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List of Materials
to
All Long Range Fiscal Planning
Commission Members
and
Local Government/Education
Subcommittee

- 1) FY 95 National Forest Receipts Program
- 2) Chart: Comparison of State Operating Budget versus State Revenue Sharing/Municipal Assistance Funding FY 85-95
- 3) Chart: Funding History of State Revenue Sharing and Municipal Assistance
- 4) Book: Local Government Revenues and Expenditures in Smaller Rural Alaska Communities 1985-95 prepared 4/92
- 5) Book: RAPIDS: Community Projects and Needs Database: Contains 5500 Capital Improvement Projects and Needs in 218 Alaska Communities. [not to be tabbed, provided loose]
- 6) Book: Task Force on Governmental Roles
- 7) Book: Alaska Tax Table 1994: Municipal Taxation - Rate and Policies Full Value Determination; Population and G.O. Bond Debt.

2nd Book

**List of Materials
to
Long Fiscal Planning Commission
Local Government/Election
Members Only**

- 1.) Community and Borough Populations
- 2.) Community Financial Assistance FY 95 Annual Report

**List of Materials
held by Chair
LRFPC - Local Government/Education
Subcommittee**

- 1) DCRA Community Information Summaries - Excerpts from
DCRA Community Data Base May 1, 1995.
- 2) State of Alaska - Community/Borough Map 1994



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To: Brian Rogers, Chair and Members
Long Range Financial Planning Commission
From: Kevin Birch, Executive Director
Date: Tuesday, May 16, 1995

Re: Municipal support of the planning and implementation process

Municipal Commitment to the Development of a Long Range Fiscal Plan

As you know, municipalities are an integral part of the state system of government. The fortunes of municipalities are inextricably tied to the actions of the state government. Without a state long range fiscal plan, municipalities have been, and likely will continue to be, subject to frequent state cuts in municipal programs and random uncompensated transfers of state responsibilities. Therefore, the municipalities of Alaska have a vital interest in supporting the development of a long range fiscal plan for the state.

Despite broad efficiencies implemented in municipal government over the past ten years, local taxes have gone up significantly and the level of local service has generally gone down. To the casual observer, unaware of the actions of the state, it appears that local government is wasting money. However, **state actions have cost taxpayers the equivalent of as much as 14 mills of property tax annually** resulting from cuts in Municipal Assistance and Revenue Sharing, increased local responsibility for school funding, cuts in reimbursement of the Senior Citizen/ Disabled Veteran Property Tax exemption, significant transfers of responsibilities for prosecution, roads, inspections, etc.

Rather than an interest in a particular outcome, the **municipalities have an interest in achieving relative stability in the relationship between the state and its political subdivisions**. We are willing to support your effort in any way you deem most productive.

Suggestions for Using a Citizen Survey as a Tool to Educate Alaskans and Market the Need for a Long Range Fiscal Plan

We suggest that a well done four page informational brochure and survey could be an invaluable tool for building a constituency for a long range fiscal plan.

We further offer to organize Assembly or Council/ School Board worksessions concurrent with the mailing to help focus the news media and the public on the process.

A very rough concept follows:

A MESSAGE TO THE CITIZENS OF ALASKA:

The Governor and the Legislature want your participation in the development of a Long Range Fiscal Plan for the State of Alaska and its communities.

How can I understand, much less participate, in something as complicated as a Long Range Fiscal Plan for the State?

Although you probably don't call it a Long Range Fiscal Plan, almost every family has one. Most families discuss ways to save money for children's education, whether or not to purchase a new refrigerator, how to satisfy family needs with a fixed income, how to increase family income, or how to implement belt tightening measures to allow the family to live within its means. These are almost the same questions that the state as a whole must ask itself.

How do you start making a Long Range Fiscal Plan?

When planning for the future the first question you must ask is "what you want?", the second question is "how will you get it?". The "2015 Vision for Alaska" prepared by a statewide panel represents what the majority of Alaskans want. The "Fiscal Planning Principles" below are how the Commission arrived at forecast of Alaska's fiscal future and the options presented to you to meet Alaska's fiscal needs.

2015 VISION FOR ALASKA

PEOPLE AND CULTURE - Alaska has a diverse population with rich and varied cultural traditions and lifestyles. The urban and rural areas of the state are closely linked and work in harmony realizing the economic and social interdependence of all areas of Alaska.

GOVERNMENT - Alaska has an efficient and lean system of state and local governments. The primary role of state government is to ensure that a basic level of public services are available to all residents of the state and that Alaska's economy is stable and strong. Local government exists in all areas of the state to ensure that local services have maximum local control. All citizens bear a fair portion of the cost of providing basic public services such as education, public protection, and public health. Stable state and local taxation is in place to sustain an adequate level of public services.

ECONOMY - Alaska has strong and sustained natural resource based economy with a growing manufacturing and service sector. Alaska is a growing center of international trade. Alaska has efficient transportation and communications links within the state and internationally. Alaska's strong economy and stable state and local tax rates encourage sustainable economic development.

ENVIRONMENT - Alaskans value and protect the natural environment of our state. A reasonable balance has been achieved to sustain the both Alaska's economy, traditional lifestyles, and Alaska's rich and varied natural resources, wildlife, and environment.

FISCAL PLANNING PRINCIPLES

- A good fiscal plan foresees future fiscal gaps and takes gradual and well planned steps to avoid negative impacts. Large and abrupt changes add to economic and social instability.
- A good fiscal plan:
 1. decides in general what level of public services need to be sustained, including the annual cost of maintenance and replacement of facilities and equipment;
 2. estimates in general the cost of providing those services efficiently, including considering contracting with private service providers and local governments;
 3. estimates expected future revenues to pay for services, maintenance, and replacement; and
 4. if needed, recommends a gradual implementation of new user fees and taxes sufficient to sustain the desired level of services.
- All Alaskans should pay a fair share of the cost of services provided to them according to their ability to pay regardless of where they live.
- Where reasonable and consistent with market rates, direct user fees and direct user taxes should pay for the cost of direct public services instead of general taxes.
- The state, with its ability to pool statewide revenues and its superior taxing powers, must be responsible for ensuring a minimum level of services to all residents of the state.
- Taxes and other fees, whether levied by the state or a local government, are paid by the same individuals. Therefore, the combined impact of state and local taxes and other fees must be considered in the development of a state fiscal plan.

Alaska's "FISCAL GAP" and What it Means

Like most families, Alaska has an annual income (for example, annual business taxes from oil companies are the largest source); money in the bank that can be used for annual expenses (for example, the Constitutional Budget Reserve); and long range savings for retirement or other uses far in the future (for example, the Alaska Permanent Fund).

Right now, and for the foreseeable future, Alaska's annual income is expected to remain at about \$2.0 billion dollars per year, while Alaska's annual expenditures are now about \$2.5 billion dollars per year and expected to grow to about \$3.2 billion dollars in the next ten years due to inflation (at about 3% per year) and a population growing at a rate of about 2% to 2.5% per year. **Therefore, Alaska's "FISCAL GAP" is about one half billion dollars per year this year and will grow to over one billion dollars per year in the next ten years.**

How is Alaska filling its One Half Billion dollar Fiscal Gap this year?

The legislature filled the fiscal gap this year largely by appropriating money out of its Constitutional Budget Reserve.

Can Alaska use its Constitutional Budget Reserve every year to fill the Fiscal Gap?

No, the Constitutional Budget Reserve is expected to total about \$3.0 billion when all the oil settlements are done, but is expected to be completely depleted in the next five years unless action is taken soon.

If no action is taken soon, Alaska will face a large financial crises when the Constitutional Budget Reserve runs out. No wise family would spend all of its money in the bank without a gradual plan to fix family finances.

What can we do to fix the "Fiscal Gap" if we start now?

If we start now, we can find ways to reduce expenditures and increase revenues gradually. Instead of using the Constitutional Budget Reserve up in four or five years, it can be used to cushion the budget over a period of at least ten years and give the state a chance to develop new resource based industries.

What are some of the options to reduce expenditures?

After ten years of cutting the state budget there are few "easy" cuts left. Most future cuts will involve difficult decisions about state responsibilities or taking painstaking measures to change how major programs or services are delivered. Some measures currently being studied include: changes to the school funding allocation formula; changes to public employee collective bargaining agreements and benefits such as health insurance and retirement benefits programs; and state responsibility or efficiency in providing services such as operation of harbors and maintenance of roads which potentially could be contracted to private industry or local government.

While some cuts in government may make sense, others do not. Before any cuts are made, their impact on the future should be carefully examined. For example, over the past ten years significant cuts have been made in maintenance and repairs to state buildings and other state facilities. As anyone who owns a house knows, poor maintenance usually means a much more costly repair in the future. The standard of future impact must be evaluated in every decision to cut the budget.

What are some of the options to raise annual revenues?

Due to Alaska's good fortune to have large revenues from Alaska's oil industry, the net taxes and other fees paid by individuals are very low compared to other states. Some general options to raise taxes are:

- Increase state fuel taxes from 8 cents per gallon to the statewide average of 18 cents per gallon would increase state revenues by about \$90 million per year.
- A statewide personal income tax based on half the rate of the former Alaska Personal Income Tax Program would net \$125 to \$200 million per year from the earnings of residents and non residents working in Alaska. Forty-three other states have income taxes.
- A statewide sales tax of 2% would yield about \$100 million of revenues per year. Forty-five states have sales taxes ranging from 3.5% to 8%. (In Alaska, many municipalities have sales taxes).
- A statewide property tax of "four mills" would yield about \$112 million of revenue per year. Most states, including Alaska, allow municipalities to use the property tax as a basic municipal revenue.
- Capping Permanent Fund dividends at \$xxx and using the excess funds to operate state government.

How can economic development Alaska's state government revenues?

What would you suggest to fill Alaska's Fiscal Gap?

Assumptions:

- **Survey Options Packages:**