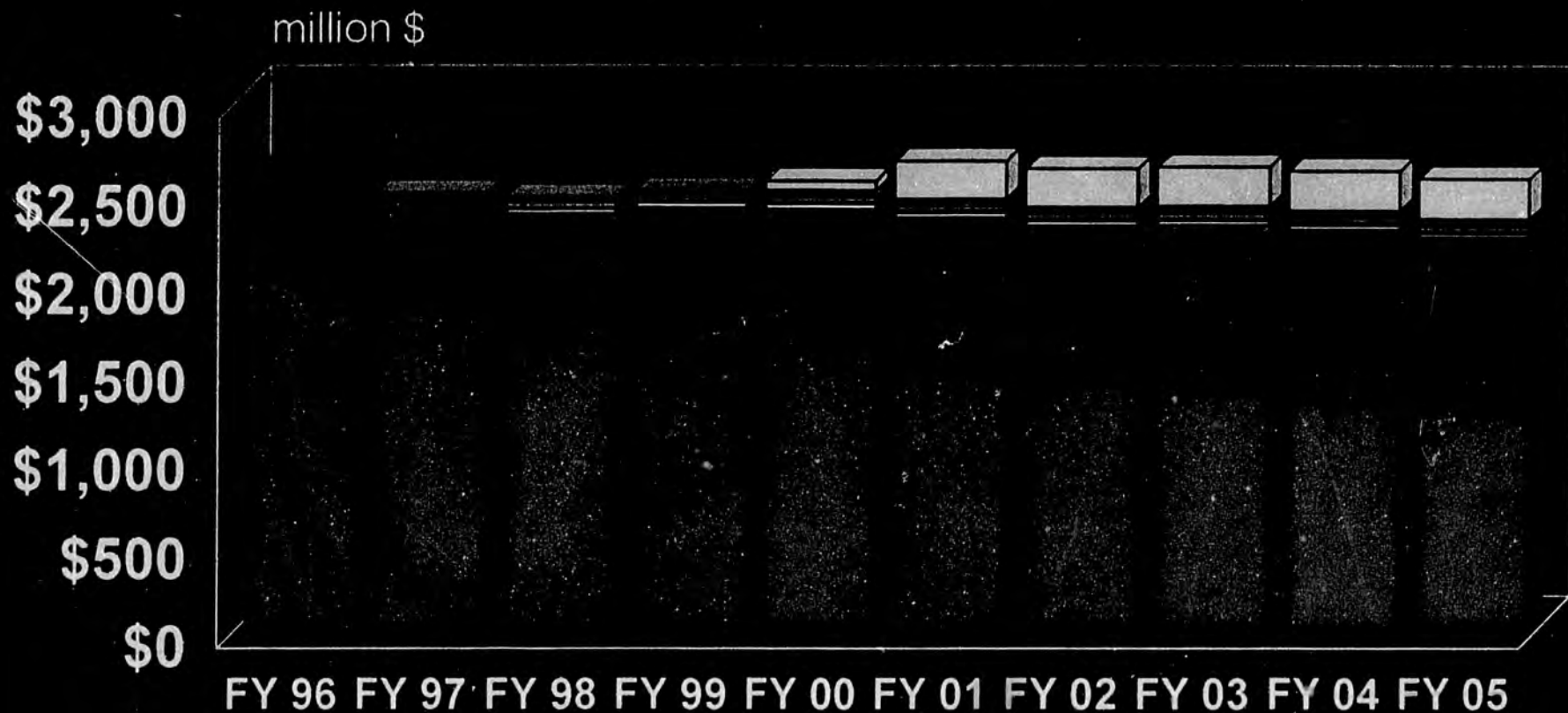
Expenditures

Endowment Plan Today's Dollars



Revenue Sources

Endowment Plan
Today's Dollars



Existing GF	PF Net	Endowment Earn
Highway Fuel	Marine Fuel	Tobacco Tax
Motor Vehicle Fees	User Fees	Fishery & Resource
Tourism Tax	Alcohol Tax	Income Tax

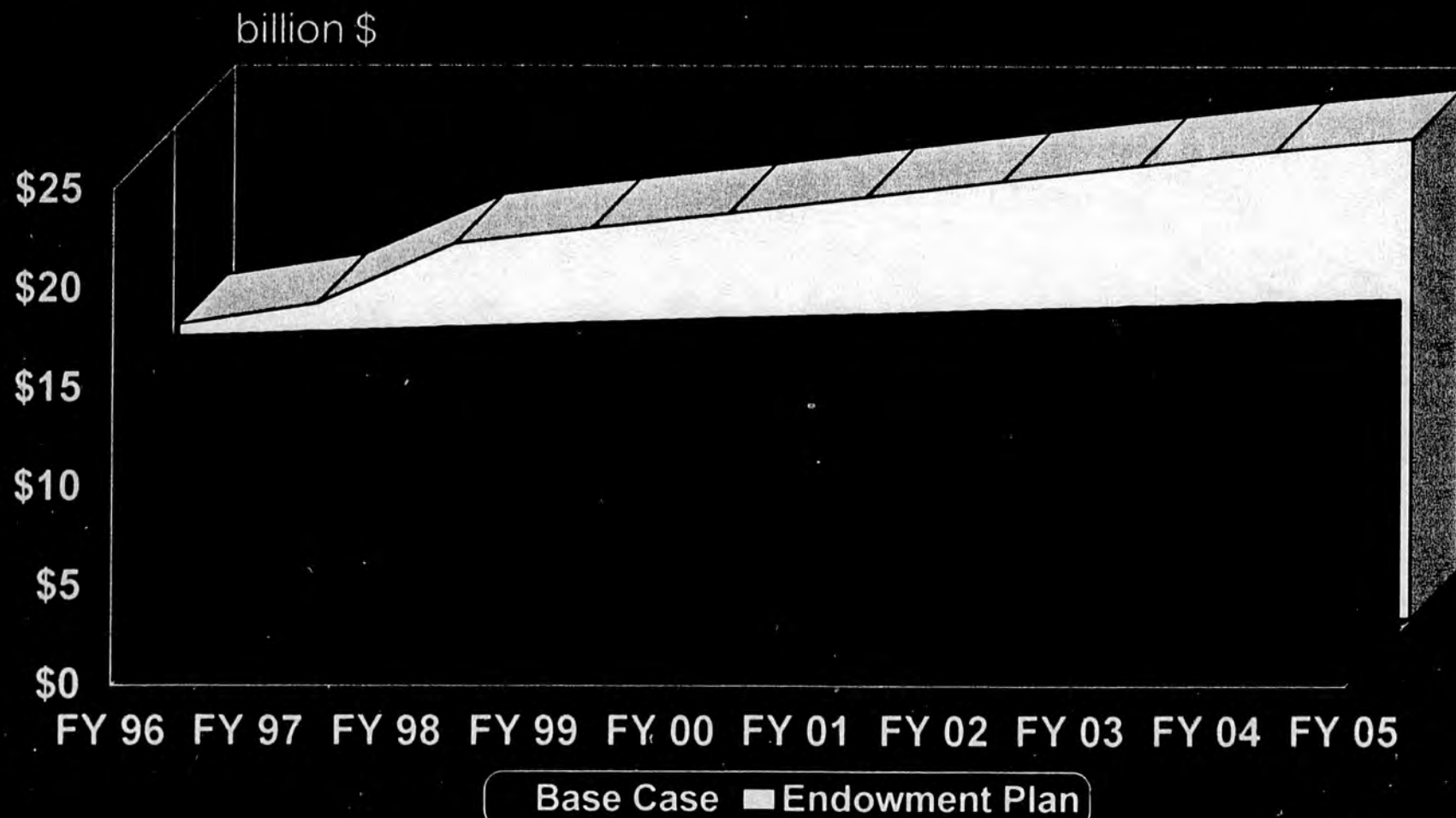
Endowment Plan Closes The Gap

Today's Dollars



Permanent Fund Principal

Today's Dollars



What The Plan Does

- Makes the Permanent Fund the cornerstone of Alaska's fiscal future
- Closes the fiscal gap by the year 2000
- Ensures growth of the Permanent Fund to offset declining oil and gas revenues
- Stabilizes and diversifies revenues
- Controls State general fund spending
- Maintains a reserve to dampen the effect of oil price swings
- Decreases our dependence on volatile oil revenues

Projected Constitutional Budget Reserve Fund Balance

