

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

2373 SCOM 101: LONG RANGE FINANCIAL PLANNING COMMISSION, 1995



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A handwritten signature in cursive script, appearing to read "Patricia Ross", written over a horizontal line.

Signature of Camera Operator

10/20/98

Date

SCOMM 101: LONG RANGE FINANCIAL PLANNING COMMISSION, 1995

MEMBERSHIP:

SENATOR GEORGIANNA LINCOLN
SENATOR STEVE RIEGER
REPRESENTATIVE MIKE NAVARRE
REPRESENTATIVE SEAN PARNELL
(plus 9 public members and 2 executive branch members)

Established by Legislative Resolve No. 6, 1995 (HCR 1)

Contents: 103 files. 88 tapes are also available of hearings held
4/08 - 12/08/95.

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SCOMM

101:1

LONG RANGE FINANCIAL PLANNING COMMISSION
MEETING
APRIL 8TH,1995

The meeting was called to order by interim chair Representative Mike Navarre. All members of the commission attended. Brian Rogers was selected as commission chair and Judy Brady as commission vice-chair.

Discussed first by the commission were ground rules for operating as well as information needed by the Commission in order to complete the charge to the commission laid out in LR 6. It was decided unanimously that a simple majority vote would be sufficient to carry a motion although that discussion would be revisited for the final report. Minority reports are acceptable.

It was agreed that a base plan should be founded upon known information such as oil prices and production and that base plan could be built upon with possibilities, such as lifting of the oil export ban.

It was also agreed that revenue from sources other than oil should be considered such as fisheries, tourism, timber, & mining. In addition, other revenue inside the state should be considered, such as regional native corporations, non-profits, federal government and military spending.

The commission feels that it is necessary to pay attention to state spending for other than the funding of government. Those areas such as private sector jobs, the overall economy, and clearly understanding the secondary effects of recommendations are also items to be considered.

The commission discussed Legislative Resolve 6. The discussion centered around the materials needed for the members to

review as well as defining and identifying the elements of the charge to the commission in the resolution.

Legislative Resolve 6 directs the commission to:

(1) review and evaluate state fiscal policy and strategy recommendations and assumptions from similar efforts in the past. Commission staff is assembling and sending out information to commission members in response to this directive. A list of those materials is available upon request and there are library-only copies in the commission office at 716 West Fourth Avenue, Suite 380.

(2) identify and evaluate all current state income sources and assets, including recurring revenue, reserves, physical resources, and investments.

Commission members intend to review the various revenue projections, settlements paid and left to be paid, speculative revenue, and the status of different funds as well as collateral institutions such as AHFC and AIDEA.

(3) identify and prioritize systemic changes to stabilize the state's revenue stream.

Examples of systemic changes to be reviewed by the commission include the Cremo Plan, selling of oil futures, forward funding, and also include funds to help any transition needed for any such change.

(4) identify and prioritize major reductions in state expenditures, to include formula and nonformula programs, and to include proposed consolidation, transfer or elimination of governmental services or programs; the reductions identified and prioritized under this paragraph must at least equal the current fiscal gap between recurring revenue and recurring expenditures.

Among the items to be reviewed by the commission are potential losses in federal funds and unfunded mandates, the growth of government and how it has changed, and what defines state spending. In addition, the commission plans to review constitutional and statutory requirements for state obligations and expenditures. A subcommittee consisting of Commissioner Motley, Commissioner O'Conner, and Commissioner Brady was formed to examine spending reductions.

(5) *evaluate forward funding of the budget.* See subsection (3).

(6) *identify and prioritize new sources of revenue.* The commission plans to identify revenue sources at not only the state but local level, as well as examine the role of debt and debt policy.

(7) *project a sustainable long range financial plan for the next three years, five years, and ten years, based on a stable revenue stream.* The commission's short term work plan includes identifying major factors to be considered when projecting a sustainable long range financial plan.

(8) *evaluate constitutional, statutory, and regulatory language relating to the budget process and recommend changes.* Examples of the items the commission will review are program vs. agency budgeting, the executive budget act and the constitutional budget reserve. In addition, the commission will evaluate statutory changes that may be necessary such as funding for major and deferred maintenance.

(9) *consider the division of responsibility for providing services and raising revenue between the state and local governments and evaluate the effect of the long range financial plan on local governments.* The commission has asked the municipal league for a white paper on this subject. In addition, the commission will examine service delivery in the state as it relates to both local governments and non-profits.

(10) *submit a preliminary report to the Governor and the Legislature by July 15, 1995.* Commission members and staff are confident that there will be a substantive preliminary report by July 15th, 1995.

(11) *disseminate information and solicit public comment.* A public information and comment subcommittee was formed, has had one teleconferenced meeting and plans another for May 8th. It is this subcommittee's intention to have a plan outline for the full commission to review at its meeting on May 20th.

(12) *submit a final report to the Governor and the Legislature by October 1, 1995, recommending a long-range financial plan for the state, including specific actions and legislation needed to implement and monitor the plan.* The commission will be discussing the final report in its subsequent meetings.

The next meeting of the Long Term Financial Planning commission will take place from 10 am to 5 pm, May 19th and 20th, 1995 in Anchorage at the Legislative Information Office, 716 West Fourth Avenue, Room . The schedule for the 19th of May includes briefings on revenue projections and budgeting. This is considered a work session and no public testimony will be taken. The schedule for the 20th of May will be an all day meeting of the commission. Public testimony will be taken as time allows.

First Meeting of the Long Range Financial Planning Commission Held in Juneau

On Saturday, April 8, the Long-Range Financial Commission held its first organizational meeting in Juneau. The Commission was established by legislative resolution during the current session and was charged with developing sustainable long range fiscal plans for the next three years, 5 years and 10 years. Members of the commission were chosen by the Legislature and Governor and consist of four Legislators, two from each house, two members of the Knowles administration and six public members. (List attached.) A preliminary report of the commission's findings and recommendations is due on July 15, with the final report due on October 1.

At the first meeting, commissioners chose Brian Rogers of Fairbanks as chair and J. Brady of Anchorage vice chair. Two subcommittees were formed to deal with public outreach and expenditure reductions. Staff assignments were made and procedural ground rules discussed. Due to the demands of the legislative session on several members' time, the next meeting of the commission was tentatively set for May 19 and 20 in Anchorage. The lead staff person for the commission is Melissa Fouse, who can be reached at the Commission Office in Anchorage at 258-8170.

8/10/05

Post-It™ brand fax transmittal memo 7671		# of pages *
To <i>Melissa Fouse</i>	From <i>Pence</i>	
Co. <i>FP Comm</i>	Co. <i>MB</i>	
Dept.	Phone # <i>465-4677</i>	
Fax # <i>258-5511</i>	Fax #	

TO: Brad
Pence

3470

Mike
Heatwork

Brad-
don't really have
much specific. If you
want me to cobble
something together I'll
be happy to if this is
too skimpy.

MF

Alaska State Legislature

House of Representatives

NEWS

State Capitol
Juneau, AK 99801- 1182
(907) 465-3439
Actuality line: 800-478-6540

Long Range Fiscal Planning Commission Begins Work

For Immediate Release:
April 10, 1995

Contact:
Mike Heatwole

JUNEAU -- The ¹⁵~~nine~~ Alaskans charged with creating a long term fiscal plan for the State began their deliberations on Saturday in Juneau.

The Long Range Fiscal Planning Commission selected Brian Rogers of Fairbanks as the chair of the group and Judy Brady of Anchorage as vice-chair.

The Commission spent the day establishing procedural guidelines for the group.

Following introductions, House Speaker Gail Phillips, one of the sponsors of the resolution establishing the commission, explained the purpose of the commission.

"I am very pleased that this group is up and running. Their responsibility is enormous but I really felt a strong sense of purpose among the members," Phillips said.

The Fiscal Planning Commission must submit a draft report to the Governor and the Legislature in July and a final report on October 1st. The commission must prepare three, five and ten year fiscal plans for Alaska.

Media Note: The staff contact for the Commission is Melissa Fouse and she can be reached in Anchorage at 907/258-8170.

#

Brad—

APPOINTMENTS TO LONG-RANGE FISCAL PLANNING COMMISSION**March 6, 1995****Appointed by Governor Tony Knowles:**

Bob Loescher of Juneau has been with Sealaska Corporation since 1978, most recently as vice president of natural resources. Loescher previously served in various positions with the Tlingit-Haida Central Council and with Alaska Legal Services.

Brian Rogers of Fairbanks former state legislator who worked with the state-wide University system for 15 years, most recently as vice president for finance. Rogers has his Masters in public administration from Harvard University's Kennedy School of Government.

Lee Gorsuch of Anchorage is the chancellor at UAA who formerly served as director of the Institute of Social and Economic Research, and president of Commonwealth North. Gorsuch has long been involved in studies of strategies to address the state's "fiscal gap."

Pat Pourchot currently serves as Knowles' Legislative director. Pourchot served two terms in the state House and one term in the Senate. He also has served as director of Commonwealth North, a non-profit, bi-partisan public policy organization.

Annalee McConnell serves as director of the Office of Management and Budget. She previously served as OMB director for Knowles during his second term as Mayor of Anchorage, and was director of the Stone Soup Group, a program for children with developmental disabilities.

Appointed by Speaker Gail Phillips:

Judy Brady of Anchorage is the executive director of the Alaska Oil and Gas Association and past executive director of the Alaska Municipal Bond Bank Authority and Commonwealth North. She has been Commissioner of the Department of Natural Resources and chief administrative judge for the Alaska Native Claims Appeals Board of the U.S. Department of the Interior.

Bruce Ludwig of Juneau has held various positions with the Alaska state AFL-CIO including secretary-treasurer and vice president. Currently, he is the business manager and trustee for the Alaska Public Employees Association. Previously, he was trustee of the Northwest Marine Retirement Trust and Northwest Marine Benefits Trust.

Mary Nordale of Juneau, is an attorney in private practice. She was formerly the Alaska Commissioner of Revenue, a past Trustee of the Permanent Fund Corporation and past board member of the Alaska Housing Finance Corporation and Alaska Industrial Development and Export Authority.

Long Range Planning Commission Members
page 2

Rep. Mike Navarre (District 9-E) is a businessman from Soldotna. He has served in the State House since 1984. He is a former chairman of the House Finance Committee.

Rep. Sean Parnell (District 17-I) is an attorney from Anchorage. He was first elected to the State House in 1992.

Appointed by Senate President Drue Pearce:

Mike O'Connor is the president and chief executive officer of Peak Oilfield Service Company. A civil engineer, O'Connor has been president of the Petroleum Club and the Special Olympics. He has been active in United Way, the Alliance and the Resource Development Council.

Marie Westfall is the former director of Revenue and Assessing for the Ketchikan Gateway Borough. She is also a former member of the Ketchikan Borough Assembly. Currently, she and her husband operate Westfall Nursery.

Hugh Motley of Cooper Landing is a retired tax vice president for ARCO.

Sen. Georgianna Lincoln (District R) is a commercial fisherwoman and administrator from Rampart. She served in the State House in 1990 and was elected to the Senate in 1992.

Sen. Steve Rieger (District I) is a financial manager from Anchorage. He was served in the State House from 1984 through 1990, and was elected to the Senate in 1992.



STATE OF ALASKA

LONG RANGE FINANCIAL PLANNING COMMISSION

AGENDA
Saturday, 08 April 1995

11:00 am:

Call to Order
Introductions
Speaker Phillips: discussion of HCR 1 and its charge to the
Commission (depending upon session schedule)
Strategy Session: How to Achieve the Goals of HCR 1

1:00 pm:

Break for Lunch (Sandwiches to be sent in)

2:00 pm

Reconvene
Elect Chair
Discussion of Work Plan, Timelines, & Staff Assignments
Budgeting Briefing:
Sources of Revenue/Revenue Projections
Five-Year Projections

04/08/95

LEGISLATIVE TELECONFERENCE NETWORK SYSTEM

LTN1150

14:27:16

PARTICIPANT LIST (ALL PARTICIPANTS)

BY:ANC

TCN:50539

SCHEDULED FOR:04/08/95 11:00 TO 17:00

FOR:ANC

PUBLIC HEARING

REPRESENTATIVE PHILLIPS

LOCATION:ANCHORAGE

ORGANIZATION M MR.

THOMAS

WILIAMS

OBSERVE

ORGANIZATION M MR.

CHARLES

MCKEE

OBSERVE

ORGANIZATION M MR.

CHERYL

FRASCA

OBSERVE

ORGANIZATION M

JO

FENETY

SEN PEARCE'S OFFOBSERVE

SENATE CS FOR CS FOR HOUSE CONCURRENT RESOLUTION NO. 1(STA) am S

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE STATE AFFAIRS COMMITTEE

Amended: 2/10/95

Offered: 2/8/95

Sponsor(s): REPRESENTATIVES Phillips, B.Davis, Green, Rokeberg, Navarre, James, Williams, Bunde, Kohring

A RESOLUTION

1 Creating the Long Range Financial Planning Commission.

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

3 WHEREAS state spending has exceeded recurring revenue to the state; and

4 WHEREAS the state must eliminate the fiscal gap; and

5 WHEREAS the state is currently forced to deal with an unpredictable and declining
6 revenue stream; and

7 WHEREAS the state must find a means of stabilizing revenue and expenditures at a
8 sustainable level; and

9 WHEREAS the state's system of budgeting and spending must be analyzed and
10 reevaluated by the legislature; and

11 WHEREAS the citizens of the state should have an opportunity to consider these
12 topics, offer comments, and participate in developing a long-range financial plan for the state;
13 and

14 WHEREAS it would be beneficial to the state and its citizens to implement a long-
15 range financial plan to promote economic stability by diversifying the state's economy and
16 lessening dependence on oil revenue;

1 **BE IT RESOLVED** that the Alaska State Legislature establishes the Long Range
2 Financial Planning Commission in order to develop and recommend to the governor and the
3 legislature a long-range financial plan for the state; and be it

4 **FURTHER RESOLVED** that the commission shall consist of the following voting
5 members:

6 (1) nine members of the public, not to include members of the legislative,
7 executive, or judicial branches; the Speaker of the House of Representatives, the President of
8 the Senate, and the Governor shall each appoint three of these members;

9 (2) two members of the House of Representatives appointed by the Speaker
10 of the House; one member shall be a member of the majority and one a member of the
11 minority;

12 (3) two members of the Senate appointed by the President of the Senate; one
13 member shall be a member of the majority and one a member of the minority; and

14 (4) two members of the executive branch appointed by the Governor; and be
15 it

16 **FURTHER RESOLVED** that the commission shall select a chair and vice-chair from
17 among the public members of the commission, shall meet as frequently as the commission
18 determines necessary to perform its work, may meet during the interim, and may meet and
19 vote by teleconference; and be it

20 **FURTHER RESOLVED** that the public members of the commission shall serve
21 without compensation but are entitled to travel expenses and per diem as authorized under
22 AS 39.20.180 for boards and commissions; and be it

23 **FURTHER RESOLVED** that the commission shall

24 (1) review and evaluate state fiscal policy and strategy recommendations and
25 assumptions from reports and publications from similar efforts in the past made by the
26 executive branch, the legislative branch, the University of Alaska, nonprofit organizations, and
27 private individuals and organizations;

28 (2) identify and evaluate all current state income sources and assets, including
29 recurring revenue, reserves, physical resources, and investments;

SCS CSHCE 1(STA) am S

-2-

HCR001D

report due 2 wks prior to meeting
2(a) projections
How treat speculative & (out) Debt Policy Reserve Policy
generally? AM

50-100M litigation against state is. corrections

↑ Settlements \$ paid \$ left to be paid

AHFC Social program vs. capitalization

+ Contingent Speculative &

Some food for thought from Jack Fargnoli of OMB

4/8/95

To date, efforts addressing the fiscal gap problem have focused on asking the question, "How can we solve it?"

It might be more fruitful, however, to ask the question, "Why has it been difficult to solve it?"

Responses to such a question might include:

- It's not because we don't know the nature and size of the fiscal gap.
- It's not because we don't know the nature and size of the tools available for filling the fiscal gap.
- Rather, it's because of dilemmas such as:
 - the "Moving Target" problem - - viz., the fact that the revenue "cliff" is always 4-5 years off in the future, which has made it difficult to develop political will
 - the "Sheriff With One Bullet" problem - - viz., the fact that no one wants to go first, and take the political bullet, on proposing specific budget cuts, taxes, or uses of the Permanent Fund
 - the "Which Tool First" problem - - viz., the question of whether spending cuts must precede the use of taxes or the Permanent Fund, and how much in spending cuts
 - the "Sleeping Giant" problem - - viz., the fact that the public has not to date been truly engaged in the fiscal gap debate (engaged the way a clutch is engaged, i.e., put into play)
 - the "How Much Is Enough?" problem - - viz., the failure to address "needs" in the fiscal debate, and thus falling into a war of words about whether there is too much or too little revenue, or whether too much or too little has been cut from spending
- These are essentially problems of process - - specifically, a problem of impediments in the public decision process.

From this perspective, the relevant question is: How can a governor, a legislature, and a public, deal with problems like these? What options exist?

- This topic - - the impediments facing the public decision process on the fiscal gap issue - - arguably should be a central part of the Commission's agenda.

Interpretation
ideas
ie. legal laundry list of what means
1 (3) identify and prioritize systemic changes to stabilize the state's revenue
2 stream; *ie. census, oil futures selling, food funding, transition #, lease mms, Bureau PE (existing #)*
3 (4) identify and prioritize major reductions in state expenditures, to include
4 formula and nonformula programs, and to include proposed consolidation, transfer, or
5 elimination of governmental services or programs; the reductions identified and prioritized
6 under this paragraph must at least equal the current fiscal gap between recurring revenue and
7 recurring expenditures;

8 *See (5)* evaluate forward funding of the budget;

9 (3) (6) identify and prioritize new sources of revenue; *ie. Municipal Sales Taxes, etc.*

10 (7) project a sustainable long-range financial plan for the next three years, five
11 years, and 10 years, based on a stable revenue stream; *2012 military (no fed participation at all)*

12 *20 identify major factors to be considered* (8) evaluate constitutional, statutory, and regulatory language relating to the
13 budget process and recommend changes; *relates to CBR. Also should be aware of program receipt questions*

14 ** MAINTENANCE ** (9) consider the division of responsibility for providing services and raising
15 revenue between the state and local governments and evaluate the effect of the long-range
16 financial plan on local governments; *service delivery local govt vs. non-profits* *Ask Municipal League for WHITE PAPER*

17 (10) submit a preliminary report to the Governor and the Legislature by
18 July 15, 1995;

19 *McConnell Subcommittee* (11) disseminate information and solicit public comment;

20 (12) submit a final report to the Governor and the Legislature by October 1,
21 1995, recommending a long-range financial plan for the state, including specific actions and
22 legislation needed to implement and monitor the plan; and be it *concepts vs. specific bills*

23 **FURTHER RESOLVED** that the commission is authorized to begin work immediately
24 upon the appointment of its full membership or March 15, 1995, whichever date is earlier, and
25 is terminated upon the convening of the Second Regular Session of the Nineteenth Alaska
26 State Legislature.

- * Look at Federal \$ and potential losses. + unhindered mandates*
2. Growth of Govt, background and how has changed.
3. What defines state spending
ie. dividends etc. as well as general \$
tr
targets, municipalities etc.
Criteria

** OWS has projections of growth and will provide*

④: Areas of exp vs. specific

• ~~BA~~ deferred maintenance will send
facilities

~~lower~~

Investments that will generate
\$ long run.

Administrative

Regulatory

Enterprise

Role of
Debt

Game

⑧ program vs. agency budgeting SKC

revisir Spending limit

Executive Budget act

* incl in packet

revolving loan funds

↓
recommendations for further pursuits
dedicated funds / Crenos plan

Brady

PROPOSED AGENDA

MEETING OF THE ALASKA LONG-RANGE FISCAL PLANNING COMMISSION

April 8, 1995

TODAY'S OBJECTIVES:

- o To organize ourselves and how we will conduct business
- o To make decisions today about the action items below, OR to set up a process for making those decisions
- o For each action that we set up a process for, to decide what is the end-product to be delivered by that process, to identify who is responsible for delivering it, and to set a fixed date when it is to be delivered

- I. Call to Order
- II. Naming of Interim Chair
- III. Approval of Agenda
- IV. New Business — Action Items

A. Procedural Matters

1. Organization of the Commission

- a. The Chair — role; election of permanent chair at 4th regular Commission meeting
- b. How the Commission takes an action — majority vote, ^{simple} super majority, unanimous vote? different levels for dif-ferent types of decision?
- c. Role of Commission members vs. staff
- d. Committees vs. "committee of the whole" — getting work done between Commission meetings
- e. Assistance from state agencies
- f. Assistance from private-sector organizations

*motion, vote by
simple
majority
unanimous
report*

*Loeber
material "quality"
needs lots
Chair, work
staff
Subcommittees
need to break
into
need technical
director*

Nordale (subcommittee)
• Local govt / Education

Parnell

SPC FOR EACH charge
prepare reports to present
to full committee

Schedule

workshop 1-2 days May
meetings
assumptions, etc.
revenue projections

July Report

workplan / tools
tent. rec. > Aug. Sept Roadshow - amend / finalize
list issues / identify choices / options
assumptions working under.

30 years
3 choices
- 10 choices

1. assumptions
2. workplan
3. options
4. public opinion

List (Perrot)

- IBER Reports
- Arkel Summit report
- Commonwealth Summit Summary
- Fiscal Policy Transition
- Labor
- Debt Report
- Cambridge Report
- Census
- Perm Fund Report

Grasuch

- Income tax assumptions & models
- IRS data for income tax modeling
- 40:30:30?
- Johnson Assumptions Rpt

1 pgs
Summary

g. Meeting schedule for full Commission meetings

- private #?
to help start
graphics
communication
↓
identifying needs
work plan
2. Decide what the Commission's finished product will be (see accompanying proposal)
 3. "Ground rules" for economic models (e.g., oil price scenarios, production rates, real dollars vs. nominal (inflated) dollars, etc.)

4. ~~Panel~~ ^{delete} of experts to test the reasonableness of proposed recommendations & the analysis of them "Munder Committee"

5. Identification of tasks & the schedule for their completion

B. Moving Forward on Substantive Matters

1. Establish process to determine the size and nature of the "fiscal gap"
 - a. Review work already done (e.g., ISER studies)
 - b. Examine sensitivities to oil price levels; identify oil price scenarios to be used for analysis of options
 - c. Establish a true base-line forecast of petroleum production and revenue based only on production from investments already made
2. Establish process to review the 5 identified measures Alaska could take to solve the fiscal gap — spending cuts, use of state cash reserves, new economic development, new taxes, use of Permanent Fund income
 - a. How much each option could contribute to a solution, and when
 - b. Sensitivity of each option to the timing and/or sequence when it is taken
 - c. Priorities among options
3. Establish process to examine plans previously proposed for chances of success and possible downside risks
 - a. Revise existing constitutional spending limit
 - b. Forward funding
 - c. Cremo plan
 - d. Senator Rieger's proposal

Ground Rules

Gorsuch real # (today's #)

Logans

population driven
ie. school ch
not the real #

Oil Price Scenarios

range vs. single point

what size of gaps?

oil exp. per

draw

Gas Pipeline

Im position paper

high, low, mid case scenarios

"Unique events"

Base plan founded upon knowns

built upon w possibilities

#-current taxation changes
change recoverable reserves

Lincoln

also look at fisheries revenue

tourism

Nordale

timber +

mining

2

Commerce

DNE

Lincoln

Regional Corps

Non-profit sector

↓

state & fed

declining

Military - #

Gorsuch

- need to pay attention to
other than funding govt.

i.e. employment, jobs,

economy

understanding of options

+ secondary effects of recommendations

Rogers

Sources other than govt for
information.

Lincoln

Regional corporations

Village corporations

Best
10am - trail
@ Fiddlehead

Logsdon
Reserves
Prices
etc.

- e. 40:30:30 plan of the late 1980s
 - e. Statutory plans
- 4. Establish process to communicate Commission's preliminary findings and actions to the public and to receive public comment back before taking final action
- C. Public Comments
- D. Other New Business
- V. Review of Decisions Taken & Assignments Made during Today's Meeting
- VI. Adjournment

SCOMM

101:2

**STATE OF ALASKA
LONG RANGE FINANCIAL PLANNING COMMISSION**

716 West Fourth Avenue, Anchorage, Alaska 99501

Phone: (907)258-8165, Fax (907)258-9869

Internet: LRFPC%legis@state.ak.us

Staff: Melissa Aber Fouse

SUMMARY

MEETING OF 19 & 20 MAY 1995

May 19th, 1995

The meeting was called to order by Chair Brian Rogers at 9:30 am. The first agenda item was review of the updated Hickel Summit report (the Workbook). OMB Staff Brad Pierce summarized the information in the Workbook. There was discussion about which revenue forecast the commission chose to use as its base case and how accurate the different revenue projections have been historically. It was noted that most projections are focused on a 10 year horizon and that a 20 year projection was probably too inaccurate to be of much use.

Further discussion centered around the need to build in growth to any formula spending and the need for the base case assumptions to show all revenues including permanent fund earnings and all expenditures including the permanent fund dividend and inflation-proofing so they are ~~not-un~~accounted for revenues and expenditures in total state spending.

It was agreed that the base case should include a list of assumptions and definitions and that the education funding assumption should include inflation. There are concerns as well that federal funding assumptions may change for budgeting purposes. OMB staff is watching the federal funding situation closely although there will not be much definitive information until October when the federal fiscal year changes.

It was also agreed that the base case must include a formula for the costs of bringing deferred maintenance requirements current and funding maintenance costs for state facilities ~~annually~~ annually. OMB is working on a list of deferred and current maintenance projects, a

process to identify such projects and a formula to be included in the operating budget of the state. OMB Director Annalee McConnell will report to the Commission when that project is finished.

CAPITAL — Other items discussed as belonging in the base case were ~~the~~ budget reserve fund as a financial cushion ^{and} a \$125 million floor for state spending incorporating the following elements: Schools @ \$25 million, safe water @\$40 million, federal match @ \$25 million and the balance in municipal grants. There was discussion about bonding for capital spending.

There was further discussion about base case assumptions and the need to look at the numbers of state employees as well as to consider differing local government capacity and how to create ^{ies} incentives for local contribution and shared responsibilities. If local economies are boosted, it could reduce the state's obligation.

It was noted that there are additional costs that accompany enhanced revenue. Some enhanced revenue and economic development growth, such as tourism, ~~perhaps~~ ^{ies} should be included in base case as well as ^a look at additional other revenue such as ~~as that~~ ^{ies} from mining and income taxes.

Roger Marks representing the Department of Revenue discussed state revenue projections, the assumptions made in those projections, and current major policy issues that may have some impact on state revenue. Among those issues are the lifting of the export ban, opening of the ANWR, and construction of the gas pipeline.

The department feels that it is likely the lifting of the export ban will be accomplished by the end of this calendar year. It is expected that will increase revenue to the state by approximately \$100 million in the first full year. The opening of the ANWR to oil exploration is not figured into current revenue projections. Building of a gas pipeline is not factored in to current revenue projections. There is currently a dispute, soon to be settled, about the use of natural gas from the North Slope and the issue of sale vs. miscible injections. The commission decided to invite a representative from Yukon Pacific Corporation to the June meeting to discuss this issue,

the status of the gas pipeline, and any potential for in-state distribution of natural gas.

The DoR base case includes the oil fields Cascade, North Star, and West Sac. The commission asked OMB staff to meet with DoR, DNR staff to explore potential fields for inclusion as well.

^{OTHER}
Byron Mallott, Executive Director of the Alaska Permanent Fund Corporation gave an informal presentation on the status of the Permanent Fund. He said that one-third of the corpus of the fund was from direct appropriations and that the permanent fund dividend is embedded in the Alaska economy. There was discussion about the permanent fund dividend and the historical view of the role of the permanent fund.

There was discussion about a long range spending plan. Some of the goals for the plan include:

- a strategy for dealing with uncertainty
- a strategy for impacts on local governments
- define the problem
- define the base case
- look at the permanent fund and its role
- look at other revenue
- define and project revenue from taxes
- define a worst case scenario
- define basic services of government
- define what the public is willing to pay for
- develop public confidence
- define some major policies & legislation that drive costs

identifying
Saturday, 20 May 1995

The public outreach subcommittee gave its report (see summary) and there was discussion about the methods of reaching the public. There was discussion about the pros and cons of polling. There was consensus that the commission will, at a minimum, produce a newspaper insert from the July 15th report discussing the size of the gap, tools to deal with the gap, and ^{include} a tear out survey response as a part of the mailer.

In addition, commissioners will attend municipal assembly meetings. Discussion about public outreach and participation will be continued at the next meeting. Discussion about the use of focus groups was held to another meeting as well.

The expenditures subcommittee gave its report (see summary). There was discussion about how to fill the fiscal gap using only reductions in expenditures. It was suggested that the commission agree on a set of principles, plug in the numbers and see if ~~it gets to~~ \$500 million. *Reduce the budget by*

It was unanimously decided that the permanent fund dividend is to be included in the base case as an expenditure. OMB was directed to make up a worksheet that includes all components of spending, send it to all the members to do draft scenarios, then combine ~~them~~ ^{the responses} into 3 or 4 different scenarios to see where there may be ~~some~~ consensus.

Eric Wohlforth testified about the importance of a long range plan and having mechanisms in place for both the sale of statewide G.O. Bonds and for taking funds from the collateral agencies such as AHFC. He pointed out that the State of Alaska has \$6.1 billion dollars of debt of which the municipalities have \$2.3 billion dollars worth of debt outstanding. A normal debt ratio is from three to five percent of unrestricted revenue. Mr. Wohlforth also testified that the state's accounting system needs review and that there needs to be a management and budget efficiency review.

He said that the Permanent Fund trustees hope to work closely with the Long Range Financial Planning Commission.

Mr. Wohlforth was asked why the state should bond for capital improvements when it could pay cash. He replied that the state was actually using reserves for its capital budget.

Mr. Wohlforth was also asked how the Permanent Fund was regarded by the bonding agencies as a backup for debt. He said that it was considered, but not directly counted.

Arliss Sturgulewski testified on behalf of the Alaska Lung Association. The Lung Association believes that any revenue enhancing plan should include an increase in the excise tax on tobacco products ^{that increase should be up} to \$1.00 a package on cigarettes and a comparable amount on smokeless tobacco. She cited a report that shows an increase in the cost of tobacco through raising taxes cuts consumption.

Brian Rogers appointed subcommittee chairs and members. There was discussion about the roles of the subcommittees (see list, attached).

There was discussion about the interim report and the final report and what each report should contain.

19 May 1995

* Navane Report

Left in + out to update

diff. among states

WORTHWHILE PRODUCT
• growing as other states

BL. Big diff - pct. rev. taxation

MN Local govt relationships different

New tax base flawed

Brad Workbook:

Production drives fiscal gap.

WLC
wed
8/30

disc.
the
forecasts
choose

MC: Choose base case, pessimistic case, optimistic case

HM: production relies on price
what is source of info
DNR, DoL, CERA - big differences

JB figures given to state are the same as those given to S&P, Moody's bond Counsel etc.

* projection of projected B. actuals historically
_{rev. projections}

MIKEN important to build in growth to formula.

MIN Recommend look skeptically @ Cambridge

MOC.

BR Focused on 10 yr horizon / 20 yrs too long / inaccurate

BP FY96 = 16.52 bbl / spot Mkt \$18.77 May 96

* BASECASE SHOW ^{all} revs of perm. fund earnings
 " exp PFD, inflation, nothing, etc. } * TABLE 2

so as not to be "off book"

* Needs to look at balance of perm fund and real earnings, if perm fund infl. etc.

MOC * Are projections accurate based on 10 yr history of price of oil? *

? Medicaid ^Q population only or provider/svc?
 also inflation

Bobl. ★ List of assumptions + definitions (Table 2)

- Education needs to include inflation

BL:

Nordale: Fed \$?

BP 95 recession: indian housing / youth / neg.
96 budget: (ocr)
block grants:

★ deferred maint -

show current maint as well as deferred
maint along w/ capital spending ★

DR KAISER'S
FORMULA?

BL 40 Million per year to fix deferred maint?
include in base case 10yr elimination

★ Loescher/Rogers want to see snapshot
of building maint needs ★

McConnell working on
list

process to identify
formula in op. bud

Come back to report

BL what else in "Baseline" ^{trad}

LG need \$ cushion ie. budget reserves

Federal dollars driving state exp. on CAPITAL \$.

also
Code Compliance adds 40 CAPITAL COSTS

BP \$125M Floor for CAPITAL \$

SCH 25

SALEW 40

Fed ~~25~~ 25

Municipal

BL ^{Support} GO. Bonds for capital spending

Needle bonding dangerous / ^{greater} rural urban disparity makes
bond issues ^{more} icky. Makes sense to
limit bonding to saleable items

Golsueff Legislature / Assy unreq bond could bond.

" ~~Need~~ Economic projections on AK Economy as a whole ~~AK~~

BR ★ #ST-EMPLOYERS 1969-1979. May look more like post-oil recession.

compare w OTHER STATES.

Nature ★ report re: st. emp needs to be updated ★

Gorsuch: differing local govt capacities
how create incentives for local controls/shared responsibility.

MoC Efficiency counts too.

Lincoln definitions of demographics
ie. rural family

Brady: Need to take new look at state
intems of assumptions re: income + area

Lincoln yes, need to have that info.

BL ^{pg 33 & 34} re: ec. dev. as revenue generating tool.

BP update fm Hinkel summit

BL some are close to bankable, ie. tourism
& 6% annual visitor growth, should be

6
factored into base case, also added in base case?

Mining?

look at additional revenues in terms of base case

Nature also additional costs go along w enhanced revenue

Noedale if local economy boosted then could reduce states obligation

Gorsuch also income tax.

JB shared taxes need to look at

* table of shared taxes. ~~done~~

Should we show in our base case both revenue & exp. side

BP What do you want

JB what do we do to tax + raise \$, then what do we do with it.

BR where tax levy $\rightarrow$ directly related to an expenditure / levy severable from expenditure.

BR Take action on deposit to PFCO from EEA
 Beady has concerns about second guessing
 legislature

Roger

Marks: Revenue Projections:

Export Ban
 Anwe
 Gas Pipeline
 Differing Revenue Forecasts

Roger Anwe:

Marks Uncertainty

JB Acknowledge but do not factor in.

Roger

Marks

Gas Pipeline

Case in dispute about use of oil

Report from Producer in about weeks
 re: willingness to sell gas

~~Are you leaving today & lunch?~~

Loeschel: need also to look at undervalued assets of the state also.

Comer ^{*} Need Yukon Pacific Rep to discuss gas pipeline. + June report ^{MI} ~~REPT~~ ^{VS. SELLING}
 May need date: potential for in-state distribution (take off)

Annake } Perhaps lay out ground rules for
 McConnell } facing better or worse times.

Roger Maers: Lifting of
ANS Export Ban
 Prob strip before end of yr.
 Probably need to add \$204 FY96 proj
 to the estimate of EOM benefit to
 state from lifting ban.

Forecasts:

Annake Can talk to DoR, DNR to look at future probabilities in terms of revenue projections. Also admin will be using some multi ~~month~~ year budgeting

Grobsuch Probability?

Basecase

Cascade, North Star, West Sac now in base case projection

Prady
Nauru

Relief Valves

Specimen: }
Bedani }
Bau/ut }
Chille Delta }

Loechee

"Marginal field strategy"

O'Connor

Historical production forecasts DNE/DOR

TOBLAD get together w DNE, DOR look at potentials as well as \$.

Byron
Mallott

Permanent Fund

Mental Health land dev.
University Lands

WILL BE DOING CONTRACT
w PERM F

Liquidity vs. assets under mgmt.
i.e. dividends have first call on cash.

Fund driven by dividends, then by inflation-proofing. Leads to short term consideration very little policy re: how should grow & be used for long term.

Noedale

income picture if dividend fund fixed is entire fund inflation proofed (ie also reserve acct)

1/3rd perm fund is fm direct approp.

higher risk investment policy
in STATE investment policy

investment grade paper here
"open for business"

Mallott

PRD "embedded" in Alaska's economy.

Capping dividends makes big difference
in when PF can start to grow.

leveraging i.e. drift investment decisions
made outside of AK's
interests, but PF could
perhaps help get access
through investment or
information

AK's TELECOMMUNI-
cation's FUTURE.

"institutional activism"
i.e. ^{use of} voting stock.

Thinks some of these ideas should come
from somewhere else, not Trustees. Not
RECOMMENDING ANYTHING!

Doing policy review to look at triggers
to .

JB * Get list of proposals for use of perm
fund and what they are supposed to do.
~~There's new coffee and many sleepy~~
~~faces. Probably need a short break.~~

Nordale: Income sales create surge in dividends call, rather than increase amount of corpus.

Cap dividend amount
vs. Cap dividend pool

Goesuch create mechanisms to eliminate dividend and use PF to fund gov

BR is it fair to take income equally from everyone.

Nordale write letter re: questions/scenarios
* ~~write~~ letter to PFD
* Killip's PFD scenario letter.

Goesuch head off info to public
BR 1977 papers re: role of PF

Nature scope of problem needs to be laid out for

Sen. L. Dividends #1 in Rural Alaska.

* HB407/15th LEGISLATURE - COWPER
ED ENDOWMENT GET COPY *

JD Need to do poll.

Plan

Nordale: Plan should be goal oriented

Sen. Link Plan needs to address "3 family needs"

Brady How would we do that.

Ch.

Nawane Appropriation power of Legislature used to allocate Legislature

Annalee ? GOAL STRATEGY FOR DEALING W UNCERTAINTY

Blud " IMPACTS ON LOCAL GOVTS

LOESCHER " DEFINE PROBLEM
 " " BASE CASE
 " LOOK AT PF AND ITS ROLE
 " OTHER REVENUE
 " DEFINE AND PROJECT TAXES

BRADY " FAIL SAFE TRIGGER (WHAT DOES REAL
 BAD
 MEAN)
 DEFINE WORST CASE SCENARIO

GOALS

H.Mot

DEFINE BASIC SVCS. OF GOVT / LEAST TO
GET BY.

Noedake

LOOK AT SERVICES PROVIDED

Ludwig

DEFINE WHAT WE'RE WILLING TO PAY FOR.

Goeswert

Need to be more positive about looking
to the future.

McConnell GOAL

DEVELOP PUBLIC CONFIDENCE

we are making progress, NOT STANDING
STILL, BUDGET REDUCED SUBSTANTIALLY.

Sen. Lincoln

- rural/rust - not substantially better
than 1970.
- Also technology and legislation
driving budgets.
- Subsistence equivalents in dollars.
if no subsistence, dependent upon
wellfare & more.
- political arena.

BR

- Criminal code penalty increased
driving cost of courts and collections

Gorsuch Need to avoid micro mgmt: sentencing
length vs. Swiftiness

* local share check justice dept guidelines *

B³⁰

PLZ ANNOUNCE THAT MATERIALS CAN BE
LEFT HERE.

Saturday

Public OUTREACH & report
discussion re:
methods of reaching public

Brady ^{polling}
~~defini~~ by region use up to 100

Goesueh Commission charged with coming up w a plan
not poll results

Noedale Has polls she will share, public wants a
plan

Lincoln Change in resolution clear/disseminate
report + solicit public comment

Loeschee look at change in phases

- current phase need info to do job
- build record
- solicit written testimony through newspaper ads
- need expert input prepare list of specific questions
- budget writers

- Loescher
- public relations is a very dangerous business
 - credibility on the line
 - need strategic plan use tools ie. polling to backup report
 - professionally handled

Annalee Between now & Oct consider public info phase. Try to change public perceptions and show there really is a fix/goal.

Bradley ~~old~~ Goesuch way

- means won't be saleable afterwards

Motley

- doesn't think we should be out trying to sell stuff

Rogers

- optimize right along with saleability

Motley Problem won't be solved before the last reserve is spent.

Ludwig Agree w/ Goesuch. Polling would be nice, but our job is to come to a conclusion with facts and then present plan to public

Gorsuch We are a good cross section
Public likes longer view.

Nordak Look at requirements of constitution
FEDS
use that as base case
need only to SET OUT FACTS

Rogers Constitution not clear as to appropriate level

Nordak Making changes to current levels of funding
political decisions

Brady Subcommittee

Morley Lay out facts DOR

Progers

- Newspaper insert
- July 15 report
- Size of Gap, tools to deal w gap w
- TEAR OUT RESPONSE

Beune

- send out commission schedule
- talk shows
- City ^{meet w} councils / borough assemblies

Annalee Likes going to assy mtgs

Goesuch: ~~3~~ focus groups
 • would give substantive feedback
 ★ Hold for another meeting

★ s/c Pub Outreach
 How to do response and get input
 ★ methods/plan/cost
 ★ ~~STAFF WORK UP~~
~~DETAILED BUDGET~~

Brady Exp. s/c
 gave report as written

McConnel How detailed?

Brady See if agreement on principles
 series and then get agreement on
 plug in numbers
 see if it gets to \$50.0

★ GET minutes fm public hearings
 HCR1

300,000
 4pg tabloid printing = \$10,000

Rogers Unanimous that PFD is on the table ~~★~~
 as an expenditure

Panichot Jim Kelly letter see chore list

McConnell Come up w 1/2 doz different alternatives
 for getting to the fiscal gap

Motley Orig purpose of permfund

Riecher Research history of permanent fund

Loeschel.

Rogers UNLESS fairly explicit about cuts
 not real. Likes 4 plan ideas
 ★ WORKSHEET, incl all components of
 GF spending, then send out to all
 members to do draft scenario, then
 combine into 3 or 4 scenarios
 by major service components

Goesuch Proceed individually, then approach as a
 group

Motley don't stay too theoretical. Examples
 need facts to back them up.

Ludwig Family budget analogy. Boil down numbers

Prady develop/death
Worksheet for Commission to fill gaps
+ principles to cuts
→ contribution of cuts to filling gaps.

Rogers turn over to sk?

Rieger

Goals of Financial Plan

ERIC WEILFORTH "MECHANISMS"

GO. Bonds

AHFC ON CREDIT WATCH

STP:

- CASH CAPITAL PROJECTS DIFFICULT
- 6.1 billion debt
- 2.3 " " municipalities
- ALASKA PUBLIC DEBT check this

PEER FUND TRUSTEES HOPE TO WORK CLOSELY

- STATE'S ACCOUNTING SYSTEM needs to be looked at. i.e. annual report late
- MGMT + budget/efficiency review

Pancho: Capital budget GF 108.
Base case capital component needs to
inflate

Ludwig: ~~What if~~ Why Bond when pay cash?

Elic: using RESERVES, actually
should plan for realistic capital
spending for long term using GO bonds

Riever: PF as endowment - more aggressive?
for op. bud.

Groesbeck: How is PF regarded as backup for debt?

Worff: looked at and counted, but not directly
counted.

Loescher: What debt %? of unrestricted revenues

EW: 3-5%, per capita debt

Nordale: count revenue of AFFL etc if count
as part of debt.

Stungilewski

Lung Asso -

- include inc. in excise tax on tobacco producers
- \$1 pk on cigs, comp. on smokeless tobacco
- 93 report shows intervention by raising taxes cuts consumption.

\$ Revenue \$

Rizzo

Report

Concern about non-users vs. CF

- Revise or repeal Const Budget Reserve
- works at cross purposes
- State's retirement systems $\rightarrow$ entitlement unfunded retirement liability

Goesuch

Interim Report

restate Charge

goal

process

i.e. meetings, work schedule

draft final report outline

- problem
- progress
- Challenge
- goals
- Considerations
- recs.

ROGERS
problem +
scenarios -

gap
tools
work schedule

Nordale: if refer to CBE, 2/3rds vote more accessible

Nature: 2/3rds would make it worse.

McConnel listing of areas of concern
"perception of expenditures" ^{IE} trends

Riecher: Mechanisms re: budgeting process should be in list

~~Noted~~ Style + Drafting
 Rough draft by 1 June / Subcommittee
 Mary
 Annaker
 Bruce
 Bruce
 Lee
 Hugh
 rough draft interim report
 Skeleton Outline
 final report

Goesman "Expectations Gap"

Nordale need to be very specific about why there is a gap

Loebchel Billion \$ approp to fund
DRAFT REPORT
 Prior to June 10 mtg.

McConnell "Progress Report":
 Brady "Interim Report":

TOOLS AND MECHANISMS

Brady look at other subcommittees
 Lunch

Rogers: revenue sources subcommittee + pumpfund
 Nordale ec. dev
 Pouchot taxation
 Navane
 Lee

invite Condor
 to participate

Budget Process + Reserves

McConnell

Brady

Steve ~~Reinhold~~ Rieker

Sean Parnell

HUGH

Mike

Impacts to be part of each committee's
 charge

mechanisms
 Reserves

Expenditures sh^d should look at
"investments"

Pr

Inter Gov Comm

Bob Loescher Parnell
Lincoln
Ludwig
Brady
Westfall

McConnell Reserves Policy? } See budget process sh^d
Rogers }

Rieger Subjective judgment should be made
relative to other programs, rather than
examined by itself

Navarre Tools should be useful no matter what
the size of the gap.

Goesuech Need to project costs based on historical
figures

Brady
Navarre Build model re: gap that can all
agree on and easy to explain
and in real terms.

Rogers Model needs

Prady needs work session to agree on base case and get some "buyoff" from legislature

Nauane Need public buyoff too

Pancho Don't want to make too big a thing of it.

Nauane Outgoing projections:
E. Fdn formula now = base case

McCombe Base case not limited by statutory limitations

Prady First need to ensure that legislature and gov agree. Need to have work session & leadership to buy off

Ludwig DOES NOT AGREE THAT EDUCATION SHOULD reflect education
· education of public part of change

Gorsuch doesn't think can get buyin from legislators

Lincoln don't need other groups, commission should decide and then defend

Navane Need consensus report for most credibility

Schedule Disc.

Gorsuch work on recommendations
 Sugig: draft interim report
 gap / base case

Couple hours

1. s/c reports
4. panel
2. base case
3. recs./tools

Expenditure
 committee
 to look
 at concept

Subcommittees of One:

Gorsuch - recs. Budget. "in their backyard"

ed.

Lincoln

"

rural sk

Ludwig

"

public employees

Hotley

"

increase oil revenue

Judy

"

municipalities

Nordale

"

Law

Rogers: reduce panel time, but do need
minutes

Goesuch: Sp direct Q's to panels rather than
open-ended discussion.

Nordale: draft up Qs or scenarios ie. PF, what ^{effect} would
and a particular action have?

Rieger: SB51 backup may help.

Nordale: tradeoffs - PF revenue / income tax
phase in revenue potentials.

Rogers: Alc integ liaise w school bds & fan task force
- Rec. min group to full commission

27 July mrg: afternoon + evening

1. Report publish approve
 2. Scheduling Sept testimony
 3. Pub. pair
- evening videos?

Nauane: Polling
• identify costs
•
- delegate to subcommittee

~~Abel~~ A.

Loeschel: Need draft outline of final report
skeleton draft, identify holes in report
find permanent professional writer
would like to see by 11, 12 Aug.

Rogers by end of June produced by the time
the interim report is completed. Could
help

talk to Gordon Harrison about help w/
report draft.

PROS

DEPTO
PERM FUND

CONS

Takes \$ off table

Eliminate $\frac{3}{4}$ vote

WOHLFORTH, ARGETSINGER, JOHNSON & BRECHT

A PROFESSIONAL CORPORATION

ATTORNEYS AT LAW

900 WEST 5TH AVENUE, SUITE 600

ANCHORAGE, ALASKA 99501-2048

PETER ARGETSINGER
JULIUS J. BRECHT
CYNTHIA L. CARTLEDGE
CAROL L. GILES
ROBERT M. JOHNSON
THOMAS F. KLINKNER
BRADLEY E. MEYER
JAMES A. SARAFIN
KENNETH E. VASSAR
ERIC E. WOHLFORTH

TELEPHONE
(907) 276-6401

TELECOPY
(907) 276-5093

May 12, 1995

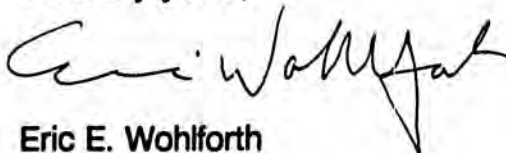
Brian Rogers, Chairman
Long Range Financial Planning Commission
c/o Melissa Fouse
716 W. 4th Avenue, Suite 300
Anchorage, Alaska 99501-2133

Dear Chairman:

This is to indicate that I would like an opportunity to address the Commission on the subject of my earlier letter at its meeting May 19, 1995, at whatever time is appropriate for public participation. I would like as well to be put on the mailing list for minutes of Commission meetings. In this regard, I note that the Commission at its last meeting established a Public Information and Comments Subcommittee and charged it with developing a plan for public involvement. I would like to know the details of your decisions on public involvement through advice from the subcommittee when it is available. My major interests are the capital expenditure field and capital borrowing. In addition, I am willing to assist in research on ways to upgrade the State's financial reporting systems to get more timely and coherent financial information out to the general public and the investing public. A major area for improvement in handling State money is in the area of management efficiency. The last major State effort in this regard was completed 19 years ago in May 1976. State government is long overdue another intensive management review in the style provided 19 years ago. Shelby Stasney is eloquent on the need for a major upgrade in the State's Accounting system. I hope you can co-opt his help in the process.

I stand ready to help as you see fit.

Sincerely yours,



Eric E. Wohlforth

Brian: 456-2531
called Eric. He will
come + testify on Sat.
Also he sent over new
SP article I will
DISTRIBUTE @ Meeting.

MANAGEMENT EFFICIENCY
IS A NEW TOPIC! BUT A
GOOD ONE.

MAF

WOHLFORTH, ARGETSINGER, JOHNSON & BRECHT

A PROFESSIONAL CORPORATION

ATTORNEYS AT LAW

900 WEST 5TH AVENUE, SUITE 600
ANCHORAGE, ALASKA 99501-2048

PETER ARGETSINGER
JULIUS J. BRECHT
CYNTHIA L. CARTLEDGE
CAROL L. GILES
ROBERT M. JOHNSON
THOMAS F. KLINKNER
BRADLEY E. MEYER
JAMES A. SARAFIN
KENNETH E. VASSAR
ERIC E. WOHLFORTH

TELEPHONE
(907) 276-6401
TELECOPY
(907) 276-8093

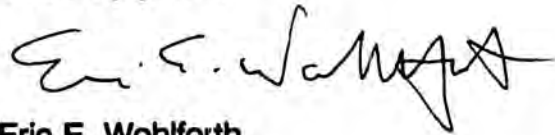
April 28, 1995

Brian Rogers
Long Range Financial Planning Commission
c/o Melissa Fouse
716 W. 4th Avenue, Suite 300
Anchorage, Alaska 99501-2133

Dear Brian:

I enclose two recent statements from Standard & Poor's commenting on the Alaska Housing Finance Corporation. You will note the importance they place on the Long Range Financial Planning Commission in revising their AHFC Credit Watch outlook from negative to developing and how important the Commission's work will be in the final rating of bonds of the Corporation.

Sincerely yours,



Eric E. Wohlforth

cc: Dan Fauske, CEO-AHFC
Mark Cameron, CFO-AHFC

ID: P24

TIK:

HEADLINE: Alaska Housing Finance Rtgs on S&PWatch Developing

NY - S&P CreditWire 4/19/95 - The G.O. and Eurocommercial paper ratings of Alaska Housing Finance Corp. (AHFC) remain on CreditWatch, where they were placed Feb. 23, 1995 (see table below). However, the CreditWatch implications are revised to "developing" from negative. Developing means the ratings could be raised or lowered, depending upon future occurrences.

The revised implications reflect legislation proposed by Gov. Tony Knowles that includes a State Transfer Plan, which fixes AHFC payments of \$270 million to the state over a five-year period. The revision also reflects an effort by the state to establish a Long-Term Financial Plan in order to ensure the future financial stability of the state through the creation of a Long-Range Financial Planning Commission.

AHFC was placed on CreditWatch with negative implications because of uncertainty over the scope and magnitude of future corporate asset transfers to the state's general fund. The Alaska Division of Legislative Audit released a report on Feb. 9, 1995 identifying \$445 million of AHFC assets that could be withdrawn over the next two fiscal years for state use. This report was the second by the auditors, the first report resulted in a \$200 million incremental transfer of AHFC assets under a board of directors-approved State Payment Plan and, S&P's revision on May 2, 1994 of AHFC's rating outlook to negative from stable.

The governor's proposed legislation holds promise for AHFC's future financial stability and if passed by the Alaska State Legislature in (the) form presented to S&P, AHFC's G.O. and eurocommercial paper ratings will be removed from CreditWatch and the outlook will be revised to stable. If the legislation does not pass, AHFC's ratings will remain on CreditWatch, pending further review.

Specifically, the legislation authorizes enactment of a State Transfer Plan and \$30 million of AHFC G.O. bonds to pay for deferred housing maintenance at University of Alaska campuses. The State Transfer Plan is similar to the State Dividend Plan, which currently is being phased out. This plan resulted in a total earnings distribution of \$114 million to the state. The State Dividend Plan permitted a distribution of the lesser of 50% of AHFC's unrestricted net income, or 50% of AHFC's total net income. Payments to the state under the new State Transfer Plan are capped at \$270 million, payable in four \$50 million installments following the initial transfer of \$70 million in fiscal 1996. Payments in any given fiscal year cannot exceed AHFC's net income as reflected in its audited financial statements for the immediately preceding fiscal year. Therefore, maximum payments for each year under the new plan can only be funded from AHFC's earnings, projected to be in excess of \$100 million for fiscal year 1995. In down years, such as during the 1986-1989 recession in Alaska when AHFC posted losses of close to \$124 million, payments to the state may not occur - AHFC's \$1.4 billion asset base will be substantially protected for bondholder security.

Another promising development is the legislature's creation on Feb. 10, 1995 of a bipartisan Long-Range Financial Planning Commission. The commission will propose new capital planning procedures and look for ways to promote economic stability by diversifying the state's economy and lessening dependence on the oil industry. The proposals could ultimately lead to future G.O. debt issuance by the state as declining and volatile oil revenues make it increasingly difficult for the state to continue its practice of funding capital projects on a pay-as-you-go basis.

S&P continues to have some concerns about outright AHFC asset transfers to the state beyond the five-year State Transfer Plan, since AHFC payments represented 10% of the state's unrestricted revenue, the second-largest item overall in fiscal 1995. Moreover, since G.O. debt issuances require voter approval, AHFC's asset base could be a politically more attractive alternative to remedy budget shortfalls resulting from lower-than-forecasted oil revenues.

Despite these concerns, S&P expects that the commission will propose alternatives for the legislature to develop more stable revenue and expenditure budgeting procedures. It is also expected that AHFC's management will successfully collaborate with Gov. Knowles' administration and the legislature over the next five years to devise longer-term and more predictable solutions to resource allocations involving AHFC. A ratings downgrade could occur if agreements that ensure bondholder protection at AHFC's current rating level cannot be reached over the next several years. S&P will continue to monitor the legislation and the commission's findings, due July 15, 1995, for potential effects on AHFC's credit quality, S&P said. --CreditWire

AHFC Ratings Still on CreditWatch; Implications Revised to Developing
Rating

\$389.95 mil. ins. mtg. prog. bnds. ser. 1977-1, 1977-2	
1977-3, 1978-1, 1990-1, 1993-1	A+
\$46.085 mil. hsg. dev. bnds. ser. 1991A, 1992A, 1993A-E	A+
\$219.3 mil. gen. hsg. purpose bnds. ser. 1992-A, 1994A	A+
\$300 mil. gen. mtg. rev. bnds. ser. 1991 A, 1991C	A+/A1+
\$32.635 mil. gen. mtg. rev. bnds. ser. 1991B	A+
\$150 mil. eurocommercial paper prog.	A-1

Contact: Peter L. Block (212)208-1869,
Michael Forrester (212)208-1763.

Note: The above was retyped by AHFC to improve legibility from a facsimile received directly from S&P.

ALASKA HOUSING FINANCE CORP.

S&P Contacts: Peter L. Block (212) 208-1869, Michael Forrester (212) 208-1763

UPDATE: DEVELOPING

\$389.95 mil. ins. mtg. prog. bnds. ser. 1977-1, 1977-2, 1977-3, 1978-1, 1990-1, and 1993-1 A+

\$48.085 mil. hsg. dev. bnds. ser. 1991A, 1992A, and 1993A-E A+

\$219.3 mil. gen. hsg. purpose bnds. ser. 1992A and 1994A A+

\$300 mil. gen. mtg. rev. bnds. ser. 1991A and 1991C A+/A-1+

\$32.835 mil. gen. mtg. rev. bnds. ser. 1991B A+

\$150 mil. Euro CP prog. A-1

LONG SHORT



The G.O. and Eurocommercial paper ratings of Alaska Housing Finance Corp. (AHFC) remain on CreditWatch, where they were placed Feb. 23, 1995. However, the CreditWatch implications are revised to "developing" from negative. Developing means that the ratings could be raised or lowered, depending on future occurrences.

The revised implications reflect legislation proposed by Gov. Tony Knowles that includes a State Transfer Plan, which fixes AHFC payments of \$270 million to the state over a five-year period. The revision also reflects an effort by the state to establish long-term solutions to ensure the future financial stability of the state through the creation of a Long-Range Financial Planning Commission.

The governor's proposed legislation holds promise for AHFC's future financial stability and, if passed by the Alaska State Legislature in form presented to S&P, AHFC's G.O. and Eurocommercial paper ratings will be removed from CreditWatch and the outlook will be re-

vised to stable. If the legislation does not pass, AHFC's ratings will remain on CreditWatch, pending further review.

CREDITWATCH

REMOVALS

ISSUER

RATING ACTION

Chewchilla (Calif.) Unified High School District

Affirm 'BBB' certificates of participation and 'SP-1+' TRANS.

Credit Suisse LOC-backed issues

Lower ratings on 49 issues.

Swiss Bank Corp. LOC-backed issues

Lower ratings on 46 issues.

CREDIT SUISSE LOC-BACKED ISSUES *

S&P Contact: Bradley T. Browne (212) 208-1388

DOWNGRADED *

LOC-backed issues (see list)

Rated debt \$935.8 mil.

The ratings on 47 Credit Suisse LOC-backed issues are lowered and removed from CreditWatch, where they were placed March 13, 1995. This action follows the lowering of the CD ratings of Credit Suisse to 'AA+' from 'AAA' and the subsequent removal from CreditWatch.

LONG TERM



Credit Suisse LOC-backed issues lowered and removed from CreditWatch

Issuer

Arkansas Hospital Equipment Finance Authority fltg. rt. weekly dem. hosp. equip. rev. bnds. ser. 1985

Auburn Industrial Development Agency, AL, 1992 ind. dev. rev. bnds. (Volpi Manufacturing USA Co. Inc.)

Berkeley County, SC fltg. rt. mon. dem. poll. cti. rev. bnds. ser. 85 (Niobay Chemical Corp.)

Brazley County Industrial Development Authority, TN var. rt. dem. rev. reldg. bnds. ser. 1993C (Olin Corp.)

Brazos River Harbor Navigation District, TX fltg. rt. mon. dem. poll. cti. rev. bnds. ser. 1984 (Badische Corp.)

Cajalero Parish Incorporated Industrial Development Authority, LA var. rt. dem. rev. rldg. bnds. ser. 1993B (Olin Corp.)

California Health Facilities Authority var. rt. dem. rev. bnds. ser. 1985A, B and C (Santa Barbara Cottage Associates)

California Pollution Control Financing Authority var. rt. dem. poll. cti. rev. bnds. ser. 88C (Pacific Gas and Electric Co.)

Chattanooga Industrial Development Authority, TN ind. dev. rev. bnds. (Prime Group Inc.)

Rating	To	From	Amt (mil \$)
AA+/A-1+	AAA/A-1+		31.8
AA+	AAA		1.8
AA+/A-1+	AAA/A-1+		5.0
AA+/A-1+	AAA/A-1+		7.7
AA+/A-1+	AAA/A-1+		5.0
AA+/A-1+	AAA/A-1+		13.4
AA+/A-1+	AAA/A-1+		29.9
AA+/A-1+	AAA/A-1+		200.0
AA+/A-1+	AAA/A-1+		10.0

10 MAY 1995

BRIAN:

GAIL HAS APPROVED THE TRAVEL FOR THE MAY MEETING SO THAT HURDLE IS JUMPED.

FOLLOWING ARE THE DRAFT SCHEDULE AND DRAFT AGENDA. I PLAN TO GET THESE OUT TOMORROW IN THE PACKET TO BE MAILED SO IF YOU CAN TURN IT AROUND BY NOON THAT WOULD BE A GOOD THING.

HAVE YOU BAGGED THE NOTION OF A RECEPTION SINCE KAKM IS TAPING THAT EVENING?

I AM GETTING ENTHUSIASTIC RESPONSES ABOUT THE NOTION OF A 2015 GROUP, WHAT DO YOU THINK, SHALL I FORGE AHEAD?

MAF

Brian Rogers
456-2531

STATE OF ALASKA
LONG RANGE FINANCIAL PLANNING COMMISSION
716 West Fourth Avenue, Anchorage, Alaska 99501
Phone: (907)258-8170, Fax (907)258-5511
Internet: LRFPC%legis@state.ak.us
Staff: Melissa Aber Fouse

AGENDA
Friday, 19 May 1995

Work Session/Briefings-Anchorage
Legislative Information Office
716 West Fourth Avenue, Room 220

- 9:00am-10:30am Review of Hickel summit update (workbook)
Tools, Base Case, Budgetary Issues
- 10:30am-Noon Review of Other Materials Mailed to Members
Questions & Answers
- Noon-1:00pm Lunch Brought In
- 1:00pm-2:00pm Revenue Projections:
How Big is the Gap
Potential Settlement Funds
- 2:00pm-3:30pm Cambridge Energy Report
Legislative Finance Projections
- 3:30pm-5:00pm Spending Overview
- 6:30 pm KAKM taping of program on fiscal gap (tentative)
Commissioners may wish to attend

**STATE OF ALASKA
LONG RANGE FINANCIAL PLANNING COMMISSION**

716 West Fourth Avenue, Anchorage, Alaska 99501

Phone: (907)258-8170, Fax (907)258-5511

Internet: LRFPC%legis@state.ak.us

Staff: Melissa Aber Fouse

AGENDA

Saturday, 20 May 1995

**Regular Commission Meeting-Anchorage
Legislative Information Office
716 West Fourth Avenue, Room 220**

**Saturday
8:00 am-
4:30pm**

- 1. Subcommittee Reports:**
 - a. Public Outreach**
 - b. Budget Expenditures**
- 2. Review & Finalize Schedule & Work Plan**
- 3. Public Testimony (11:00 am - 12 Noon)**
- 4. General Discussion**
- 5. Discussion of Interim Report**
- 6. Identify Additional Subcommittees**
- 7. Set Subcommittee Schedule**
- 8. Additional Public Testimony as time allows**

To leave a message for a member, you may call 258-8174

AGENDA
LONG RANGE FINANCIAL PLANNING COMMISSION
 Friday, 19 May 1995

Work Session/Briefings - Anchorage

LOCATION?

9:00am-10:30am Review of ~~Material mailed to members:~~
 Hickel summit update (workbook);
 tools, base case, budgetary issues.

1 - 2 ~~10:30am Noon~~ Revenue Projections:
 How Big is the Gap
 Potential Settlement Funds

Noon-1:00pm Lunch brought in.

2 - 3 ~~1:00pm 3:00pm~~ Cambridge Energy Report
 Legislative Finance Projections

3 - 5 ~~3:00pm 5:30pm~~ Spending Overview

6:30pm KAKM TAPING PROGRAM ON FISCAL GAP. (tentative)
 COMMISSIONERS MAY WISH TO ATTEND.

10³⁰ - 12 Review of other materials
 mailed to members (PTA)

12 Lunch brought in

Phone # for messages?

MAY-11-95 THU 8:23

P. 05

Saturday, 20 May 1995
Regular Commission Meeting-Anchorage

Saturday
8:00 am-
4:30pm

1. Subcommittee Reports:
 - a. Public Outreach
 - b. Budget Expenditures

2. Review & Finalize Schedule & Work Plan

3. Public Testimony (112m - 12 noon)

4. General Discussion

- 6 ~~5~~. Identify Additional Subcommittees

- 7 ~~6~~. Set Subcommittee Schedule

- 8 ~~7~~. Additional Public Testimony as time allows

5 ~~4~~. ~~Organization of 1.~~

Discussion of Interim Report

④ March →
Receipt 19 May

9-530 mat
530-7 Reapt
L

8-430 sat

SANDWICHES

May
19+20th

DRAFT SCHEDULE LONG RANGE FINANCIAL PLANNING COMMISSION

19 MAY

Work Session/Briefings

1. Revenue Projections-Department of Revenue
2. Cambridge Energy Report
3. ??Other Funds discussion, ie. AHFC/AIDEA/AS&T
4. Review of Material mailed to members

① ②

20 MAY

Commission Meeting

1. Review & Finalize Schedule
2. Subcommittee Reports
3. Set Subcommittee Schedule
4. Public Testimony as time allows

Discuss Arch Chamber
Commonwealth North
group.

3 JUNE

Briefings, Discussion of Alternatives video? ②

INC SOURCE
ASSETS

17 JUNE

Impacts Briefing, Discussion of Alternatives video ④

Budget Cuts

15 JUL

Approve Interim Report, Begin Production

Impacts of Alternatives ⑨ State/Local Gov't Resp video

Mailing of Interim Report & Survey

Use Month of August for Public Outreach/ie Radio Talk

Shows, Newspaper Interviews, Municipal Meetings,

etc. Impacts of Alternatives ③ Stabilization of Revs
Prep Hearings ⑤ Budget Process

Public Hearing-Northern Region

⑧ video

Fairbanks

& Kotzebue, Barrow, Nome, etc.(audio)

Public Hearing - Southcentral Region

Anchorage

& Mat-Su, Kodiak, Valdez, etc. (audio)

Public Hearing-Southcentral Region

Kenai

& Seward, Homer, etc. (audio)

Public Hearing - Southeastern Region

Juneau

& Ketchikan, Sitka, etc. (audio)

Aug 26 ⑥ New
Revenues

⑦ 15-16 Sep Report Prep : Initial Plan

~~25 Sep~~

~~Meet to decide upon final report~~

⑦ 29-30 Sep

Report Final

1 Oct

Final Report Due



MEMORANDUM

14 May 1995

TO: Suzanne Lowell
Chief Clerk, House of Representatives'

FROM: Melissa Fouse
Staff, Long Range Financial Planning Commission

The Long Range Financial Planning Commission will be meeting on May 19th and 20th 1995 in Anchorage. The meeting will take place in the Anchorage Legislative Information Office, Room 220. Agendas are attached.

Please include notice of this meeting in the Committee Schedule. If you have any questions, please feel free to call me at 258-8170 in Anchorage.

*Thanks for turning that around
so quickly! A correction:
Saturday meeting to begin @ 8:00 am
not 8:30 am.*

*Thanks,
MWF*

MEMORANDUM

14 May 1995

TO: Nancy Quinto
Senate Secretary

FROM: Melissa Fouse
Staff, Long Range Financial Planning Commission

The Long Range Financial Planning Commission will be meeting on May 19th and 20th 1995 in Anchorage. The meeting will take place in the Anchorage Legislative Information Office, Room 220. Agendas are attached.

Please include notice of this meeting in the Committee Schedule. If you have any questions, please feel free to call me at 258-8170 in Anchorage.

SCOMM

101:3

6/16-17/95

Gail

- public hearings important
 ~~re: public~~ ^{re: public}
 constantly questioned re: public
 hearings
 telecom OK
 critical ^{that} public be involved
- very much paying attention to
 work of commission
 edge for report
- grateful for effort

Perm Fund

Mallor, Kelley
Video

Scenarios:

- mid case revenue projections DOR
- rate of return 9.7% US stocks
 assumption:
 real rate 4.79% dividends
interest
realized &
unrealized

\$246b / 95b+1 / inf
earn div available to use

Discussion re: mgmt of PF, inflation
mobility, earnings reserve, dividend
calculation

inflation cost vs. value inflation model?
- Cost

how define "realized gain"
discussion

currently 400 million in unrealized gain
^{maybe looking at} new policy to take 1/3rd in
portfolio (BSM this yr). People be
\$100 million a yr.

Needale scenario (graph 4)
discussion re: "bulking up" corpus

PF keep w CDROM modules.

Revised Base Case

Federal cost shifting
rate of growth, formula programs
recc:

MN

Establish "Grace Commission"
to analyze programs

ALL

Need to calculate reserve cushion
into meeting gaps.

disc: what drives budget
incl. pop growth & inflation

★

CALL JIM KELLY RE CDROM/GRAPHICS ★

79-96 compare
median CPI & pop = 116% inc.
gains to indiv -
groups -

- | | | | | | |
|----|-----------------------|--------|----------|-------------|----|
| | 5 | 6 | | 7 | |
| | Goesuch | Ludwig | Prescott | Nordale | |
| | ○ | ○ | □ | ○ | |
| 4 | O Motley | | | O McConnell | 8 |
| 3 | O Lincoln | | | O Navane | 9 |
| 2 | O ~~Loeschel~~ | | | O Rensell | 10 |
| 1 | O Oconnor | | | O Brady | 11 |
| | ○ | | 13 ○ | ○ 12 | |
| | Fouse | | Rogers | Rigbee | |
| 14 | Westfall | | | | |
| 15 | Pouchot | | | | |

	<u>COST 1</u>	<u>COST 2</u>	<u>TIME</u>	<u>NUMBER</u>	<u>Dis</u>
<u>Tabloid</u>	ADN 9350	AP 7200	19 July		

11x17 (1pg) LEGPRINT = NC Admin 1400

Insertion
Cost

Information to public has to be
by consensus

POSSIBLE
ASSUMPTION

if limit to half pop & int. ^{4 cur} ~~100M~~ ^{200M}

Why

AM

Report should be paid out
as problem explained in

A?

real vs. nominal dollars?

A?

mean out base of

183 current gap

359 ^{pop} inc pop ~~77%~~ = 10% real
415 revenue reduction ^{Dudger}

return
1:30
pm

Subcommittee Reports

Style + Drafting - will meet next week

Revenue Sources

- letter from State Assessor re

- statewide property tax

- 30 million ea 1 mill

- much property is vacant & exempted

- sales tax est 1987 \$49 million
per ea cent (incl food) update
in revenue will show scenarios
generated at pt. of sale

- annual PT earnings

- utilities, state health, excise,
federal revenues (Pouchot)

Income Tax (Groesbeck)

- unusual relationship w local govt
- ec. eff argument; investment impacts
- equity: who pays
- elasticity
- political feasibility
- interstate capture
- inflation

If Alaska taxed at comparable level to other states would yield about 500 million \$

Keep current local govt tax structure in mind when considering taxes

[* Check Pat Pouchot tomorrow *]

could do shifting of responsibilities along w " of taxes

Allison Elgee AE
 Mike Greaney MG
 Cheryl Frasca CF
 Shelby Stasny SS

AE

Couper Admin different environment
 after Sheffield red 200
 projected

cut add plan \$150m
 not merit favorable reaction, march
 red forecast up

so budget ended up status quo
 then deep recession

maintain level spending, but forced
 agencies to absorb inflation

made effort to equalize

police note in Hillside

transfer Class 3 road maint to munis

make prisoners local resp, more to
 arrangement

didn't give agencies target cuts

then Edson Valdez changed picture &
 end of term

UEP:

legislative/observer

expenditure side of budget

look at form & non-form

half go bud form, half non-form

handout

compare 85 to 95 budget

inflated \$1

formula / non-formula / then prove out
 education & social services

form Medicaid / AIDE

nonf below 85 level

not blended

AE:

comparisons / depts shift & change /

marine highway fund

CF also doesn't reflect shift from GF to NonGF
i.e. student loan - bonds
PCE - endowment^{to}

Mike Naw also increase program receipts not reflected

MG • almost a billion dollars out of ^{anyones} pocket
can't really cut too much

• expenditure level about where it should be,

SS • Hickey promised 5% budget reduction
each yr of administration
• goal + charge to depts
• 1st budget presented to Leg not accepted
• people + leg really need to look at needs-
based programs Need to revisit ^{needs} tests
put into formulas
• 2nd budget not as aggressive. Had
looked around to see if reductions
really necessary
• Have systems that need fixing
• accounting
• personnel
• building maint
need to be looked at as part of
an overall plan
• budget stayed level during Hickey
admin. which

CF • target active over 3 yrs
• let each dept do strategic
thinking about how to get there
and the statutory + regulatory changes

needed

- attachment in considerations
how would they change the
mix & level of Sves. Why done
this way? How could service
be delivered differently?
Revenue \$ other than State GF

- 94 budget - decided to shift
focus, require incremental information
and then talk about in words the
goals & Sves of the dept.
also describe outcomes
- not a successful experiment

- budget has about 80 different fund
sources, GF is only about four. Type
non-GF = 705. HB 1000

(• Von GF - how much still out there)

- agency
people pushed to find non-GF sources

- Budgets go up, down, or sideways
throws cold water on notion that
chg in budget process results in great
change
- mechanisms, CBE, Sweep. Constitution
only allows a few dedicated \$, case
can be made that all other \$ are
GF and are available.

- Oregon / dedicated \$ /

List of funds represent political
transfers

Brian
Rogers
SS

HG

GE