

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2374 SCOMM 101: LONG RANGE FINANCIAL PLANNING COMMISSION, 1995

• number of \$ tied to exp.
i.e. div of insurance paid for by
industry

AE

~~str~~

enterprise receipts should be
separated out.

MN:

AM

Need to talk about investments for
efficiency i.e. state accounting system
also need to build incentives into
budget process

DE:

Long term impacts ^{of cuts} are starting to
show:

i.e. very little planning
deferred maint

MG:

also courts involved in budget process
now

JB

Q- Formula programs drive. How would
begin to change:

DE

currently spending less per student

Twain

Contract w Local Govt, services
provided, underused tax capacity
uniform policy, mandatory
brought
& present clear picture

35 Mandatory thorough - legislature
 should sit as assembly
 Formula prog
 {medicaid} need to look
 {medicare} at kind of safety net

SR Idea needs to be broadened, maybe
 state is not right one to deliver
 a particular service, but.
 maybe muni not best vehicle i.e.
 non-profits, service areas.

AE Currently not equity statewide in service
 delivery

CF MK-drop out of medicaid..?

BR Political regional considerations?

AE most ^{centralization} cutbacks done already

SS probably continue to happen @ cutbacks

CF Some depts make decisions based on
 legislators position.

BL Why medicaid exceed MI
 MG Fed govt calling shots.

MG MORE THE SAME THAN DIFFERENT
 THAN OTHER STATES

AM Health care costs rising
 pool of eligibles greater

do analyses of areas of fastest growing

AE Variety of ways we do better than other states do.

SS After a fixed days change pool of eligibles.
% of poverty level

LG Should commission get into specific budget #s or target?

Need to empower change
No clear guide as to what is public resp vs private resp

MG: details only if time left over I'm looking at policy

AE: Don't set target for reduction w/o guidance to do.
Need to pay attention to consequences
Also need to look at whether state pays for university here is state pays for B. counties in other states local govt.

JB Did press help^{at} public understanding?

SS No

AE Mixed Bag

MG No, mixed bag

CF No

Return to SC Reports:

Expenditure exercise:

AM:

RANGE of Scenarios

- categories within budget
- arranged by subject area
- helpful to make notes

EXP. WORKSHEET

Byron - Would you please
introduce the Delegation?
Or ask Alex

MEMORANDUM

To: Whom it may concern
From: Alex Ponomarev, visit coordinator for the Northern Forum
Subject: Visit of an official delegation from Khanty-Mansiysk Autonomous Region (June 6 -June 17)

Purpose of the visit:

Meet representatives of Alaska State Government, Anchorage Municipality, Alaska Permanent Fund, Alaska Legislature, Native corporations and Alaska business community to study the system of government and administration of Alaska, regulation of private business, involvement of Native people. The delegation was invited to Alaska by the Northern Forum.

Khanty-Mansiysk Autonomous Region:

- The oldest oil and gas producing region in Russia
- Population: more than 650 thousand people
- Capital: city of Khanty-Mansiysk

Members of the Delegation:

~~1. Gennady Dmitrievich Oleynik~~

~~Head of International Economical Relations for
Khanty-Mansiysk Region~~

2. Sergey Semenovitch Sobyenin

Chairman Of Duma (similar to President of State Senate)

3. Alexander Leonidovich Sidorov

Mayor of the city of Surgut

4. Alexander Mikhailovich Konstantinov

Deputy Head of Administration Native People Affairs

5. Valentin Igorevich Nazarov

Director of the Programs Fund for Future Generations

6. Alexnader Ivanovich Kondyrev

Executive Director of the Fund for Future Generations

★ Richard ★
Fireberg
controlling

Cheryl Trasca 40.50.30

See material

LG Need to make determination re
how handle inflation + inflation proofing.

AM Goals need to be decided upon.

Noedale Review of Revenue Committee.

Tom Williams.

see material for summary of
proposal - pg ii.

→ entire principal of PF SB int. proposed

★ review of merit + step increased
double stepping

"Contract w/ local govt"
 plan would bring stabilization to local
 govt as well.

MN If comm set out list of resp. mandated
 to local govt, what reaction AMU/local govt?

WITHDRAWN

BR * (KEVIN RITCHIE)

AMU - prepare format/draft allow comm to
 look at responsibility allocation ^{MATRIX} ~~SHOWN~~ some

AMU address disparity among communities

SR Should address private non profits
 who is paying, rather than
 who is delivering

Controversy about
 resp, or tradition
 done OTHER
 STATES

TAKTOBOB RE: PRES SBASSO

* ✓ School Bd Asso. * DOE

* LOESCHER plans to work w/ AMU to frame
 questions & issues. Working w/ Comm. CEA
 wants liaison w/ schools, Dofed, etc.

MN * CEA
 Model Borough Act, analysis of prop tax
 bases, LABOR gross income, retail sales

LG: How respond to
 25% loss over
 next 5 yrs.

The Superintendent has been
 sent out.

Rieger:

(See outline) -

Shottson Report - Study Commissioned by LBA.

Risk Tolerance: Should be willing to address

IBB - looked at target

Rh *

inc in Rieger material

Revenue & analysis of proposed standard deviation of risk 3. compare current 2 Shottson pg 8. Graphs *

B³⁰ - 1/15

1st Budget

LG Goals
Assumptions
Principles

BR & Options

Report vs Press Release

★ Call ADN Editor? ★

Bob & Bruce - Sunan

Lee & Judy - ADN

Mary & Brian - Newstime

Mica Navane

Town Meetings

Am. Television

★ Pub OUTREACH COMM ★

★ LOOK FOR TELECONF times/SITES ★

EXP SP Brady

will be calling around to
see what exp. principles comm. wants

★ Then ask Brad to run budget against
principles

January

★ Principles for revenue raising as well

LG: Performance report
O&M in op bud.

BR see sheet 10

LG ^{Budget} Appropriation reform }

▷ Intecim Report

DRAFT

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

Bob Walsh

Brad
Pierce

465-3008

Judy Brady

279-8114

Friday, 16 June 1995

9:30 am to 5:00 pm

Regular Commission Meeting-Anchorage

Legislative Information Office

716 West Fourth Avenue, Room 220

DISCUSSION OF NEW IMPROVED BASE CASE

BRAD PIERCE & HIS DANCING OVERHEAD PROJECTOR

SUBCOMMITTEE REPORTS

1. PUBLIC OUTREACH (LUDWIG)
3. STYLE AND DRAFTING (ROGERS)
4. REVENUE SOURCES (NORDALE)
5. BUDGET PROCESS AND RESERVES (MCCONNELL)
6. INTERGOVERNMENTAL SUBCOMMITTEE (LOESCHER)
2. EXPENDITURES (BRADY)

LUNCH

Brad the Impaler skewers the budget

FINANCE PANEL

discussion of historical budgeting assumptions

greany-left msg on vacation til tuesday

stasney-left msg OK

frasca-ok

elgee-ok (right, brad?)

DRAFT

**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

Bob Walsh

AGENDA

Saturday, 17 June 1995

8:00 am - 4:30 pm

Regular Commission Meeting-Anchorage

Legislative Information Office

716 West Fourth Avenue, Room 220

1. Commission Business

General Discussion

Discussion of Interim Report

Set Subcommittee Schedule

2. public testimony

LUNCH

3. Presentation of Plans:

Rieger

Williams

Forward Funding/Biennel Budgeting - Brad, any suggestions as to a
presenter. Can you do?

40/30/30 - Frasca

Harbour

Cremo

COST 1

COST 2

INSERTION COST ^{10#} FREIGHT TIMING

Additional
Assumptions

Ch 13, Title 37

1pg
TAB:

ADN
9350

AP

3105
51.75 @ 1000
(60,000)
Circ

IF PRINTED
THERE

^{circ}
39,000
\$4290
(110 @ 1000)

1pg
11x17:

LEGPRINT
0

ADMIN
PRINT
2000+

3105 ±

4290 120
Cases
paper
= 1/2 standard

Ad: ADN Full
pg 1000

AP (4pgs)
3615

0

1+3
51.75

60
3105.00

Dave Theberge

- will have hand out
- draft letter ▶ phase I philosophical approach
II detail
- adopt code of ethics
 - outside of formal meeting, won't talk about this to anyone
- Family analogy

Roger Crum

- Funds - some appropriable
- How LARGE is PF?
- " " is actual budget?
- Forward funding only moves the burs.
- 2 kinds of income: taxation such as other states, revenue from resources & land, endowment grant.

by using appropriation authority,
legislature moves unsustainable dollars
from endowment.

- Should not spend unsustainable revenue.
- Need to define sustainable level of spending.

~~I don't know up
a sharp letter
to say that.~~

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

SATURDAY, 17 JUNE, 8:30 AM TO 4:30 PM

1. FINANCE PANEL

discussion of historical budgeting assumptions

- ✓ greany - 465.3795 mag - vacation
- stasney - NANA - 265.4159 - mag
- ✓ frasca - 258.1226, left mag 30 May OK
- ✓ elgee - 258.1226, left mag 30 May OK

Discuss w/
Brian June

2. public testimony

3. Presentation of Alternate Plans:

Rieger, Left mag 30 May, Anch, STAFF VING

Williams 564.5955 - OK Eyes/10yrs

Forward Funding - ?? Joe Hayes

40/30/30 - Frasca - mag

Cremo 333.9888, left mag

David Hanson -

Do Nothing + 1/3 EL

OMB
Storage Case

Kerenhede
FARGOLI

number
assumptions

Gorsuch
- Cremo
- etc.

What is it
supposed to do?
How best
How implement?
How look 5-10 yr
How don't
I'm doing
nothing
What downside?

Judy
Pradley

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

BRAD
PIERCE
465.3008
CALL 10AM

DRAFT AGENDA
REGULAR MEETING
FRIDAY, 16 JUNE, 9:30 AM TO 5:00 PM

SUBCOMMITTEE REPORTS

1. PUBLIC OUTREACH (LUDWIG)
2. EXPENDITURES (BRADY)
3. STYLE AND DRAFTING (ROGERS)
4. REVENUE SOURCES (NORDALE)
5. BUDGET PROCESS AND RESERVES (MCCONNELL)
6. INTERGOVERNMENTAL SUBCOMMITTEE (LOESCHER)

LUNCH - HAVE BROUGHT IN??

Must be Brian

ASSETS

DISCUSSION OF NEW IMPROVED BASE CASE

BRAD PIERCE & HIS DANCING OVERHEAD PROJECTOR

STATE ASSETS

1. ALLISON ELGEE - ANNUAL FINANCIAL REPORT

should there be a discussion here about cash flow or is that muddying the waters?

2. MARTY RUTHERFORD - NON BOOK ASSETS
listing and valuation of state physical assets that are not buildings or structures, ie., timber, minerals, etc.

3. ?? MCCONNELL - SUMMARY OF PHYSICAL ASSETS BRAD, DONT YOU THINK WE SHOULD AT LEAST HIT THE HIGH SPOTS ON THIS ONE?
ie we have a billion \$\$ in assets or whatever.

MAF
LEFT 1159
762.2403



**Economic Sustainability in
Theory and Practice:
The Sad Case of Alaska**

Stephen L. Jackstadt and Dwight R. Lee

*Contemporary
Issues Series 66*

July 1994



Center for the
Study of
American Business
Washington University • St. Louis

Economic Sustainability in Theory and Practice: The Sad Case of Alaska

Stephen L. Jackstadt and Dwight R. Lee

For many, sustainability has become the overriding concern when evaluating economic performance. While seldom defined with operational precision, the general principle behind economic sustainability seems to be avoiding any decision that benefits the current generation at the expense of future generations. According to the World Commission on Environment and Development, "The most commonly-cited definition of 'sustainable development' is: Development that meets the needs of the present without compromising the ability of future generations to meet their own needs."¹

Most people would agree with the sentiment that economic sustainability appears to embrace. And if the advocates of sustainability contented themselves with broad statements of their concern for the future, few would object. But those most vocally in favor of economic sustainability insist on being specific about what they see as the major threat to sustainability and the appropriate means for overcoming that threat. With few exceptions, they see the threat as the greed and short-sightedness of the market economy, with political action required to promote the far-sighted concern that is the hallmark of economic sustainability. For ex-

Stephen L. Jackstadt is Professor of Economics at the University of Alaska, Anchorage. Dwight R. Lee is Ramsey Professor of Economics at the University of Georgia and an adjunct fellow of the Center for the Study of American Business at Washington University in St. Louis.

Copyright © 1994 by the Center for the Study of
American Business.

All rights reserved.

ample, in criticizing the market's discounting of the future, Vice President Al Gore approvingly quotes Herman Daly's statement, "There is something fundamentally wrong in treating the earth as if it were a business in liquidation."² Or consider the statement by Lester Milbrath, Emeritus Professor of Political Science at the State University of New York at Buffalo:

Markets are very poor in providing foresight to deal with future problems. . . . Markets typically fail to recognize [the finiteness] of supply if the current supply is plentiful and cheap. Markets . . . have perpetually undervalued the earth. This failure imposes on future generations the costs we blindly refuse to pay. Only collective political decisions can provide focus and direction for the myopic vision of markets.³

There are many such statements attesting to the widespread belief that economic sustainability demands that political decisions be substituted for market decisions. The popularity and persistence of this belief is surprising given the undeniable record of market economies in achieving not just economic sustainability, but economic growth. In market economies, the well-being of successive generations has been persistently improved, with well-being broadly defined to include longevity, leisure time, and environmental quality.

The success of market economies when measured against the objectives of sustainability is not only easily observed, it is readily explained. Private property rights and voluntary exchange, the two hallmarks of any market economy, have been increasingly recognized by economists as essential for creating the information and motivation for people to appropriately take into consideration the future conse-

quences of their actions.⁴ And because political decisions are not guided by the incentives provided by private property and voluntary exchange, there is little basis for believing that political action outperforms market action in highlighting the importance of the future. Indeed, both the insights of economic analysis and the evidence, strongly suggest that the goal of economic sustainability is poorly served by substituting political decisions for market decisions.

*Economic sustainability is poorly served
by substituting political decisions for
market decisions.*

This study considers an example of a state government that could have realized fiscal sustainability with a far-sighted approach to its natural resource endowment. The fiscal windfall that the state of Alaska received from North Slope petroleum presented the state government with a unique opportunity to realize a sustainable benefit from a nonrenewable natural resource. This opportunity has been squandered despite the dire and easily foreseeable consequences. Some efforts were made in Alaska to preserve the temporary oil wealth, but these efforts were more than offset by myopic incentives that exist in all political settings. Alaska's response to its oil revenue windfall should serve as a warning to those who see government action as the appropriate way of achieving sustainability in the use of our natural resources.

A Brief History

The discovery of oil at Prudhoe Bay on Alaska's North Slope in 1968 dramatically altered the state government's revenue picture. The first large infusion of Prudhoe Bay revenues to the state came from \$900 million in North Slope oil lease sales in 1969. The \$900 million bonanza (equivalent to \$2.9 billion in 1993 dollars) was five times the total state budget the year before.⁵

State spending nearly doubled between 1969 and 1971 and increased by 46 percent again in 1972 as the legislature began gearing expenditures to expectations of huge oil revenues once the Trans-Alaska Oil Pipeline was completed. Construction delays pushed the pipeline's completion date back several years, but rapid growth in government spending continued. To bridge the gap between current government spending and expected oil revenues, the state raised severance taxes on oil again and enacted a "reserves tax" in 1976 on holders of North Slope oil and gas leases which due to a rebate provision was really a forced loan from the oil companies.⁶

The Trans-Alaska Oil Pipeline was finally completed in 1977 and oil began flowing to the Valdez tanker terminal in July of that year. State revenues from royalties and yet higher severance taxes began to rise slowly at first, but when the Iranian Revolution pushed oil prices to over \$30 per barrel in 1980 (\$58 per barrel in 1994 dollars), state revenues increased dramatically. General fund revenue skyrocketed from \$1.5 billion in 1979 to \$4.5 billion in 1982. State spending out of the general fund also spiraled upward, growing from \$1.4 billion in 1980 to \$3.6 billion the following year. From 1981 through 1988 Alaska's state spending increased nearly 20-fold, with total state spending over this period amounting to \$34

billion, or about \$70,000 for each Alaskan resident.⁷

As oil revenues soared, the taxes paid by Alaskan residents plummeted. The individual income tax and several other state taxes were repealed in 1979-80. As a result, real taxes paid to the state by individual Alaskans after 1980 were only 14 to 16 percent of the real taxes they paid during FY 1976.⁸

In 1990, Alaska per capita state spending was almost four times the national average.

Alaskans also eased their tax burdens at the local level as state dollars flowed to schools and municipalities. By 1982, tax rates in boroughs throughout the state were 30 to 40 percent lower than they had been before the opening of the pipeline. The only exception was the newly-formed North Slope Borough, where property tax rates were increased by more than 50 percent since nearly all property taxes were paid by oil companies operating at Prudhoe Bay.⁹ Alaska's tax burden is ranked fifty-first, behind all other states and the District of Columbia.¹⁰

Since Alaskans pay only a small percentage of the taxes needed to finance government spending, there is little public opposition to government spending. It is easier for Alaskan politicians to increase taxes on the oil industry than to resist constituent demands for more spending. Taxes on the oil industry have increased eleven times since 1955. Currently Alaska's tax rates on oil producers are the highest in the United States.¹¹

With Alaska able to export almost all of its tax burden, it is not surprising that the state dominates the competition in per-capita state spending. In 1990, Alaska per capita state spending was almost four times the national average and nearly two-and-a-half times higher than that of Wyoming, its closest competitor. The additional per-capita spending in Alaska is far in excess of the amount that can be explained by the higher cost of living in Alaska.

The Path Not Taken

The magnitude of the fiscal windfall to Alaska provided the state with a unique opportunity to realize sustainable benefits from its natural resource endowment. The state could have increased total spending in response to the population growth motivated by the development of its petroleum resources and also guaranteed that the revenue from those resources continued to provide indefinitely for future generations of Alaskans. If the state government of Alaska had behaved in the far-sighted way that the most vocal advocates of sustainable growth believe government will, it would have saved enough of the temporary oil revenues to generate the interest income necessary to sustain state spending at generous levels.

The state did try to preserve some of its oil wealth, which everyone recognized as a temporary windfall. In response to a voter-approved amendment to the Alaskan constitution, in 1976 the state began depositing a portion of all mineral lease rents and royalties into what is known as the Permanent Fund. Special legislative appropriations helped fatten the fund, and by the end of 1993 the value of the Fund's investments totaled \$15.6 billion — roughly \$26,000 for each Alaskan citizen. Each year some of the Fund's earnings go to "inflation

proof" the principal and by formula most of the remainder is paid out to Alaska citizens as a "dividend." In 1993, each man, woman, and child who qualified as an Alaska resident (anyone who has lived in the state for at least one year) received a dividend check in the amount of \$949.46.¹²

However, a state government motivated by the concern of sustainability would have done much more to assure a secure fiscal future for Alaska. In 1967, the year before oil was discovered at Prudhoe Bay, per capita state spending in Alaska was 2.47 times the U.S. average. Adjusting for Alaska's higher cost of living, real spending per capita was still 1.6 times the national average.¹³ Consider a policy where, starting from this already high base, the state had allowed real per-capita spending to grow at a rate equal to the U.S. average through 1993 (adjusting for the year-to-year differences in the cost of living increases between Alaska and the rest of the United States), with the excess revenue having been deposited in Alaska's Permanent Fund. Assuming that this augmented hypothetical fund generated a rate of return equal to that of the actual Permanent Fund, the Fund would have contained \$66.7 billion by the end of 1993.¹⁴

Assuming that the hypothetical fund continues to earn an average real rate of return of 5.15 percent (as it has since it started earning interest in 1978),¹⁵ the real value of the hypothetical Permanent Fund of \$66.7 billion could be maintained indefinitely, with no net additions, with \$3.4 billion being spent each year to finance state spending. This amount is \$500 million (or 17 percent) more than the total state spending in 1993. If the state had not distributed the \$4.47 billion in annual dividend checks to Alaskan residents (which began in 1982), and put it in the Permanent Fund and allowed it to accumulate interest, the hypothetical fund

would have contained \$75.03 billion at the end of 1993.¹⁶ At an interest rate of 5.15 percent, this fund would be producing an annual revenue stream of \$3.9 billion.

In other words, in our completely possible hypothetical world, Alaskans could now be benefiting on a sustainable basis from lavish state expenditures without paying a single cent of state taxes! And our hypothetical exercise understates on two counts the opportunity the Alaska state government had to benefit from a policy of fiscal sustainability. First, the population figures used to determine the hypothetical spending levels are based on the actual population which surely increased in response to the larger actual state spending. Second, if state spending were financed entirely out of interest payments from the hypothetical Permanent Fund, all future revenues from the oil industry could be used to further augment that fund.¹⁷

Surely the program of fiscal sustainability just discussed would have done more to promote the long-run well-being of Alaskans than the program of fiscal depletion that has been the hallmark of Alaskan spending policy since the availability of the North Slope oil revenues.

Wasting Resources and Disregarding the Future

There is little evidence from Alaska's recent fiscal history that politicians are motivated by the ideals of sustainability. The Alaskan state legislature has spent most of the huge, but temporary, influx of state oil revenue catering to the short-run interests of organized interest groups. This political process has allowed the current generation of Alaskans to capture benefits at the expense of future generations by plundering much of the wealth of a nonrenew-

able natural resource. The almost total disregard that political decision-makers show for sustainability can be seen in just a few of the spending programs that have been funded in Alaska with the windfall from the oil tax.

The Alaskan state legislature has spent most of the temporary influx of state oil revenue catering to the short-term interests of organized interest groups.

Barley Boondoggle

The state of Alaska has spent more than \$50 million in an attempt to promote Alaskan barley farming. This money has gone for loans which were never repaid, and the construction of access roads, rail lines, hopper cars, and grain elevators, all designed to facilitate the transportation and storage of large quantities of barley which were never grown. And many of the Alaskan farmers who were taking money from the state to grow barley were double-dipping — simultaneously taking money from the federal government *not* to grow barley.¹⁸

First-Class Trip

Many public-school students in Alaska are treated to field trips that make the typical visit to the zoo as exciting as extra homework. The Bering Strait School District, for example, received a \$300,000 grant from the Alaska Department of Education in 1980 as part of an "adventure based" education program. This grant was used to finance a tour of Europe for high-school students. The \$88,414 cost of travel was expensive, but the largest expense was the \$106,034 paid to "specialists" in ad-

venture-based education who arranged the trip and accompanied the students to Europe.¹⁹

Sour Milk

In a failed attempt to start a local dairy industry, the state gave away over 14,000 acres of land and made \$20 million in loans to would-be dairy farmers. Virtually none of the money has been repaid.²⁰ To provide an outlet for Alaska milk the state bought a creamery and promised to pay above-market prices to Alaska dairies. Since Alaskans could buy milk cheaper from Seattle, the price support scheme collapsed within a few years. The creamery, still owned by the state, continues to limp along by purchasing most of its milk from Washington State.²¹

A Dog's Life

The Alaska Renewable Resources Corporation (ARRC) was established in 1978 to provide venture capital for developing businesses based on Alaska's renewable resources. Some rather bizarre projects have received ARRC loans. Probably the strangest project funded, out of a field of strong contenders, was one for dog-powered washing machines.²² By 1987, three years after the legislature voted to terminate the program, ARRC had written off \$28 million in bad loans.²³ The success of Alaska's overall state loan program (of which ARRC is but a small part) has also been dismal. As of the end of 1987, over \$233 million in loans made by the Alaska state government were in default and another \$1 billion were delinquent.²⁴

Pay Per View

LearnAlaska, an instruction telecommunications system operated by the University of Alaska, was established by the state in 1981 to bring instructional programs to every Alaska village with a population of twenty-five or

more. Six years and \$23 million later, LearnAlaska was finally dropped as a bad idea. Barry Willis, Alaska's Director of Instructional Development during those years, called LearnAlaska "a technological solution in search of an educational problem which it never found." LearnAlaska did little more than duplicate RATNET, the state entertainment network that brings programs like Monday Night Football, General Hospital, The Simpsons, and Beverly Hills 90210 to rural areas at state expense.²⁵

Plenty of Pork

If one looked only at state spending it would be reasonable to conclude that Alaskans have prodigious appetites for the cultural, artistic, and athletic. Enormous sums have been spent building performing arts centers, convention centers, and sports arenas in towns and cities throughout the state. Even in the most populated cities these structures stand as monuments to government profligacy. The \$70 million Performing Arts Center constructed with state money in Anchorage loses over \$1 million annually even when all of the capital cost of the center is ignored.²⁶

This special-interest waste has insured that the long-run prospect for the Alaskan economy is one of painful adjustment and dislocations. The lack of accountability that has made the political decisions so responsive to the short-run demands for wasteful government spending has made them entirely unresponsive to long-run economic realities.²⁷

A bumper sticker commonly seen in Alaska after oil prices plummeted in the mid-1980s read "Please God, Just One More Boom. Next Time We Won't Piss It Away." Since then Alaska has had not one, but two "booms" and in each case Alaskans failed to keep the bumper sticker's promise. In August 1990 when Iraq

invaded Kuwait, oil prices soared temporarily on the fear that Mideast supplies would be interrupted. The result was a \$700 million windfall to state coffers. Instead of treating the revenue as transitory income and saving it, Alaska's politicians used it to maintain spending.

The long-run economic reality for Alaska is that the North Slope oilfields are being depleted.

An even bigger windfall followed in 1992 and 1993 when oil companies, including ARCO, Unocal, BP Exploration, and Chevron agreed to pay the state \$1.7 billion to settle long-running disputes over payments of back taxes and royalties. Again the promise of the bumper sticker was ignored and the governor and legislature appropriated over half the amount, ignoring a law passed by voters in 1990 which specified that such windfalls be placed in a Constitutional Budget Reserve Fund for future use. By spending rather than saving this latest windfall, the state was able to maintain overall spending and more than double capital spending from \$300 million to \$616 million.²⁸

Future Prospects

The long-run economic reality for Alaska is that the North Slope oilfields are being depleted. Since 1989, production at Prudhoe Bay (where virtually all of Alaska's oil is produced) has declined by over 15 percent. Most experts on petroleum recovery predict that even if new oilfields on the North Slope are brought on

line, petroleum production in Alaska will decline to half of what it is today by the year 2004. As oil production declines so will state tax revenues. If state spending from general fund revenues remains at the current (1993) level of \$2.9 billion per year, it will exceed projected revenues by as much as \$1 billion per year by the turn of the century. A recent study by the Institute for Social and Economic Research (ISER) at the University of Alaska in Anchorage concludes that the state is currently spending at an annual rate of \$1.2 billion more than can be sustained in the long run.²⁹ Indeed, Alaska already faces a fiscal crisis. Due to its lack of spending restraint and a drop in world oil prices, projected revenues for the current fiscal year (FY94) fall over \$1 billion short of appropriations. The projection for next year, even if oil prices rebound, is for a budget shortfall of \$600 million.

Even with the most optimistic projection of state oil revenues, there can be no doubt that Alaska faces wrenching economic adjustments. State spending, which accounts for over 33 percent of the jobs and three of every ten dollars of personal income in Alaska, will have to be decreased significantly and taxes on Alaskan citizens will have to be increased significantly. Regardless of the relative mix in spending cuts and tax increases, the effect will be the exodus of a large number of Alaskan residents with a further reduction in the tax base and significant declines in property values. Alaskan natives who have grown dependent on government programs will be harmed the most. According to the ISER, 41 percent of all economic activity in the rural interior is attributable to state spending.³⁰

A preview in miniature of what is likely in store for Alaska may be found in what happened during the 1986-88 recession when falling oil prices reduced tax revenues and forced

state budget cuts of \$1.4 billion over three years. During this period, Alaska lost 22,000 jobs (10 percent of the total) and \$1.07 billion in wage income (13 percent of the total); banks foreclosed on 10,429 residential properties (7 percent of the total). In Anchorage, Alaska's largest city, assessed property values fell by 46 percent and 29,000 people (9 percent of the total population) left the state.³¹

*The looming fiscal crisis in Alaska
cannot be blamed on any difficulty in
seeing it coming.*

The looming fiscal crisis in Alaska cannot be blamed on any difficulty in seeing it coming. It has long been recognized that the levels of state spending, and the oil revenues that supported them, could be sustained only temporarily. Neither can the coming crisis be blamed on the inability to respond adequately to it. As we have already seen, the magnitude of the temporary oil revenues is so large, relative to the population of Alaska, that they could have been converted into a generous and sustainable level of per-capita state spending. What explains the lack of fiscal foresight that, on balance, has characterized Alaska's political decisions during its oil boom? The best explanation is not found in some unique aspect of Alaska's situation, but in the myopic tendency intrinsic to all political decision making.

Political Privilege vs. Political Patience

As economists Rodney Fort and John Baden have pointed out, when government takes con-

trol of resources they become common property.³² This is most apparent when government assumes control of the revenue generated by resources. Unfortunately, government revenues are not systematically allocated to their highest valued public use by well-informed and public-spirited political decision makers. The allocation of tax revenues occurs primarily in response to political pressures brought to bear by organized groups, each with a dominant interest in a particular government program.

Predictably, the advantage to each interest group is in grabbing as much tax revenue for itself as possible, as soon as possible. Taking into account the long-run cost of expanding current government commitments would, for an interest group, be an exercise in folly and futility. The special-interest lobbyists who converge in the corridors of government power, including those in the Alaskan capital of Juneau, are surely aware that the long-run interest of all would be best served if each moderates his or her current demands on the public treasury. Yet each special interest also knows, as does every exploiter of a common property resource, that the wealth it fails to capture today will not be invested for its future benefit, but will be captured tomorrow by another special interest. Patience may be a virtue, but it doesn't pay in politics.

The benefits from a government program are typically concentrated on a small organized group (with the benefit to each member of the group being quite large). The tax burden necessary to finance such a program is spread over the entire group of unorganized taxpayers (with the cost to each being very low). So organized political activity is sure to be mobilized in support of any government spending proposal and little if any organized political activity will be

mobilized in opposition. When people organize politically it is almost always to obtain special-interest benefits for themselves, not to oppose the special-interest benefits of others. The result is a bias in the political process that favors transferring wealth into the public sector where it is dissipated as a common property resource with little regard for the long-run consequences.

Organized political activity is sure to be mobilized in support of any government spending proposal and little if any will be mobilized in opposition.

The political bias toward depletion rather than sustainability is amplified in Alaska because of the per-capita magnitude of the oil revenue windfall and because the taxpayers providing this windfall (the consumers of petroleum products) are more remote and dispersed relative to the recipients (those living in Alaska) than is typically the case. But organized special interests tend to dominate the unorganized general interest in all political jurisdictions, elevating immediate concerns over long-run concerns.³³ The most effective way of controlling the adverse effects of political myopia is by imposing strict limits on the ability of government to gain control over resources. Unfortunately, this lesson is being ignored by those who constantly call for more government control to promote their noble objective of protecting the interests of future generations.

Conclusion

Alaska's recent fiscal history is a cautionary tale for those who believe that economic sustainability is best achieved by political means. If ever a government had the opportunity to implement a policy of economic sustainability, it was the state government of Alaska. With the oil tax revenues that began flowing into the state treasury in 1969, Alaska could have maintained per-capita spending at its existing (and generous) rate relative to per-capita spending by the other states, while saving enough to maintain current per-capita spending indefinitely with the interest on the accumulated capital. Such a policy of sustainability has not been the case in Alaska. Most of the oil money that flowed into Alaska's treasury flowed right back out to fund a bewildering array of special-interest programs that have done much to foster dependency on continuing government spending and little to develop an economy that can sustain itself after the oil revenues dry up. Those oil revenues are drying up, and as they do Alaska is going to pay a high price for its political myopia. But even as the fiscal abyss draws near, the occasional oil revenue surges into Alaska's treasury (such as the one that occurred during the 1990-91 Gulf War) are spent rather than saved.

The irresponsible and short-sighted government spending that has been Alaska's response to its oil boom is sad, but not surprising. It is a completely predictable result of the disproportionate influence special-interest groups can exercise through the political process. While such groups would be collectively better off in the long run if all exercised restraint in their demands on government resources, each recognizes that its interest is best served by capturing as much as possible now with little concern for the future.

While disregard for the future may be more apparent in Alaska than in other political jurisdictions, the problem of political myopia is general. The Alaskan case illustrates vividly the perversity of relying on government to promote the ideals of economic sustainability.

Notes

1. World Commission on Environment and Development, *Our Common Future* (New York: Oxford University Press, 1987), p. 43.
2. Al Gore, *Earth in the Balance* (New York: Plum, 1993), pp. 190-191.
3. Lester W. Milbrath, *Envisioning a Sustainable Society: Learning Our Way Out* (New York: State University of New York Press, 1989), pp. 144-45.
4. For an insightful discussion of how private property and free exchange motivate the maintenance of natural resources and environmental quality, see Terry L. Anderson and Donald R. Leal, *Free Market Environmentalism* (San Francisco: Pacific Research Institute for Public Policy, 1991), especially chapters 2 and 4, and pp. 65-74.
5. Scott Goldsmith, Teresa Hull, and Steve Colt, *Monitoring the Performance of the Alaska Economy: The 1986 ISER MAP Economic Database* (ISER Working Paper 86.5, Institute for Social and Economic Research, University of Alaska, Anchorage, June 1986), p. 24.
6. Robert B. Weeden, *Alaska: Promises to Keep* (Boston: Houghton Mifflin Co., 1978), p. 147.
7. Oliver S. Goldsmith, Lee Gorsuch, and Linda Leask, *Facts and Fables of State Spending* (ISER Fiscal Policy Paper No. 2, Institute for Social and Economic Research, University of Alaska, Anchorage, October 1989), p. 3.
8. Oliver S. Goldsmith and Teresa Hull, *Tracking the Structure of the Alaska Economy: The 1994 ISER Map Economic Database* (ISER Working Paper 94.1, Institute for Social and Economic Research, University of Alaska, Anchorage, March 1994), pp. 18-19.
9. Thomas A. Morehouse, Gerald A. McBeth, and Linda Leask, *Alaska's Urban and Rural Governments* (New York: University Press of America, 1984), p. 93.

10. Beth Kobliner, "Cut These State and Local Taxes," *Money*, January 1994, pp. 82-87.
11. From material provided by the Alaska Department of Revenue, Oil and Gas Audit Division, May 1994.
12. *An Alaskan's Guide to the Permanent Fund*, Alaska Permanent Fund Corporation, Juneau, September 1993.
13. Goldsmith, Gorsuch, and Leask.
14. The authors arrived at the \$66.7 billion figure by starting with 1967 real per-capita spending in Alaska and increasing it each year by the average national real rate of growth in per-capita state spending. The Anchorage, Alaska Consumer Price Index (CPI) was used to compute the hypothetical nominal rate of Alaska per-capita spending that would have kept pace with the U.S. states' average. By using Anchorage, rather than U.S. prices, the authors compensate for the year-to-year difference in cost of living increases between Alaska and the rest of the U.S. These hypothetical per-capita amounts are multiplied by each year's population to compute the hypothetical total nominal state expenditure. This amount is subtracted from actual nominal spending (which does not include contributions to the Permanent Fund). The difference is assumed to be deposited in a savings account. Interest is then imputed to the account at a rate equal to the change in the CPI plus 3 percent prior to 1978 when interest first began accumulating on the Permanent Fund. From 1978 onward, interest is calculated at the actual nominal rate of return earned by the Permanent Fund. The total amount in the hypothetical savings account is added to the equity in the actual Permanent Fund to arrive at the \$66.7 billion dollar figure. A table outlining these calculations is available from the Center for the Study of American Business.
15. *Alaska Permanent Fund 1993 Annual Report*, Alaska Permanent Fund Corporation, Juneau, 1993, p. 25.

16. Author's calculations.
17. Even though oil production is declining, projections by the Alaskan Department of Revenue predict that the state will receive at least \$22 billion in additional oil revenues between 1994 and 2010. See Alaska Department of Revenue, *Revenues Source Book: Forecast and Historical Data* (Juneau, Alaska: Fall 1993), pp. 1-2.
18. John Strohmeier, *Extreme Conditions: Big Oil and the Transformation of Alaska* (New York: Simon and Schuster, 1993), pp. 102-103, 107-108.
19. *A Special Review of the Department of Education, Bering Strait REAA Adventure Based Education Program*, State of Alaska, Division of Legislative Audit, October 1, 1981.
20. Strohmeier, 1993, p. 103.
21. *Ibid.*, pp. 103-107. Also see Timothy Egan, "Alaska Farm Plan Yields Bitter Harvest," *New York Times* (March 4, 1992), p. A-12.
22. Interview with Senator Rick Halford, a long-time member of the Alaska Legislature and the current Senate President, (Juneau, March 1988).
23. Memorandum to Garrey Peska, Chief of Staff, Office of the Governor of Alaska, from Jack Kreinheder, Senior Analyst, Division of Policy, November 30, 1987, p. 2.
24. Alaska Office of Management and Budget Division of Budget Review. Also see Strohmeier, p. 121.
25. Quote from Barry Willis is from an interview by Efie Caldarola, a student of Steve Jackstadt.
26. *1994 Approved General Government Operating Budget Book*, Municipality of Anchorage, December 7, 1993, pp. 20-24.
27. For a discussion of other extravagant state expenditures in Alaska, see Strohmeier (1993).
28. *Executive Budget Book*, Office of Management and Budget, State of Alaska, Juneau, January 1994; p. 270.

29. Oliver S. Goldsmith, *The Alaska Fiscal Gap* (ISER Fiscal Policy Paper No. 1, Institute for Social and Economic Research, University of Alaska, Anchorage, August 1989), p. 11.
30. Oliver S. Goldsmith, L. Gorsuch, A. Hill, L. Leask, and M. Dalsfoist, *Alaska's Dependence on State Spending* (ISER Fiscal Policy Paper No. 5, Institute for Social and Economic Research, University of Alaska, Anchorage, October 1990), p. 7.
31. Ibid.
32. Rodney D. Fort and John Baden, "The Federal Treasury as a Common Pool Resource and the Development of a Predatory Bureaucracy," *Policy Review* (Winter 1980), pp. 69-81.
33. For a somewhat different explanation for political myopia, see James M. Buchanan and Dwight R. Lee, "Tax Rates and Tax Revenues in Political Equilibrium: Some Simple Analytics," *Economic Inquiry* (July 1982a), pp. 344-54 and Buchanan and Lee, "Politics, Time, and the Laffer Curve," *Journal of Political Economy* (August 1982b), pp. 816-19.

Other titles available in this series:

57. *Greater China: The Next Economic Superpower?* Murray Weidenbaum
58. *The Misguided Policy of Mandated Benefits*, Dwight R. Lee
59. *Recycling's Demand-Side: Lessons from Germany's "Green Dot,"* Christopher Boerner and Kenneth Chilton
60. *NAFTA and the Greening of International Trade Policy*, William H. Lash III
61. *How Government Reduces Employment*, Murray Weidenbaum
62. *Unfunded Federal Mandates: Environmentalism's Achilles Heel?* Thomas J. DiLorenzo
63. *Private-Enterprise Communism: The Shortest Path to Vietnamese Democracy*, Dwight R. Lee
64. *The Clinton Trade Tango: One Step Forward, Two Steps Back*, William H. Lash III
65. *The Evolving Corporate Board*, Murray Weidenbaum

Additional copies are available from:

Center for the Study of American Business
Washington University
Campus Box 1208
One Brookings Drive
St. Louis, Missouri 63130-4899
Phone: (314) 935-5630



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

Bob Walsh

SCHEDULE

As of 16 June 1995

Regular Meeting-Anchorage

Friday, 16 June, 9:30 am to 5:00 pm

Saturday, 17 June, 8:30 am to 4:30 pm

Video Meeting

30 June 1995

Friday, 9:00 am to 4:00 pm

UAF-212 B Butrovich, UAA-University Lake Bldg, UAF Library

Budget Stabilization

Discussion of Budget Cuts Scenarios (HCR 1, (4))

Impacts Briefing

Regular Meeting-Anchorage

Friday, 14 July, 9:30 am to 5:00 pm

Saturday, 15 July, 8:30 am to 4:30 pm

Complete Drafting of Interim Report

Discuss Public Participation

Video Meeting

Thursday, 27 July

Afternoon & Evening

UAF-212 B Butrovich, UAA-University Lake Bldg, UAF Library

Review Final Document Mark-up

Impacts of Alternatives, Responsibilities of State &

Local Governments: Municipal Debt [HCR 1, (9)]

check audio

*Dept
Labor
Forecast*

*Karen
Perdue*

10

*S/C Rpt
Draft Report
Principles
Base Case*

*Not
call
re: up*

MEMORANDUM

State of Alaska

Office of the Governor
Office of Management and Budget

DRAFT

June 13, 1995

TO: LRFPC Budget Process Subcommittee

FROM: Brad Pierce
Senior Policy Analyst

SUBJECT: Ideas from Initial Teleconference

Listed below are the subjects members have come up with for discussion at future meetings. We have tentatively divided them into two groups, those that the commission needs to address directly and those the commission might point to as areas for further attention.

Budget Process Issues for the Commission to Address

- Treatment of program receipts and other designated fund sources vs. general funds and restricted revenues.
- Incorporating performance measures into the budget process.
- Constitutional Budget Reserve (CBR) requirements and issues in the context of an overall reserves policy. *incl other assets*
- Forward funding all or part of the budget (required by LRFPC resolution).
- *BE* Bring Permanent Fund real earnings "on budget."

all expenditures to PEE, AMIC, etc. reappropriations, allocations

Other Issues that the Commission Might Want to Identify for Further Study

- Making the budget more understandable to the general public.
- Portraying the state budget in relation to federal and local spending.
- Out year O and M costs of capital projects in a 5 year spending plan.
- Incentives for savings.
- Unbudgeted reimbursable services agreements (RSAs).
- The proliferation of special funds.

CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services
Department of Education
State of Alaska

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

Bob Walsh

SCHEDULE

As of 16 June 1995

Regular Meeting-Anchorage
Friday, 16 June, 9:30 am to 5:00 pm
Saturday, 17 June, 8:30 am to 4:30 pm

Video Meeting
30 June 1995

check audio

Friday, 9:00 am to 4:00 pm

UAF-212 B Butrovich, UAA-University Lake Bldg, UAF Library

Budget Stabilization

Discussion of Budget Cuts Scenarios (HCR 1, (4))

Impacts Briefing

*Dept
Lanok
Pancasr*

*Karen
Perdue*

10

*S/C Rpt
Data Report
Principles
Base Case*

Regular Meeting-Anchorage
Friday, 14 July, 9:30 am to 5:00 pm
Saturday, 15 July, 8:30 am to 4:30 pm

Complete Drafting of Interim Report
Discuss Public Participation

*Not
call
re up*

Video Meeting
Thursday, 27 July
Afternoon & Evening

UAF-212 B Butrovich, UAA-University Lake Bldg, UAF Library

Review Final Document Mark-up
Impacts of Alternatives, Responsibilities of State &
Local Governments: Municipal Debt [HCR 1, (9)]

Regular Meeting 10

Friday, 11 August, 9:30 am to 5:00 pm
Saturday, 12 August, 8:30am to 4:30 pm

~~Regular Meeting~~
~~Friday & Saturday 25 & 26 August~~
~~9:30 am to 5:00 pm~~

12-14
05-08 September
Possible Public Hearings

Final Report Preparation

Approve Final Report

Mon thru
WK 12 Telecont.
7-10
11, 12, 13, 14
STATEWIDE?
REGIONAL

MEMORANDUM

18

State of Alaska
Office of the Governor
Office of Management and Budget

DRAFT

June 13, 1995

TO: LRFPC Budget Process Subcommittee

FROM: Brad Pierce
Senior Policy Analyst

SUBJECT: Ideas from Initial Teleconference

Listed below are the subjects members have come up with for discussion at future meetings. We have tentatively divided them into two groups, those that the commission needs to address directly and those the commission might point to as areas for further attention.

Budget Process Issues for the Commission to Address

- Treatment of program receipts and other designated fund sources vs. general funds and restricted revenues.
- Incorporating performance measures into the budget process.
- Constitutional Budget Reserve (CBR) requirements and issues in the context of an overall reserves policy. *incl other assets*
- Forward funding all or part of the budget (required by LRFPC resolution).
- *BE* Bring Permanent Fund real earnings "on budget."
*all expenditures to PFE, AMIC, etc.
reappropriations, allocations*

Other Issues that the Commission Might Want to Identify for Further Study

- Making the budget more understandable to the general public.
- Portraying the state budget in relation to federal and local spending.
- Out year O and M costs of capital projects in a 5 year spending plan.
- Incentives for savings.
- Unbudgeted reimbursable services agreements (RSAs).
- The proliferation of special funds.

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

Bob Walsh

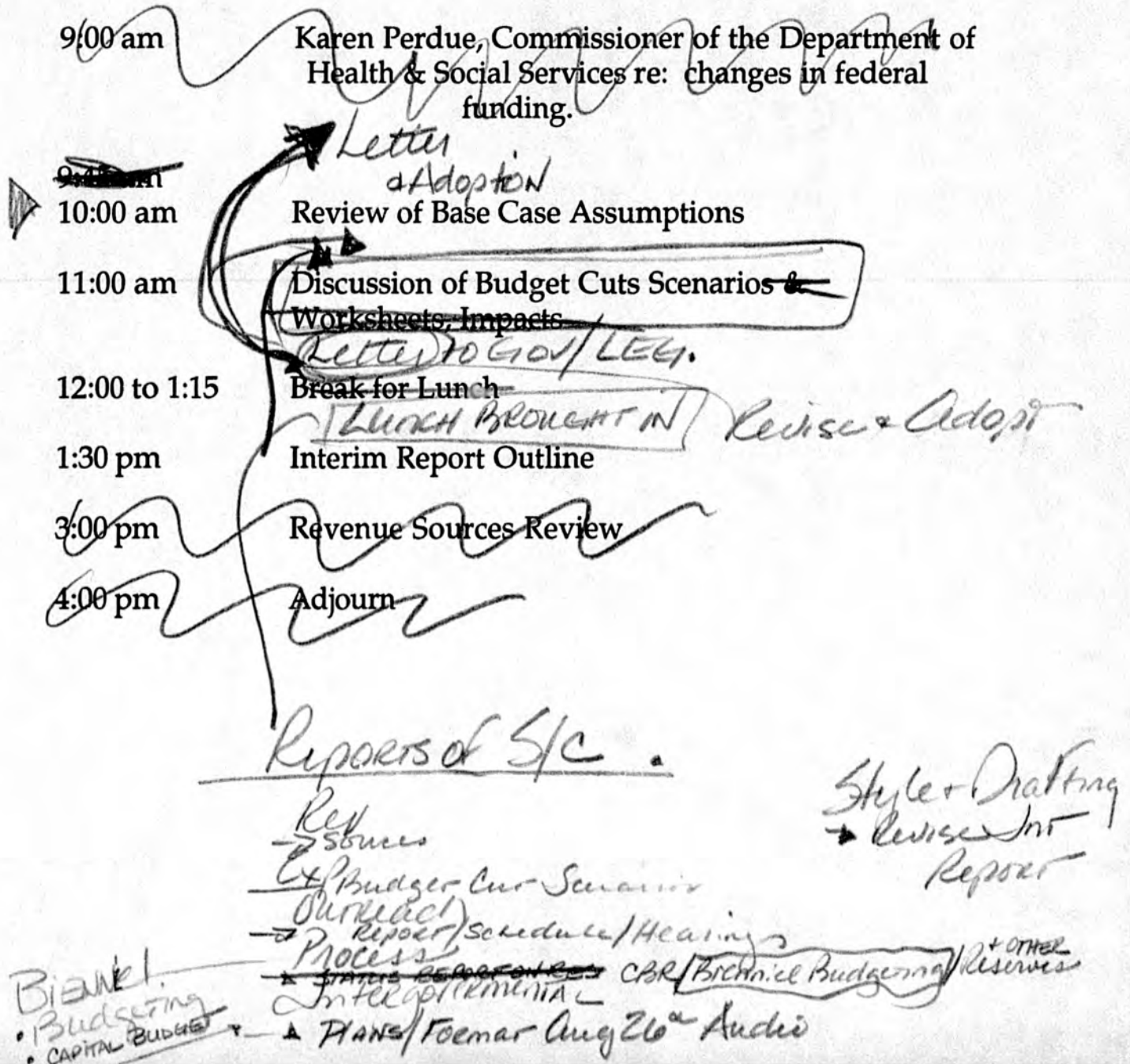
9:00? 10"

Regular Meeting-Anchorage

Friday, 14 July, 10:00 am to 5:00 pm

Anchorage LIO, 716 West Fourth Avenue, Suite 220

Complete Drafting of Interim Report
Discuss Public Participation



Regular Meeting-Anchorage
Saturday, 15 July, 8:30 am to 4:30 pm
Anchorage LIO, 716 West Fourth Avenue, Suite 220

\$11⁰⁰ public testimony .

12⁰⁰ Break for Lunch

July 29th VIDEO, conf

**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
Bob Walsh

SCHEDULE

As of 01 July 1995

Regular Meeting-Anchorage

Friday, 14 July, 9:30 am to 5:00 pm

Saturday, 15 July, 8:30 am to 4:30 pm

Complete Drafting of Interim Report
Discuss Public Participation

Video Meeting

Thursday, 27 July

1:30 pm to 7:30 pm

UAF-212 B Butrovich, UAA-University Lake Bldg, UAJ-Library

~~Review Final Document Mark-up~~ *APPROVE COMPLETED INTERIM REPORT*

Impacts of Alternatives, Responsibilities of State &
Local Governments: Municipal Debt [HCR 1, (9)]

Target Date

05 August, Saturday

Distribution of Interim Report & Survey
Use Month of August for Public Outreach/ie Radio Talk
Shows, Newspaper Interviews, Municipal Meetings,

Regular Meeting

Friday, 11 August, 9:30 am to 5:00 pm

Saturday, 12 August, 8:30am to 4:30 pm

Stabilization of Revenues [HCR 1, (3)]

Budget Process [HCR 1, (5)]

Regular Meeting
Friday & Saturday 25 & 26 August
9:30 am to 5:00 pm

Identify New Revenues
Will Condon
Municipal League
British Petroleum
Prepare for Public Hearings

05-08 September
Possible Public Hearings

Regular Meeting- Anchorage LIO
Friday, 15 September, 9:30 am to 5:00 pm
Saturday, 16 September, 8:30 am to 4:30 pm

Final Report Preparation

Regular Meeting-Anchorage LIO
Friday, 29 September 9:30 am to 5:00 pm
Saturday, 30 September, 8:30 am to 4:30 pm

Approve Final Report

SCOMM

101:4

SUMMARY

Task Force on School Funding

June 19 - 20, 1995
Anchorage, Alaska

Call to Order - Stowell Johnstone, chair

Stowell Johnstone, chair of the Task Force on School Funding, called the meeting to order. The following members of the task force were present:

Tim Altman
David Cottrell
Mary Ann Eininger
Senator Lyda Green
Jack Krieheder
Representative Irene Nicholia

Nancy Cannington
Laraine Derr
Senator Steve Frank
Robert Gottstein
Dave Marquez
Bob Weinstein

Shirley Holloway, Commissioner of Education
Dianne Lindback, staff to Representative Elton
Bruce Richards, staff to Senator Judy Salo
John Walsh, staff to Representative Foster

Review May 19 Meeting and May 20 Conference

Tom Freeman, consultant to the task force, reviewed the public conference held May 20 in Anchorage. Over 200 individual responses were given to the question, "What do you think are the major problems with school funding?" Tom analyzed these responses and reported that all five groups identified the following four areas of concern:

- the current formula is inequitable
- lack of inflation proofing
- unfunded mandates for special programs
- unfunded facilities and/or maintenance needs

In addition, Tom indicated that four break-out groups had the following responses in common:

- lack of forward funding
- lack of community awareness
- recognition of the needs of small single sites

Misc Info:

1. Summary Task Force on School Funding
2. Public Testimony from Cliff John Groh
3. Recap of Organization's Activities on State Fiscal Reform

Transportation

The possibility of including transportation costs within the formula was discussed. One task force member indicated that the costs of transporting students was a function of the number of students and the needs of those students. Currently, school districts are reimbursed for the cost incurred with little or no oversight by the department. Possibly a new approach for covering these expenses should be discussed.

Capital Expenditure or School Construction

An alternative to the current method of providing school construction dollars was discussed. The merits of including discretionary funds within the school funding formula for capital and major maintenance expenses was explored. This plan would allow a school district to save and plan for its capital and major maintenance needs. The decision to fund additional projects would be made at the local level.

Single Site District

The task force was briefed on the history of the special appropriations to small single site school districts. In FY96, 21 small single site school districts received additional district support totaling \$3.2 million.

Understandable, Simple Formula

Many members of the task force indicated the importance of proposing a school funding formula that was simple and understandable to the general public. When a formula is too complex to be understood by many people, there is a tendency to wonder if the system is really treating all school districts equally.

Simplify Categorical Funding

During the dialogue on the current categorical funding mechanism, the importance of local decision making was stressed. Several members indicated that it is important to simplify the programs. The current vocational education plan is an allocation per student enrolled in eligible courses. Possibly this approach should be considered for the other special categories.

It was pointed out by one task force member that the growth in categorical expenditures has greatly surpassed the increased student enrollment. Since 1987, student enrollment increased 20%, while the growth in categorical programs has been almost 60%. The task force was encouraged to address this concern.

Area Cost Differential

It was recognized by the task force that the current area cost differential (ACD) is based on a household cost of living study and not on the actual cost of providing an education. The possibility of limiting the ACD to personnel costs was addressed. There was recognition by the task force that incentives may be needed to help control costs.

Massage Present Formula

The task force was informed that when the foundation formula was revised in 1987 an additional \$63 million was required. It appears very unlikely that additional funds for education will be available for this revision. Although several members of the task force acknowledged that the

CORRECTION

**THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION**



Rev. 6/98

Central Microfilm Services
Department of Education
State of Alaska

SUMMARY

Task Force on School Funding

June 19 - 20, 1995

Anchorage, Alaska

Call to Order - Stowell Johnstone, chair

Stowell Johnstone, chair of the Task Force on School Funding, called the meeting to order. The following members of the task force were present:

Tim Altman
David Cottrell
Mary Ann Eininger
Senator Lyda Green
Jack Krieheder
Representative Irene Nicholia

Nancy Cannington
Laraine Derr
Senator Steve Frank
Robert Gottstein
Dave Marquez
Bob Weinstein

Shirley Holloway, Commissioner of Education
Dianne Lindback, staff to Representative Elton
Bruce Richards, staff to Senator Judy Salo
John Walsh, staff to Representative Foster

Review May 19 Meeting and May 20 Conference

Tom Freeman, consultant to the task force, reviewed the public conference held May 20 in Anchorage. Over 200 individual responses were given to the question, "What do you think are the major problems with school funding?" Tom analyzed these responses and reported that all five groups identified the following four areas of concern:

- the current formula is inequitable
- lack of inflation proofing
- unfunded mandates for special programs
- unfunded facilities and/or maintenance needs

In addition, Tom indicated that four break-out groups had the following responses in common:

- lack of forward funding
- lack of community awareness
- recognition of the needs of small single sites

Misc Info:

1. Summary Task Force on School Funding
2. Public Testimony from Cliff John Groh
3. Recap of Organization's Activities on State Fiscal Reform

Identify School Funding Problems and Issues Important to the Task Force

The next agenda item allowed the task force members to reflect on all the public comments offered to date and to brainstorm the issues they would like to discuss in further detail. After a lengthy free-flowing brainstorming session, the task force compiled the list that follows:

- single site districts
- massage present formula
- understandable, simple formula
- capital expenditure
- governance
- size and number of districts
- area cost differential
- simplify categorical funding
- set goals - what do we want
- forward funding
- disparity test
- parental involvement
- transportation
- choice
- present limits of funding source
- task force goal
- equalization of wealth
- define equity
- PL 81-874

Discuss Problems and Issues

The committee spent many hours discussing and analyzing the issues identified above. A summary of that discussion follows:

Equalization of Wealth, Local Control, Disparity, PL 81-874

The task force members recognized how closely these concepts are interwoven. State statute limits the amount a local school district may contribute towards school funding so that Alaska meets the federal disparity test. Alaska must be in compliance so that the state can recognize impact aid dollars as a means to equalize wealth between school districts. Individual district wealth needs to be equalized to an acceptable standard to insure that all districts are treated equally.

Although PL 81-874 dollars represent a small percentage of the total amount allocated for school funding (\$43 million in FY96 out of a total of \$711 million), it is highly unlikely that replacement dollars will be available from the legislature.

PL 81-874

Impact aid is received from the federal government for payment in lieu of taxes for individuals working or living on federal lands. The passage of ANILCA removed land from the tax roll and greatly increased the number of students eligible for PL 81-874 support. Kansas, New Mexico, and Alaska are the only three states that are allowed to deduct impact aid from a district's state aid entitlement.

Disparity

The discussion on disparity centered on the need to insure equity between school districts. Even if the federal standard of disparity did not apply, the committee felt that an Alaskan standard should be considered. All students should be treated equally under the formula.

Transportation

The possibility of including transportation costs within the formula was discussed. One task force member indicated that the costs of transporting students was a function of the number of students and the needs of those students. Currently, school districts are reimbursed for the cost incurred with little or no oversight by the department. Possibly a new approach for covering these expenses should be discussed.

Capital Expenditure or School Construction

An alternative to the current method of providing school construction dollars was discussed. The merits of including discretionary funds within the school funding formula for capital and major maintenance expenses was explored. This plan would allow a school district to save and plan for its capital and major maintenance needs. The decision to fund additional projects would be made at the local level.

Single Site District

The task force was briefed on the history of the special appropriations to small single site school districts. In FY96, 21 small single site school districts received additional district support totaling \$3.2 million.

Understandable, Simple Formula

Many members of the task force indicated the importance of proposing a school funding formula that was simple and understandable to the general public. When a formula is too complex to be understood by many people, there is a tendency to wonder if the system is really treating all school districts equally.

Simplify Categorical Funding

During the dialogue on the current categorical funding mechanism, the importance of local decision making was stressed. Several members indicated that it is important to simplify the programs. The current vocational education plan is an allocation per student enrolled in eligible courses. Possibly this approach should be considered for the other special categories.

It was pointed out by one task force member that the growth in categorical expenditures has greatly surpassed the increased student enrollment. Since 1987, student enrollment increased 20%, while the growth in categorical programs has been almost 60%. The task force was encouraged to address this concern.

Area Cost Differential

It was recognized by the task force that the current area cost differential (ACD) is based on a household cost of living study and not on the actual cost of providing an education. The possibility of limiting the ACD to personnel costs was addressed. There was recognition by the task force that incentives may be needed to help control costs.

Massage Present Formula

The task force was informed that when the foundation formula was revised in 1987 an additional \$63 million was required. It appears very unlikely that additional funds for education will be available for this revision. Although several members of the task force acknowledged that the

current formula addresses the uniqueness of Alaska (minimum local contribution requirement and the area cost differential), the vast differences in the cost of providing an education per student is troublesome and should be looked at.

Governance

The members explored a variety governance structures for public education. The task force emphasized the importance of parental involvement in decision making and the value of possibly including incentives within the formula to encourage cooperation between school districts.

Task Force Goals

The group decided that four main goals should drive the revision of the formula; adequacy, equity, local control, and accountability. After considerable free-flowing discussion, the task force agreed to the following basic concepts:

Adequacy (of funding) - maintain, at least, current level of funding, every child's needs must be reasonably addressed, capital expenditures and maintenance of facilities must be considered, mandated programs need to be funded

Equity - equity can be defined in terms of funding, learning outcomes, access and opportunity to education, and tax payer contribution

Local Control - people do a better job of managing their lives than government, local control includes parents and other concerned individuals, local control equals the local education community, ideally vest control in the hands of parents

Accountability - should bubble from the bottom up as in school site decision making, sanctions vs. incentives, local school derives authority from state statutes

Identify Potential Solutions

Several members suggested that any new proposal must be a win-win situation for school districts. If districts are adversely impacted by the change, most likely neither the governor nor the legislature will support the proposal. If the new funding formula is simple and logical and addresses the concerns previously outlined, the new proposal will be viewed with an open mind.

An idea for distributing education dollars on a per student basis was presented to the task force by a committee member. Under the plan presented each individual student would receive funding based on one of three categories depending on the needs of the student. The three categories suggested are *Base*, *Special Needs 1* and *Special Needs 2*. A *Special Needs 1* student would receive 2 times the base and a *Special Needs 2* child would receive 5 times the base.

In addition, the state would be divided into 3 distinct geographical areas:

Area A - urban communities - approximately 80% of the students

Area B - remote communities that have access to major transportation systems - 5%

Area C - very remote communities, not on a road system - 15% of the students

Area B would receive 25% more than Area A and Area C would receive 75% more than Area A.

The area in which a student's school is located and the needs of that student would determine the funding level. Thus, the funding plan is based on 2-dimensional matrix, the area of the state and the individual student needs. The matrix is shown as follows:

	Area A	Area B	Area C
Base	\$ 5,000	\$ 6,250	\$ 8,750
Special Needs 1	10,000	12,500	17,500
Special Needs 2	25,000	31,250	43,750
Waiver *	50,000	62,500	87,500

* A waiver would be granted if a student needs were not addressed by the funding allocated in the category, *Special Needs 2*.

It was recommended that the payment for education be distributed through a student allocation similar to a public voucher that would be given to the parent or legal guardian of a student. The parent would be able to decide which school his or her student would attend. The public voucher would be taken by the parent or legal guardian to this school. The financial decisions on how to spend the voucher would then be made at the school level, instead of at the district level. The money would flow from the building level to the district administrative level. It was indicated that the use of the public voucher would result in a change in the governance structure of our schools. The funding decisions would be made at the building level; the level most directly impacted by those decisions.

Although the member recommended serious consideration of the public voucher proposal, it was indicated that this plan to distribute school funding based on a per student basis could stand alone, with or without a public voucher.

It was suggested that incentives could be established that would encourage local communities to contribute more local dollars to education. In addition, the cost of transportation and capital expenditures could also be included in the formula.

The task force reviewed the information presented and discussed the proposal in great detail.

Determine Order of Discussion and Align Discussion Topics with Meeting Calendar

The task force requested that John Augenblick, a nationally recognized school finance consultant, be present at the next meeting. After considering the pros and cons of breaking into small subcommittees to study areas of concern in greater depth, the task force decided to continue to function as a committee of the whole and to review each concept as a group.

The task force will continue to review the current formula with possible changes and will begin a study of the proposal to fund education on a per student basis. To assist the committee in its deliberation, the Department of Education was requested to provide the following information:

1. Within the existing foundation formula, look at needed or desired proposals in the following areas utilizing the same governance structure, "district level"
 - a. Single site
 - b. Disparity test-PL 81-874
 - c. Incentives for shared resources/services
 - d. Categorical funding collapse
 - e. Equalization of wealth
 - f. Area cost differential
2. Analyze the formula proposal that was based on a per pupil revenue using the same framework as above and using district level governance
3. Analyze the formula proposal that was based on a per pupil revenue using a "student level" funding
4. Consider the possibility of funding pupil transportation in the school funding formula
5. Prepare an overview of PL 81-874 including analysis of how PL 81-874 is treated today in the current formula and expected future changes
6. Review the possibility of an alternative price index
 - a. Provide an analysis of personnel costs and non personnel costs
 - b. Provide an analysis of O & M vs. Instruction
7. Provide background information on capital project funding for major maintenance and school construction and the long and short term activities of the Bond Reimbursement and Grant Review Committee

OTHER ISSUES

- A. Options for community to support and contribute
- B. Long term plan for the formula, with a periodic review process
- C. Forward funding (to allow districts to plan for a period of time)
- D. Analyze the need for single site additional district support
- E. Analyze proposed versions of SB 70

Adjourn

Before adjourning, the task force indicated that the next meeting would take place July 10 - 11 in Anchorage at the Iliamna Room, Hilton Hotel. The meeting will begin Monday at 10:00 a.m.

UNDERSTANDING THE FISCAL GAP

I. What is the nature of the problem?

II. What are possible solutions?

A. Statutory changes

1. Cut the budget, reduce Permanent Fund dividends (PFDs), raise taxes, use reserves strategically to make the transition to a sustainable balance, aim for a soft landing
Advocates include Scott Goldsmith, Steve Colt, and Pat Pourchot
2. Cut budget and reduce PFDs, but don't raise taxes
Advocates include Steve Rieger
3. Cut budget and raise taxes, but don't cut PFDs
Advocates (at least previously) included Hugh Malone
4. Muddle through--do not amend the constitution, as this could harm representative government
Advocates include John Havelock

B. Constitutional amendments

1. Roger Cremo--put all natural resource revenues (in practice, this would mostly be oil money, including all oil taxes and all oil royalties) into the Permanent Fund (PF) and live off the real (inflation-adjusted) income (assumed to be 6% a year) plus other revenues and budget cuts; the transition to this proposed system would rely on annual withdrawals from the PF; these transitional withdrawals during the transition would be higher than the real income of the PF, but the withdrawals would decline each year until the transition ended
2. Jay Hammond--adopt Cremo plan, modified by guarantee of increased PFDs if voters support budget cuts and a "sliding scale tax" which would have the rate of income tax vary with oil prices and the budget
3. Dave Harbour--put all oil royalties into PF, end PF inflation-proofing, require cash-based budgeting, impose an individual income tax, prohibit tax increases without voter approval; transition would be financed by a one-time voter-approved withdrawal from PF for one-year forward funding of the budget
4. Mike Bradner--adopt a temporary tax increase by adopting a constitutional amendment for a tax increase with a sunset provision

*NOTE: Additional Material
From Mr. Groh available in
LEPPC library.*

Cliff John Groh
April 5, 1995

estimate from the Alaska Department of Revenue indicates a broad-based state general sales tax could raise \$60 million per 1 percent of tax. To raise the same \$330 million as the old income tax would require a sales tax of 5.5 percent. This estimate assumes that the tax would cover all retail sales.

Alaska is one of only a handful of states with no statewide sales tax. (Alaska is the only state without either an individual income or a sales tax.) A 5.5 percent rate would put Alaska among the highest tier of states in sales tax rates.

Federal law currently makes state sales tax non-deductible against the federal income tax, while state income taxes remain deductible. This means that Alaskans would fare worse with a sales tax.

Enacting a statewide sales tax also raises the question of how the state will treat sales in areas that already have local sales taxes. The revenue estimate assumes that the state will neither allow a credit against the state sales tax for local governments which have their own local sales tax, nor will it share revenues with those local governments. If the state takes this approach, businesses within those jurisdictions will be forced to assume a double filing burden. This increases the potential for errors and non-compliance, and substantially increases the political opposition.

The start-up on a general statewide sales tax would be very high, in part because we have never had one.

This tax is regressive, and will hit particularly hard at low-income Alaskans. Non-residents and seasonal workers will largely escape this tax, because they do not buy much here.

Despite the unfairness of this tax, it is less unpopular than an income tax, because the sales tax is paid in nickels and dimes all year long instead of in a lump-sum check.

- ♦ **Cut Permanent Fund Dividends.** About half of the Permanent Fund's income each year goes for Permanent Fund Dividends. This unique Alaska program puts more than \$500 million into the Alaska economy annually, with each Alaskan getting a check of nearly \$1,000. For every \$20 bill you see in the Alaska economy, about \$1 of it is a dividend dollar.

The dividend program functions as a "negative," or reverse, flat head tax. Eliminating dividends could be considered regressive taxation.

The program was born during the petrodollar surge of the early '80s, and it has several rationales for its existence. Here are five:

(1) Permanent Fund Dividends build a political constituency for the Permanent Fund itself. Special-interest pressure for fund investment in shaky Alaska development schemes would be irresistible without the provision of direct and tangible benefits for individual Alaskans. Dividends provide that direct and tangible benefit, and give the public a powerful incentive to increase the size of the fund and

protect it against special-interest raids.

(2) Dividends are more fair than many of the other uses of the oil money. Subsidized loan programs have been a particularly egregious example of the inequity of other uses of the oil wealth. Loans only go to those who can pay them back — thus cutting out many people — and subsidized loans provide big grants of "subsidy welfare" to those fortunate enough to receive them.

(3) To the degree that government expenditures in Alaska are justified because of the economic effects, dividends stimulate the economy more efficiently than do operating expenditures, capital expenditures, or loan programs. Using a dollar to pay a dividend check increases personal income more and creates more jobs than using that dollar to pay for the operating budget, the capital budget, or a loan program. Permanent Fund Dividends provide a significant portion of the incomes of many Alaskans, particularly village Natives — more than 10 percent in some areas, according to census figures.

(4) Dividends deliver benefits more efficiently to their targeted populations than other methods. Significant chunks of money distributed in other ways leaks out to "middlemen." Dividends allow each Alaskan to receive benefits undiluted by state employees, construction contractors, or bankers.

(5) The payments of the dividend decentralizes decision-making. Individual decisions can often be better than collective decisions. Some Alaskans believe that the money distributed as dividends in the 1980s was better spent than it would have been if the legislature had had that money available to spend.

Some say that these rationales for continuing the dividend mark the program as an antidote for a disease — too much money coming into public hands — which is now gone, and that the antidote itself is no longer necessary and perhaps even harmful. Some say it's time for the state to return to the core functions of government, which do not include per capita direct distributions. And some will say that it would be crazy to restore the individual income tax as long as the Permanent Fund Dividend survives.

There may be merit to these arguments against dividends, but Alaskans should be wary. Permanent Fund Dividends *have* helped protect the Permanent Fund from low-return investments, and they have been a big boon to lower-income Alaskans with large families who were not so poor as to qualify for public assistance. Eliminating the dividend would hurt low-income residents. Keeping the dividend should be considered whether or not the income tax comes back.

The author served as Special Assistant to the Commissioner of Revenue from 1987 to 1990. He is now an attorney in Anchorage.

ORGANIZATIONS' ACTIVITIES
ON
STATE FISCAL REFORM

Compiled from reports at a June 8, 1995 meeting. Attendees: T. Bradner, P. Tielston, Alaska Common Ground; K. Swift, Common Sense for Alaska; P. Neal, C. Frasca, Alaska State Chamber of Commerce; C. Heyman, T. Williams, Anchorage Chamber of Commerce; N. Schoephoester, ARCO; K. Burke, Alliance; J. Brady, A. Gray, AOGA; and M. Fouse, staff, Fiscal Planning Commission.

Alaska Common Ground

- Produced and aired first video program "Running out of Time" this spring.
- Second video program "Pulling Together" airs June 14 on KAKM.
- Sept./Oct. tentatively planning conference--agenda for conference not yet set, may wait to see what Fiscal Planning Commission is doing to set agenda.
- Public Participation and Constitutional Committees looking at ways to get rural areas plugged into the process--looking at using existing organizations to get materials into communities and to get discussion going.

Alaska Support Industry Alliance

- Alliance adopted position supporting forward funding/systemic change.
- Advertising campaign advocating forward funding currently on hold.

Alaska State Chamber of Commerce

- July 28 Seminar "Privatizing Government...Expanding the Options, Trimming the Costs"--Alyeska Resort.
- September 26-28 State Chamber Conference (in Whitehorse)--opportunity to focus on fiscal issues.
- Produces and distributes Fiscal Notes--distribution 10,000.

From: Judy Brady

Anchorage Chamber of Commerce

- August, 1995 Chamber Forum--Brian Rogers will present Fiscal Planning Commission Interim Report.
- Chamber involving rural Alaska through its Rural Partnership forum.
- Fall, 95 Small Business Conference--opportunity to educate small businesses on fiscal issues.

Common Sense for Alaska

- Will continue to focus advocacy efforts on need to cut the budget with emphasis on formula programs--welfare reform and possibly education and/or corrections.
- Plans "road show" program this summer & program before session convenes in Jan. 96.

All organizations represented agreeable to theme "Challenge of Change" and to continued meetings to coordinate efforts.

June 30 Mtg
Work Session Notes

Dave Pearce

will be sending pickers re:

- CBR, should there be changes
and what should they be, how to
get on ballot.

Funds avail

repayment ^{to CBR} not.

- Settlement / admin hearing trigger

BR: CBR will play a role in any accs to
the legislature

UN: CBR drive realloc \$ / increase \$?

DP: has become force / could lead to
swap of accs SET ASIDE in statute.

BR: Put on shelf?

DP: CR + DP believe long term fiscal health
important, not put off cliff

LG: Super majority $\rightarrow$ now total budget, ^{instead} CBR
should be segregated?

DP: legislative intent that \$ ^{old back taxes} windfall set
aside. Will look for analysis of language.
Steve Rieger interested

★ Brian asked Mary Nordale to look at ★
Ch. Revenue subcommittee.

JB - revisit agreements/assumptions re: base case. concerned about maintenance/adding increased costs

BR - need to discuss/show sep. base case that doesn't show inc. + debt maint. also show what result is.

JB assumptions about lowered funding don't always lead to particular results

BR Total GF 96 24B / 05. - 4350M

Mary Nordale: Prad - incorp KR's numbers into base case? ★
also decline in cap budget to reflect reduced highway spending.
identify consequences cutbacks

Brian & Rogers: look at Ed Form (+160M) inc. - look at
pop #s that lead to current proj. & calculate unit value \$ in 05 w 25% to 30% increase

in number of students.

JB discuss variables (Lee)

LGossuch - revenues drive expenditures +
define gap

in short run defines growth + turning
did not build in entitlement + formula
programs.

earlier proj. understated growth is
corrections, health care etc.

Base case diff Δ high to low price
fluctuation Δ need to separate
contingencies for price fluct - reserves
policy in addition to gap problem.

Blogs: * remove "base case"

- now call "per capita" = current

"freeze case" ^{no major} real 1996\$

"demand case" incl Perdue projections

Brad: if just look at formula separately using
Kauer's Projections and then reinclude

EDFORM
observed rate of inc = 2.5% per yr.

Brady

Rogers: Use case that includes ~~\$300~~ \$500 million
look at "freeze case" still \$900M short

McConnell Pop inc. 750? 711?

Rogers: Brad confirm pop inc. 1.68% new growth
(compounded)

Goesuch: look at ISER forecast*

McConnell: need to note that employment/economy
shifting from public to private sector.

WORKSHEETS

Brady: Needs Based

McConnell: PACE minimal impact on economy

Rogers: effects of pop on program before reduction
is no inc in pop = equals a cut?

BRADNER disc.

BRAD: • avoid across BD cuts, look at separate
functions
• minimize

- life, health, safety need priority.
- constitutionally mandated, federal req.

JBrady: how enhance / protect admin systems

L Goesuch: Net economic benefit

- willingness to pay / user fees / ^{indiv} local govt
- where no ^{capacity} revenue / tax base still needs to consider basic s/c.
- incentives to lower costs

Rogers: budget should not allow agency exp. to use up cap \$ assets.

Noedake: funding in lump sums for maint ~~~~~
Change budgeting method.

Gorsuch: INTERGENERATIONAL EQUITY

[* indiv vs. business *]

transfer pmts vs. subsidies

• need to focus on "budget buster" items

6
*disparity test.

Brady • next three yrs ▶ ed/trans/ will be held while
OTHERS cut

Noedale/
LOECHER committee ^{should} to address comparability/education
issues

Brady : Need goal for permanent fund. in order
to

Goesuch : Need to concentrate on strategic big picture
then GET APPROVAL FM PUBLIC / ? ARE WE
GOING IN RIGHT DIRECTION?

Noedale : ^{YES} Think we do need to set GOAL for
PERM fund.

ALL ASSETS + ALL EXP ON TABLE.

SEND
GREEN

LUNCH

Outline:

Brady : close to questions, i.e. campus / RIEGER plan/
find out what people think?

McConnell: if we haven't had time for public education, how do we gauge public opinion?

Nordale: concentrate on laying out the problem.
public understanding of consequences of reduction.

McConnell: Factors/Ranking to be considered when looking at revenue raising ~~and~~ items.

Nordale: shorter earlier report would generate more + better public response/opinion.

Grosche 1. BASE CASE: ^{EXISTENCE +} SIZE OF GAP
2. Tools
3. DESPITE EFFORTS still growing.

Brady Combos / Plans / Tradeoffs

ROGERS 1. HELD THE LINE
2. CAN'T CLOSE GAP BY CUTTING SPENDING

GOV real per capita terms ^{cut} 8.9% this year

SPDP → RES. IND → APPTS: RES?

REAL SIZE OF
FISCAL GAP →
NEED ALL (+ PF)
ON TABLE.

Motley: PF needs to be part of scenario

★ send travel form to Marie Westfall★

Gorsuch: Hold press conference

Nordale ★ July 14th 8³⁰ AM Peem Fund Teleconf ★

- GET CLEAR IMPRESSION OF CURRENT
- REVIEW OPTIONS
- HOW GET THERE?

BRADY IF EVERYTHING IS ON TABLE, LET PUBLIC KNOW THAT.

Motley. ↑

Rogers: All our cases show PF EARNINGS + EXP SEPARATE
BASE CASE SHOULD REFLECT ↑

Nordale REVISE BASE CASE TO REFLECT PROPOSALS.

PROG RECEIPTS

FED \$

OFF BOOK \$s

★ PUBLIC OUTREACH COMM: HOW SHOULD REPORT LOOK? ★

EXP: MEET + MAKE SCENARIOS

STYLE + D. -

IMPACTS OF
ALTERNATIVES. ★

★ LOESCHER

✓ RITCHIE

★

★ GET MATERIAL TOGETHER. ★

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

P.O. BOX 110601
JUNEAU, ALASKA 99811-0601
PHONE: (907) 485-3030
FAX: (907) 485-3068MEMORANDUM

DATE: June 21, 1995

TO: Annalee McConnell, Director
Office of Management and Budget
Office of the Governor

FROM: *Karen Perdue*
Karen Perdue
Commissioner

SUBJECT: Long Range Financial Planning Commission
Excise Taxes on Alcohol and Tobacco

Post-It™ brand tax transmittal memo 7571		of pages 13
To <i>Melissa</i>	From <i>Brad</i>	
Co.	Co.	
Dept.	Phone # <i>465-4677</i>	
Fax # <i>258-9869</i>	Fax # <i>3008</i>	

The Department of Health and Social urges the Office of Management and Budget to bring the issue of increasing the excise tax rate for tobacco products and alcoholic beverages to the attention of the Long Range Financial Planning Commission. Alcohol abuse and tobacco use are major health problems in Alaska and the department approaches the issue of excise taxes solely from a public health perspective. The Department of Health and Social Services is not responsible for collection of these taxes which are, and should remain, within the purview of the Department of Revenue. Additional revenues generated would be deposited directly into the state general fund.

Department of Health and Social Services Perspective

While recognizing that the increased revenues generated by an increase in excise taxes would help meet the overall budget shortfall, the Department of Health and Social Services believes that the primary benefit of increased alcohol and tobacco excise taxes would be an improvement in the overall health status of the Alaskans.

Should the Commission choose to examine this issue, the department also suggests that the Commission consider mechanisms for sharing a portion of any additional revenues generated with local communities. The State of Alaska currently shares some taxes and fees with local communities to help local governments deal with the impacts or share in the economic benefits of certain activities. One example is AS 04.11.610 in which fees charged for the license to sell alcoholic beverages are appropriated back to the communities where they were earned.

The Department of Health and Social Services is committed to the goal of encouraging and enabling local communities to plan, finance and implement local solutions to health and social problems created or aggravated by alcohol and tobacco use. Sharing alcohol and tobacco excise tax revenues with local governments would provide increased local resources to further this goal.

June 20, 1995

Page two

Background on Alcohol Use and Taxation:

Alcohol consumption rates are directly linked with health, safety and social problems. Alaska has for many years had one of the highest alcoholic beverage consumption rates in the United States, ranking fourth highest in per capita consumption. Surveys of Alaskan youth provide startling responses. Over 70% of Alaskan students in grades 10-12 report having used alcohol at some time during their lives compared to only 46% nationally. Only 5% of youth 12-17 years of age in the entire United States use alcohol frequently (at least weekly). In Alaska, this level is reached by the seventh grade and peaks at 25% in grade eleven.

The economic costs to the State and business of alcohol abuse is high. In Alaska this cost has been estimated to be as high as \$500 million annually. Nationally it is estimated that as much as \$34 billion of health care costs are attributable to alcohol abuse each year.

Excise taxes on alcohol were last increased in 1983. Per capita consumption declined significantly after 1983 and continued to decline through 1991. Inflation has since offset the deterrent effect of the last tax increase, however, and consumption has begun to rise. Increasing taxes on alcoholic beverages will assist in reversing the trend of consumption and will assist Alaska in obtaining the goal of 2.0 gallons per capita from the current 3.33 gallons as identified in *Healthy Alaskans 2000*, the initiative aimed at improving the health status of all Alaskans.

Background on Tobacco Use and Taxation:

Tobacco use is an enormous health problem. Tobacco kills one out of three users and disables many more. Causal links have been established between tobacco use and a number of chronic diseases including: stroke, numerous kinds of cancers, coronary heart disease, chronic obstructive pulmonary disease, peripheral artery disease, and low birth weight baby risks.

Nearly 20% of deaths in Alaska are smoking related (one Alaskan dies each day due to smoking attributable causes.) The direct health care costs attributable to smoking in Alaska in one year (1991) were estimated at \$45.6 million for persons 35 years of age or older. This is the equivalent of \$220 per Alaskan 35 or older or \$941 per smoker 35 or older. Indirect costs in that same year, including lost earnings and productivity for persons disabled by smoking-related chronic disease or who died prematurely from smoking related causes was \$82 million.

Although there have been dramatic gains in recent decades in the campaign against tobacco smoking, tobacco use among youth continues to be a public health epidemic. Every day more than 3,000 American teenagers become regular smokers.

The Department of Health and Social Services supports increasing taxes on tobacco because increases in tobacco taxes: (1) saves lives; (2) saves money, especially health care costs; (3) generates revenue; (4) is fair; and (5) is popular. Nearly 90% of smokers start smoking by the age of 21 and increasing the price of tobacco has been demonstrated to decrease the number of users, especially among youth.

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

P.O. BOX 110601
JUNEAU, ALASKA 99811-0601
PHONE: (907) 465-3030
FAX: (907) 465-3068

MEMORANDUM

DATE: June 21, 1995

TO: Annalee McConnell, Director
Office of Management and Budget
Office of the Governor

FROM: Karen Perdue
Commissioner

SUBJECT: Long Range Financial Planning Commission
Excise Taxes on Alcohol and Tobacco

Post-It™ brand fax transmittal memo 7671		of pages > 13
To: Melissa	From: Brad	
Co.	Co.	
Dept.	Phone # 465-4677	
Fax # 258-9869	Fax # 3008	

The Department of Health and Social urges the Office of Management and Budget to bring the issue of increasing the excise tax rate for tobacco products and alcoholic beverages to the attention of the Long Range Financial Planning Commission. Alcohol abuse and tobacco use are major health problems in Alaska and the department approaches the issue of excise taxes solely from a public health perspective. The Department of Health and Social Services is not responsible for collection of these taxes which are, and should remain, within the purview of the Department of Revenue. Additional revenues generated would be deposited directly into the state general fund.

Department of Health and Social Services Perspective

While recognizing that the increased revenues generated by an increase in excise taxes would help meet the overall budget shortfall, the Department of Health and Social Services believes that the primary benefit of increased alcohol and tobacco excise taxes would be an improvement in the overall health status of the Alaskans.

Should the Commission choose to examine this issue, the department also suggests that the Commission consider mechanisms for sharing a portion of any additional revenues generated with local communities. The State of Alaska currently shares some taxes and fees with local communities to help local governments deal with the impacts or share in the economic benefits of certain activities. One example is AS 04.11.610 in which fees charged for the license to sell alcoholic beverages are appropriated back to the communities where they were earned.

The Department of Health and Social Services is committed to the goal of encouraging and enabling local communities to plan, finance and implement local solutions to health and social problems created or aggravated by alcohol and tobacco use. Sharing alcohol and tobacco excise tax revenues with local governments would provide increased local resources to further this goal.

June 20, 1995

Page three

Affordability of tobacco appears to be the most important determinant of the number of children who will start smoking. An increase in the cigarette excise tax may be the most effective approach to reducing tobacco use. Teenagers are much more responsive than adults to increases in the price of cigarettes because they have less disposable income and may be three times more sensitive to price increases than adults' consumption. Also children and teenagers are usually less addicted than many adult smokers and, therefore, more likely to be able to stop smoking when prices increase.

The benefits of increasing the tobacco tax will most immediately be seen in the drop in consumption by youth and in the decrease in the number of youth who begin to use tobacco products. Only a very small percentage of tobacco users begin as adults. Reducing the initiation of youth to tobacco use is the most important prevention objective of health professionals. Studies have shown that children and adolescents who start to use tobacco do not understand the nature of tobacco addiction and are unaware of or underestimate important health consequences of tobacco use. Children and adolescents who use tobacco are persuaded to do so through advertising and peer pressure resulting from media images, and because it is readily available as well as inexpensive. Research concludes that higher tobacco excise taxes significantly reduce the number of teenage tobacco users.

Data compiled in the United States, Canada, California, and the United Kingdom indicate that for every 10% increase in the inflation-adjusted price of tobacco, general consumption will fall by about 4% but, more significantly, it will drop by about 10% among youth.

American tobacco taxes are among the lowest percentage of total price of virtually any country in the world. In 1989, California voters approved a citizen's initiative to raise their cigarette excise tax by 25 cents. Cigarette smoking dropped 17% between 1989 and 1991, about twice the U.S. average. In Michigan, on May 1, 1994 the cigarette excise tax was raised from 50 cents to 75 cents per pack. Since then, legal sales of cigarettes have declined approximately 30 percent, and cigarette tax revenue for August 1994 was \$45.9 million, up from \$21.8 million in August 1993.

Conclusion

Alcohol abuse and tobacco use are major health problems in Alaska. Increasing excise tax on these products is a key strategy for decreasing use among Alaskans--particularly among youth. Excise tax increases will also generate additional revenues to the State.

Enclosed are the relevant sections of the state health plan, *Healthy Alaskans 2000*, which provide further information on this subject. If you require additional briefing materials, please don't hesitate to contact my office. The department very much appreciates your willingness to bring this matter to the attention of the Long Range Financial Planning Commission.

Enclosures

cc: Commissioner Condon, Dept. of Revenue
Pat Pourchot, Office of the Governor
Peter Nakamura, Director, Div. of PH
Loren Jones, Director, Div. of ADA

June 6, 1995

IMPACT OF CAPS ON FEDERAL SHARE GROWTH RATE TO ALASKA'S MEDICAID PROGRAM

Summary

Alaska expects its Medicaid program to grow at a conservative 10.6% each year from Fiscal Year 1996 through 2002. Yet Congress is considering capping the annual growth of federal Medicaid expenditures at 8% for FY 96, 7% for FY 97, 6% for FY 98, and 4% for FY 99 and each year thereafter. These caps on Medicaid expenditures would reduce health care funding in Alaska by approximately \$467 million over seven years. Further, under current law, the caps would end Medicaid payment for all optional services, including long term home-based care and inpatient psychiatric services in five years. Services for medically complex children, and services for some non-AFDC minors will be eliminated by the 7th year. Finally, if reductions are managed by reducing rates paid to providers instead of or in addition to eliminating optional benefits, several rural hospitals may be forced to close.

The following discussion summarizes the potential service and budget impacts on Alaska's Medical Assistance program from growth rate caps. The impacts are based on an expenditure model which projects Medicaid costs:

- over seven years;
- growing at 10.6% each year;
- under current program conditions;
- with no significant facility expansions; and
- proceeding with planned program changes.

A 10.6% growth rate was selected based on historical growth rates ranging between 10 and 20 percent, recent reductions in state revenues, and Alaska's limitations in achieving savings from managed care and other popular cost containment strategies.

Background

Approximately one sixth of Alaska's population - 85,000 people - are eligible to receive Medicaid services. The federal government pays half of program benefits, and 50 to 90% of administrative costs. Overall, federal funds are 51% of expenditures. Administrative costs represent 4% of the Medicaid budget.

In 1994:

70,000 of these eligible Alaskans actually used services, which include everything from prescriptions, to preventive care for children, to nursing home care for the elderly.

From DHSS

Medicaid Cap Impact
June 6, 1995

In 1994 - cont'd:

- Alaska spent \$273 million in the Medicaid Program, 50% federal funds; 50% state, as follows.

- nursing home services	18%
- hospital services	31%
- physician services	18%
- prescription drugs	4%
- inpatient psychiatric care	5%
- community mental health	5%
- Early childhood screening and immunization.	2%

Medicaid eligibility is based on income. Children in families receiving public assistance comprise 38% of all Medicaid-eligible Alaskans. However, only 17% of expenditures are made for children. In contrast, elderly Alaskans represent only 6% of Medicaid-eligible residents, but represent 14% of the expenditures.

The Department may limit services so long as the services provided are adequate in "amount, duration and scope" to meet the recipients' medical needs. The medical provider and the patient decide the medical need to be met, and the Department then pays the provider directly. While the Department may set reasonable prices to be paid for services, the payments must be high enough to insure continued access to medical services.

Alaska Statutes

Alaska's Medical Assistance Statute (AK 47.07.035) requires the Department to pay for mandatory services for eligible individuals, as described in federal law. It also lists *optional* services and optional groups of eligible individuals in order, with #1 being the lowest priority and #31 the highest (see attached list, page 5). Under current law, if the state and federal funds together cannot pay for all mandatory and optional services, DHSS meets its budget by cutting optional services, beginning with #1. These optional services are mostly adult-only services, and do not affect care for children, until the end of the list is reached. The state legislature eliminated the first ten services during 1995, and required the Department to institute co-payments by recipients.

Some optional services replace more expensive mandatory services. For instance, experience shows that treatment for substance abuse dramatically decreases medical costs for these patients later on. By eliminating treatment or targeted case management for substance abuse and mental health clients, appropriate needed medical services may not be received, and more expensive acute care services may eventually be required.

Another example is home and community based care for medically complex children, mental health and developmentally disabled patients. Non-institutional long term care, provided at home or in a community clinic, is far less expensive than institutional care, and meets the

Medicaid Cap Impact
June 6, 1995

Department's policy to provide services as close to home as possible. Also, as home based services are strengthened, the state reduces its bed capacity for institutional care. Therefore as the optional services are cut, home-based long term care may be eliminated. This would then require patients to be treated in the more expensive institution setting, which no longer has room for them! Because of these paradoxes, the impacts described here are not precise nor all-inclusive.

Projected Impacts With a 8%, 7%, 6%, 5%, 4% Growth Caps

Given the above assumptions, Alaska's Medicaid budget will experience a cumulative shortfall of more than \$500 million over seven years (see attached table and chart) if the growth of the federal share is capped at 8% in FY 96, 7% in FY 97, 6% in FY 98, 5% in FY 99 and 4% in 2000 and each year thereafter. The impact estimate improves by \$15 million per year by if the IHS Medicaid expenditures are not capped.

The first year will produce an \$4.3 million shortfall which the state may manage by reducing services, or paying for them totally with state general funds. By year three, FY 98, the additional funding (or cuts) needed for one year is \$41 million; by 2002 it is \$164 million.

If the state does not or cannot pay for program growth, all optional services may be eliminated by FY 2001. Given the current fiscal gap, we believe the legislature will not replace these funds.

Optional services eliminated federal growth caps (assume IHS funds are capped):

By FY 98, physical therapy, and half of the personal care services will be cut off.

By FY 99 all prescribed drugs and 2/3 of the home and community-based waiver services are eliminated.

In FY 2000 residential care for the mentally retarded will be eliminated.

During the first quarter of 2002, all optional services are eliminated, including skilled nursing for patients under 21, and home-based services for medically complex children. The remaining six "options" on the list are really eligibility groups, whose costs are captured in the services estimates.

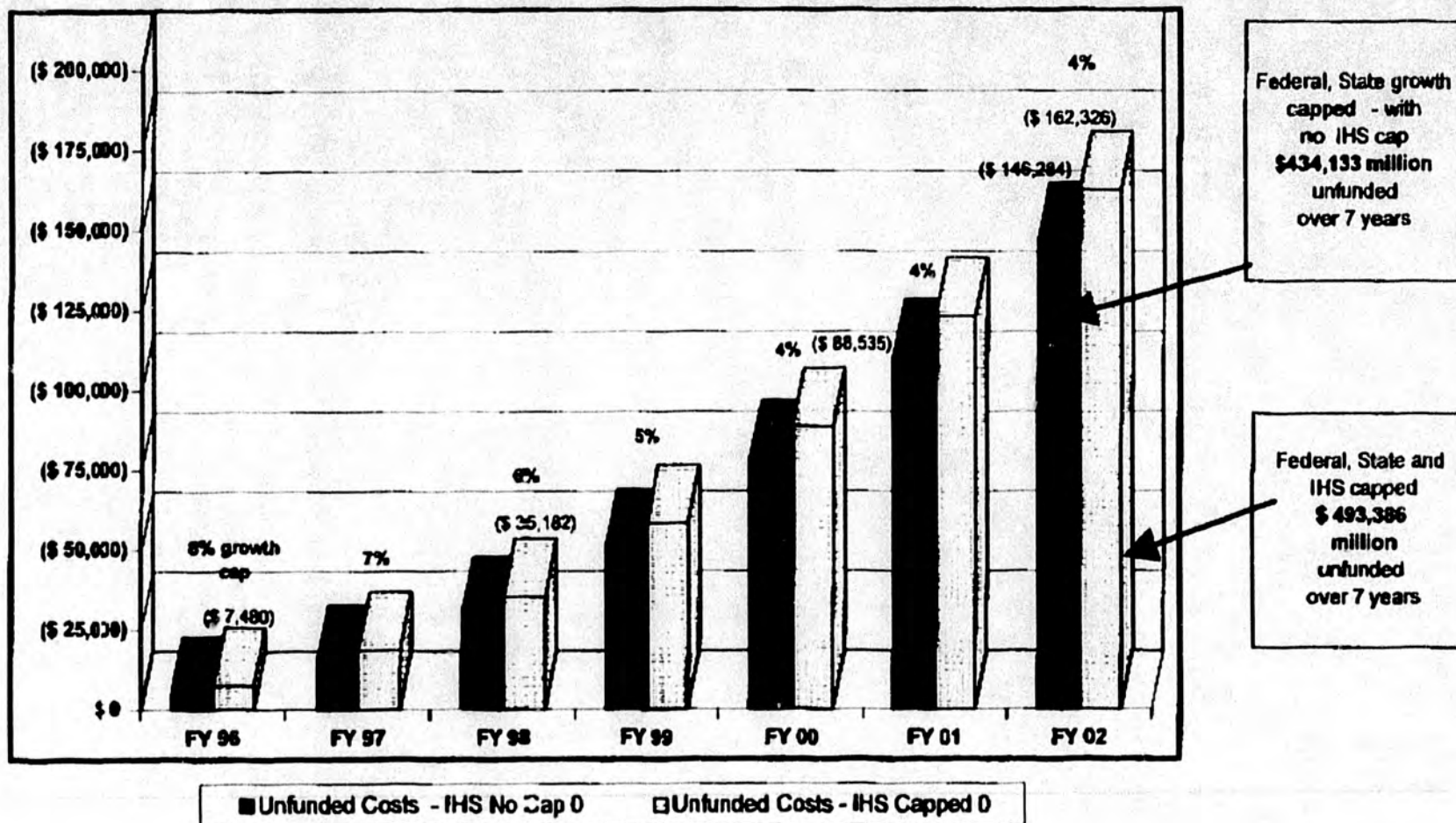
So, ironically, Alaska could have a Medicaid program that moves Medicaid recipients into institutional care - the most expensive kind of health care. Adults who need hospital psychiatric care may not receive it, while children who could be served at home may have to be treated in institutions.

Further reductions to achieve the overall spending reductions will have to be made by adjusting rates for mandatory services.

Page 4

Dollars Lost with Medicaid Growth Caps

(amounts in thousands of dollars)



Medicaid Cap Impact

June 6, 1995

Boren Amendment

Over half of the Medicaid expenditures in Alaska are payments to health facilities. Medicaid payments to hospitals and nursing homes must conform to the Boren Amendment, which is a part of federal Medicaid law. Because of this federal mandate, states are not able to adjust their Medicaid payments to reflect available funds. The result is that as available funds are reduced, a larger percentage of health care spending is diverted from less expensive community services to more expensive institutional services. Relief from the Boren amendment will give states greater flexibility in adjusting to funding reductions.

FY96 - FY02 Medicaid Expenditure Growth Cap Analysis
Department of Health and Social Services
Division of Medical Assistance
(Amounts in thousands of dollars)

BRU/Component	FY95 Authorized	8% FY96 Budget	7% FY97 Projected	6% FY98 Projected	5% FY99 Projected	4% FY00 Projected	4% FY01 Projected	4% FY02 Projected	Total 96 - 02
Medicaid Facilities	125,387.3	145,270	160,669	177,700	196,536	217,369	240,410	265,894	1,403,848
Medicaid Non-Facility	133,892.6	135,333	149,679	165,545	183,092	202,500	223,965	247,706	1,307,820
Indian Health Service	19,822.0	24,433	27,023	29,887	33,055	36,559	40,434	44,720	236,110
Medicaid State Programs	19,385.2	19,946	20,544	21,160	21,795	22,448	23,122	23,816	152,829
Waiver Services	<u>8,881.6</u>	<u>11,249</u>	<u>12,441</u>	<u>13,760</u>	<u>15,218</u>	<u>16,832</u>	<u>18,616</u>	<u>20,589</u>	<u>108,705</u>
Total Medical Assistance	307,368.6	336,231	370,355	408,051	449,697	495,708	540,547	602,724	3,209,313
Net Percent Change			10.15%	10.18%	10.21%	10.23%	10.26%	10.28%	Avg. 10.22%
Current Shares									
State Funds	141,348.1	149,449	165,022	182,239	201,272	222,315	245,579	271,300	1,437,176
Federal Funds	166,020.5	186,782	205,333	225,812	248,424	273,393	300,968	331,424	1,772,137
Shares with Capped Growth									
State Funds Capped	141,348.1	149,449	159,910	169,505	177,980	185,099	192,503	200,203	1,234,648
Federal share - IHS No Cap	166,020.5	182,327	195,970	208,971	221,093	232,118	243,816	256,237	1,540,532
Federal - IHS Capped	166,020.5	179,302	191,853	203,364	213,533	222,074	230,957	240,195	1,481,279
Unfunded Costs - IHS No Cap		(4,455)	(14,476)	(29,576)	(50,624)	(78,491)	(110,228)	(146,284)	(434,133)
Unfunded Costs - IHS Capped		(7,480)	(18,592)	(35,182)	(58,184)	(88,535)	(123,087)	(162,326)	(493,386)

ASSUMPTIONS:

1. 10.6% annual rate of growth in the Medicaid program across the projection period. This very conservative growth rate is used with consideration given to the unprecedented interest in health care spending, trends toward capitation and managed care, and the Alaska Legislature's interest in slowing Medicaid program growth together with its incongruent interest in refinancing state programs with federal Medicaid dollars. The program expenditure growth in the Medical Assistance components therefore continues at 10.6%, unless otherwise noted below.
2. Medicaid State Programs grow by 3% annually. This component funds reimbursable services agreements with other state agencies for Medicaid services, which the Legislature will ensure grows at a much slower rate than the balance of the program. This slightly reduces the 10.6% growth rate.
3. The amount of change to the program continues at the same historical rate. For example, changes in the amount, duration and scope of services offered, both positive (expansions) and negative (contractions) will continue at the same level as they have historically.
4. Growth rate includes modest changes in the Legislature's appropriation levels as well as health care inflation.
5. The eligibility caseload growth will continue at historical rates. For example, it reflects the addition of the next year of children born after January 1983 in compliance with the mandates of OBRA90.
6. No dramatic shifts will occur during the period. Dramatic swings in any one area are not included in the model and would invalidate projections.
7. No other cost shifts are made by the federal government to the state. An example would be if the Indian Health Services no longer provided outpatient hospital care. This model assumes that IHS Medicaid charges are not capped.
8. The Boren Amendment is not repealed by Congress. Additionally, not only is the Certificate of Need Moratorium statute passed; but when released, no new nursing home beds will be constructed.

6/14/95

Title I	Cash Assistance AFDC, JOBS	(\$64,262,800)	Estimates range from \$50 - \$75 million. Level depends on whether or not the federal calculation includes Native JOBS funds. It appears not to include Native funds. However, not clear what is in base, so exact calculation not yet feasible.
Title II	Child Welfare	(\$5,000,000)	Federal estimate. Combines 23 programs; not yet clear what is in the base for each.
Title III	Child Care	(\$7,921,223)	Federal estimate may not include Native JOBS in base calculations.
	Nutrition	(\$40,000,000)	School-based meals, day care meals, WIC
Title IV	Immigrant Provisions	(\$17,225,018)	Legal and illegal aliens ineligible for benefits.
Title V	Food Stamps	(\$37,000,000)	
	Food Stamp Offsets	\$14,000,000	Savings created by reducing recipients in other titles.
Title VI - Social Security Provisions		(\$13,000,000)	Removes eligibility for some developmentally disabled children and adults whose disability is materially related to alcohol or drug addiction.
	Medicaid Cap on Growth Rate	(\$207,974,000)	By 2002 this number grows by \$285,400,000 to (\$493,400,000). This assumes that state also caps its share at federal rate.
	Total Federal Funding Loss Over 5 Year	(\$378,383,041)	

Estimated Federal Funding Loss By Program Area Under HR 4							
Federal \$	1994	1995	1997	1998	1999	2000	5-Year Totals
Title I - Cash Assistance Block Grant							
# of Families - FY 94	12,042	13,787	14,455	15,178	15,937	16,734	102,213
# of Children	24,590	28,157	27,485	28,838	30,280	31,794	194,205
Block Grant Allocation ^{1,2}	\$61,669,000	\$61,669,000	\$61,669,000	\$61,669,000	\$61,669,000	\$61,669,000	\$308,345,000
Baseline Funding ³ & Projected Need ⁴ W/O Native	\$61,731,975	\$67,332,000	\$71,023,000	\$73,574,800	\$78,368,000	\$82,820,200	\$372,807,800
Baseline Funding ³ & Projected Need ⁴ W/ Native	\$62,865,451	\$69,309,180	\$72,774,818	\$76,413,349	\$80,234,016	\$84,245,717	\$382,978,861
Dollar Increase (Cut) in Funding ⁵ W/O Native in Base	(\$2,975)	(\$5,663,000)	(\$9,354,000)	(\$11,905,800)	(\$16,699,000)	(\$20,651,200)	(\$64,262,800)
Dollar Increase (Cut) in Funding ⁵ W/ Native in Base	(\$1,198,451)	(\$7,640,180)	(\$11,105,618)	(\$14,744,349)	(\$18,565,016)	(\$22,578,717)	(\$74,631,861)
Funds Reduction Based on Projected Need ⁴	-0.10%	-8.41%	-13.17%	-18.18%	-21.30%	-25.06%	-17.25%
Funds Reduction Based on Projected Need ⁴	-1.90%	-11.02%	-13.17%	-18.18%	-21.30%	-25.06%	-17.25%
Title II - Child Protection Block Grant							
# of Children - Average/year	9,972	10,984	11,904	18,510	19,991	21,590	
Block Grant Allocation ⁶	\$9,000,000	\$9,000,000	\$9,000,000	\$9,580,000	\$8,122,500	\$7,718,375	\$42,389,875
Baseline Funding ⁷ and Projected Need	\$7,539,587	\$9,000,000	\$9,000,000	\$9,499,500	\$10,259,460	\$11,080,217	\$48,839,177
Dollar Increase (Cut) in Funding ⁸	\$1,460,413	\$0	\$0	(\$949,500)	(\$2,136,960)	(\$3,363,842)	(\$4,989,889)
Funds Reduction Based on Projected Need		19.37%	0.00%	-10.00%	-20.83%	-30.36%	-10.22%
Title III - Child Care & Nutrition Block Grants							
Child Care Block Grant							
Avg. # of Families/month - FY 95	1,888	2,078	2,284	2,512	2,763	3,040	
Avg. # of Children/month - FY 95	3,080	3,388	3,703	4,073	4,480	4,928	
Block Grant Allocation ^{1,9}	\$6,757,000	\$6,757,000	\$6,757,000	\$6,757,000	\$6,757,000	\$6,757,000	\$33,785,000
Baseline Funding ^{7,10} and Projected Need ⁸	\$6,907,579	\$9,318,935	\$9,444,692	\$7,598,383	\$7,076,202	\$6,375,012	\$41,708,223
Dollar Increase (Cut) in Funding	(\$2,150,579)	(\$2,566,935)	(\$1,687,692)	(\$939,383)	(\$1,219,202)	(\$1,619,012)	(\$7,921,223)
Funds Reduction Based on Projected Need	-24.14%	-27.45%	-19.98%	-11.05%	-15.29%	-19.32%	-18.99%

SEN BY: State of Alaska : 6-26-95 : 3:25PM : UMB/BUDGET REVIEW : 150723050006.073

- 5/15/95



UNIVERSITY OF ALASKA ANCHORAGE

3211 Providence Drive
Anchorage, Alaska 99508

SCHOOL OF PUBLIC AFFAIRS

ECONOMICS DEPARTMENT
(907) 786-1770 FAX (907) 786-7739

OFFICE OF THE

JUN 19 1995

CHANCELLOR

June 16, 1995

Chancellor E. Lee Gorsuch
3211 Providence Drive
Anchorage, AK 99508

Melissa Fournier
LRFPC C/O Leg. Ligo Ofc.

Dear Lee:

For your information I am enclosing an article that I wrote with Dwight Lee about Alaska fiscal policy. You may find it useful in your important work on the Long Range Financial Planning Commission.

Yours truly,

SLJ
Stephen L. Jackstadt
Professor of Economics

enclosure
SLJ:ds

Melissa

*You may want to call Steve and ask for
a dozen copies to share w/ Commission members.*

28 June 95

left msg

★ he sent one to each member ★ -

—★ kee

*FVI
29 June 95*

SCOMM

101:5

1
14+15 July 1994

Call to Order 10:15am.

* redo letter - clean copy for approval *

BASE CASE

* add note to freeze case that
statutory chg required

* Bruce still in favor Per

* Federal F. impacts *

BC comments on base case

Small: demonstrates gap

pop growth $\triangleright$ 1.6% avg
School 2.5

Shady demonstrates use of P&E and
implications later on. lots of

Mix of options e.g.

freeze agency / inc. ed, coll. etc.

* pull maint out of demand case *

Talking points

1 BACAP

2 No sword cows

3 Fire tools
- no silver bullet

4 Fire long term
moderate w/d

Do Meeting Summary

LG: Terminology case

AKC Freeze, population inc. / 165

BR footnote:
reg. statutory chg.

federal
infrastructure ^{def} maint
collections
health care costs

McNardle: Freeze case $\neq$ real world
↓
prejudgment by 2. courts

Brady: likes combining cases + footnotes.

LG "worst case"

McNardle goal has to be to pick credible scenario
and then have chgs to that.

$$\begin{array}{r} \text{800} \\ - - - + \\ * 1200 \end{array}$$

deferred maint

LE: New info re: base case: Federal cost shifting
 magnitude of
 leveling of production
 decline (a la Cambridge)
 * need positions on

PR ~~1~~ Do nothing amended to FY96 \$ \$5.5M
Footnoted
 : def maint 1/2 pop + ~~1/2~~^{all} inflation

clearly articulate rationale for
 base case.

~~1~~ low case revenue / high case revenue
 separate page

Progers "core deficit" still short by \$400M
 i.e. highest revenue

* SIGNATURE SHEET FOR LETTER *

* Reimbursement sheets *

Nordale: Revenue spc
 \$50M @ 1% sales tax (ex. food)
 inc tax (need to determine goal)
 then determine tax
 July 19th. FF telecast revenue spc.

Starnell cost of taxation ? Brad
 * look at 1979 *

will summarize Revenue report for interim report.

* Revenue speaker. * copy

* NCSL - tax booklet * (✓ w/ Judy)

Sales vs. USE TAXES
 STATE vs. TAXES/SALLES

AHC
 * DoK * do outline of problems
 w/ different kinds of taxes.
 try to make our by org/under budget

AMC

Kinds of info re: tax from Dor:
 ratio collection/net
 local
 out of state
 problems
 progressivity

Noedale

looking to Bloesch for info re
 state/local relationship ie. shift resp
 to localities

Bloesch: discussions

- worried about block grants to LG.
- need time to plan
- local match (equity)

looking at recommendation to allow
 state to keep its revenue, local govt
 would then tax itself to make up
 shortfall. More flexibility on local
 level.

Navane Law fish tax eg.
double would raise approx \$30-40M
Motor Fuel tax (doubled ^{would bring} INTO MEDIAN VS. _{OTHER STATES ALGAH})
Alcohol tax
Tobacco " } Infrastructure to collect in place.

Navane Motor Fuel inc.
Lunch
Revenue s/c report
gaming:
\$ aside for gaming report \$ check workbook
taxes
\$ to operators

Alc criteria for looking at revenue sources?

BR probably only be able to list

principles
phasing
indexing

~~*** Revenue sk report tonight ***~~
done

"Council
Initiative"

PR Fisheries Business Tax
Revenue spc. Perm Fund

Woodale: 19th MTH 8³⁰-10³⁰

Loescher: Option .
Inc. oil taxes/severance/et.?

Woodale ^{economic} break point on severance taxes - comm. can't do.

McConnell Flag ideas not discussed in interim report
as to timing or appropriateness

Loescher

Expenditures spc

Judy Brady:

BRAD HAS IN WORKBOOK
* do charter * 16' LONGEVITY BONUS.

"Payments made regardless of need"

Clinical ~~Revenue~~ ~~S/C~~ ~~plz check school tax~~ ^{call Revenue}

Ludwig Pub Outreach Committee
Hearings scheduled for 2nd wk Sept
Munis, arranging for coordination

FBX Boeo Assy meets Thurs
Anch TUES
Radio Stations
Govt call in show

* trade off questions *
stimulate public discussion by report

AMC Budget Process S/C
• Reserves, how, why +
reserve policy

- ① Revenues
- ② PF
- ③ Reserves
- ④ Pub Outreach - Input / Sched / Worksheet
- ⑤ Uncertainty / Stabilization