

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

2378 SCOMM 101 • LONG RANGE FINANCIAL PLANNING • COMMISSION, 1995

similar tax exporting provision - a portion of sales taxes are paid by non-resident workers and by visitors to Alaska.

The effects of these options can also be differentiated by income level. Reimposing a state income tax hits upper income residents higher than lower income residents; reductions to the permanent fund dividends are proportionally greater on lower income residents.

What do you think should be done to close the fiscal gap?

Alaskans have the opportunity to respond to the issues raised in this report.

The Commission is interested in public comment upon the issues raised in this report.

You can contact the Commission by mail at:

**State of Alaska Long-Range
Financial Planning Commission
716 West Fourth Avenue
Anchorage, AK 99501**

or by electronic mail at:

LRFPCLegis@state.ak.us

The Commission will hear public comment during the following hearings:

Sept. 11 7:00 p.m. Interior/North
Sept. 12 7:00 p.m. Southcentral
Sept. 13 7:00 p.m. Anchorage
Sept. 14 7:00 p.m. Southeast

Each hearing will be held at the Legislative Information Office Conference Room at 716 West Fourth Avenue, Anchorage and teleconferenced to other LIO sites. If you live in a community which is

not served by a Legislative Information Office, to get information on participation in the process please contact the Commission staff at (907) 258-8165.

The Commission will also hear from the public during its regular meetings at the Anchorage LIO on the following dates:

Aug. 26	11:00 a.m.
Sept. 16	11:00 a.m.
Sept. 30	11:00 a.m.

The Commission is particularly interested in hearing about fiscal choices which are not listed in the appendices — other spending cuts, new revenues, uses of Permanent Fund income, uses of reserves, or other economic development strategies.

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

What is the annual tax burden for a family of four with a gross income of \$50,000 and a typical house for that income?

	Anchorage	Seattle	Billings
Pers. Inc. Tax	\$ 0	\$ 0	\$2,108
Property Tax	\$ 1,421	\$1,691	\$1,423
Sales Tax	\$ 0	\$ 998	\$ 0
Car Taxes	\$ 93	\$ 538	\$ 493
PermFundDiv.	(\$3,932)	\$ 0	\$ 0
TOTAL	(\$2,418)	\$3,227	\$4,024

Source: Alaska Department of Revenue

What is the annual tax burden for a family of four with a gross income of \$100,000 and a typical house for this income?

	Anchorage	Seattle	Billings
Pers. Inc. Tax	\$ 0	\$ 0	\$5,418
Property Tax	\$ 2,700	\$ 3,214	\$2,703
Sales Tax	\$ 0	\$ 1,966	\$ 0
Car Taxes	\$ 158	\$ 1,311	\$1,192
PermFund Div	\$ (3,932)	\$ 0	\$ 0
TOTAL	\$ (1,074)	\$ 6,520	\$9,314

Source: Alaska Department of Revenue

necessary to close the fiscal gap, with the potential for suddenly magnifying the state's fiscal and economic problems when the reserves are finally exhausted.

Economic Impacts of Fiscal Choices

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

For each \$100 million per year removed from Alaska's economy, the gross economic effect is similar whether it's

\$100 million less in state spending, \$100 million less in Permanent Fund Dividends distributed to Alaskans, or \$100 million more collected in taxes and user fees from Alaskans. For any one family or region of the state, however, the choice could make a big difference.

There are some differences in the economic impact of various choices. A 1987 study for the State Legislature compared the effects of three options - reimposing personal income taxes, reducing Permanent Fund Dividends, or reducing state spending.

The study compared some special effects from these three choices, including the "federal tax offset" and "tax exporting."

The federal tax offset recognizes that any action that affects personal incomes

of Alaskans changes the federal tax liability for Alaskans. The federal tax offset was largest for reimposition of the personal impact tax; approximately 20% of the increase in state taxes becomes a decrease in federal taxes. Approximately 15% of a decrease in permanent fund dividend payments would be offset by a decrease in federal taxes paid by Alaskans. Cutting state spending has some federal tax offset, since a portion of state employees' salaries are paid in federal income taxes, but it is difficult to estimate that tax offset.

"Tax exporting" refers to that portion of taxes paid by non-residents. Approxi-

mately 8 percent of the income earned in Alaska is earned by non-residents (not including part-year residents, who count as Alaska residents). A sales tax has a similar tax exporting provision - a portion of sales taxes are paid by non-resident workers and by visitors to Alaska.

The effects of these options can also be differentiated by income level. Reimposing a state income tax hits upper income residents higher than lower income residents; reductions to the permanent fund dividends are proportionally greater on lower income residents.

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Long Range Financial Planning Commission

716 W. 4th Ave., Suite 470
Anchorage, Alaska 99501
(907) 258-8165 Phone
(907) 258-9869 Fax Line

Agenda

for the

Regular Meeting

This Meeting will be held in the Legislative Information Office
Conference Room

2nd Floor, 716 West 4th Ave., Suite 220

August 11, 1995 & August 12, 1995

10:00 A.M. - Open Meeting with Call of the Roll

10:05 A.M. - DOT/PF Commissioner Joe Perkins Presentation
to the Commission
Roads, Harbors, and Shared Responsibility

11:00A.M. -Administrative Director of the Alaska Court
System, Arthur Snowden, Presentation to the Commission .

1:30 P.M. - Lunch to be brought in.

2:00P.M. - Worksession, RE: Options

5:00 P.M. Break for the Day.

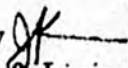
**Alaska Permanent Fund Corporation**

P.O. Box 25500 Juneau, Alaska 99802-5500
(907) 465-2047

MEMORANDUM

DATE: August 10, 1995

TO: Members, Long-Range Financial Planning Commission

FROM: Jim Kelly 
Research & Liaison Officer

SUBJECT: Permanent Fund Scenarios

Please find attached a series of 15 Permanent Fund projections which provide a detailed look at the impacts on Fund principal, net income, dividends and the General Fund of adopting a number of the Permanent Fund-related changes being considered by the Commission.

This second series of projections addresses the same proposals as those addressed in our memorandum of June 15. The primary difference here is that, per your request, we have assumed a 6% real rate of return for Permanent Fund investments in all future years.

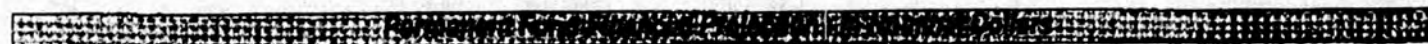
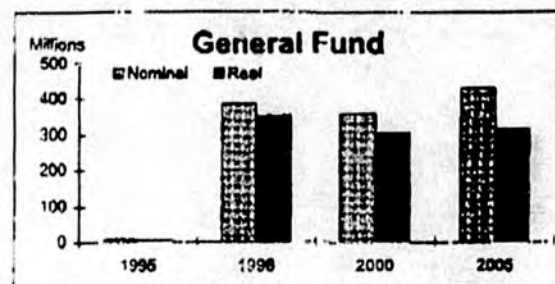
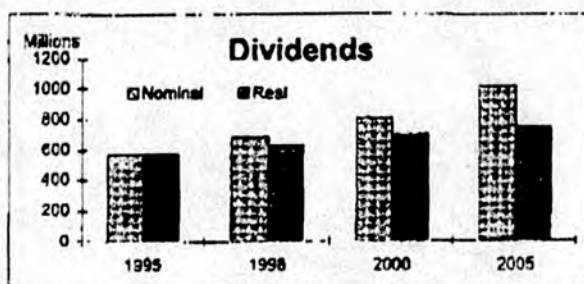
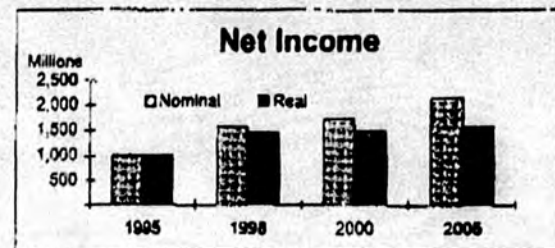
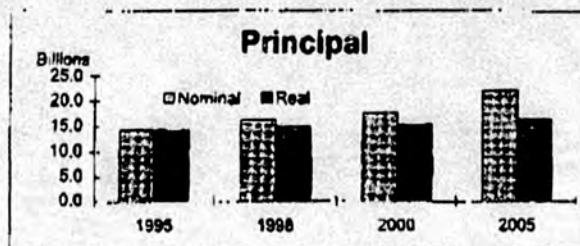
As before, each of the projections is based on a particular set of assumptions which are listed in the title of each page and, in a bit more detail, at the bottom right of the sheet.

Thanks again for inviting our participation in this important public policy debate.

c: Byron I. Mallott, Executive Director

Post-It® Fax Note 7671		Date: 8/10/95	# of pages: 15
To: Melissa	From: Jim Kelly	Co./Dept.	Co. AFPC
Phone # 258-9869	Phone #	Fax #	Fax # 258-9869

Status Quo with Base-Case Assumptions and 6% Real Rates of Return. All Income After PFDs and Inflation-Proofing to General Fund



PRINCIPAL						DISTRIBUTIONS				RESERVES	
	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	500	318	348	14,145	1,013	565	348	7	86	703
96	14,145		217	429	14,791	1,411	603	429	379		703
97	14,791		227	449	15,467	1,472	646	449	377		703
98	15,467		244	500	16,211	1,571	683	500	388		703
99	16,211		258	524	16,993	1,644	738	524	381		703
00	16,993		263	549	17,805	1,719	813	549	358		703
01	17,805		264	575	18,643	1,798	853	575	371		703
02	18,643		261	601	19,508	1,879	895	601	383		703
03	19,508		258	629	20,394	1,962	935	629	399		703
04	20,394		258	657	21,309	2,048	976	657	415		703
05	21,309		256	686	22,251	2,137	1,019	686	432		703

95	12,973	500	318	348	14,145	1,013	565	348	7	86	703
96	14,132		207	458	14,812	1,435	624	410	355		642
97	14,584		222	471	15,281	1,478	698	449	307		603
05	15,839		190	503	16,330	1,588	748	482	317		516

	Nominal	Inflation	Real
FY 95:	8.47%	2.61%	3.86%
FY 96 - 97:	8.99%	2.99%	6.00%
FY 1998-2005:	9.18%	3.18%	6.00%

Department of Revenue Spring 1995 Base-Case Oil Revenues and Inflation Rates
Total Rates of Return Assumed at 6% Above Base-Case Inflation Rates
All Income After PFDs and Inflation-Proofing to General Fund

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

**Alaska Permanent Fund Corporation**

P.O. Box 25500 Juneau, Alaska 99802-5500
(907) 465-2047

MEMORANDUM

DATE: August 10, 1995

TO: Members, Long-Range Financial Planning Commission

FROM: Jim Kelly *JK*
Research & Liaison Officer

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As before, each of the projections is based on a particular set of assumptions which are listed in the title of each page and, in a bit more detail, at the bottom right of the sheet.

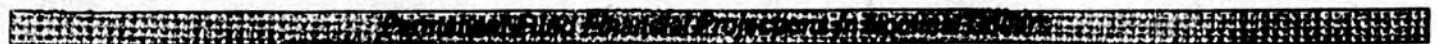
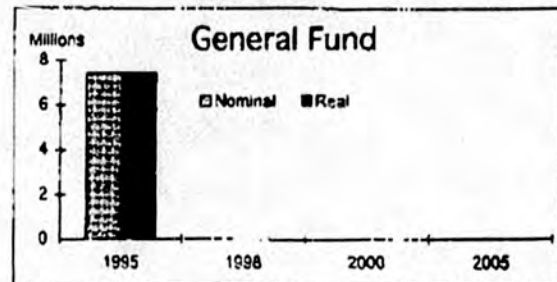
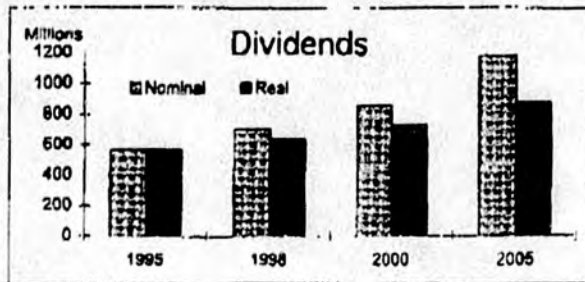
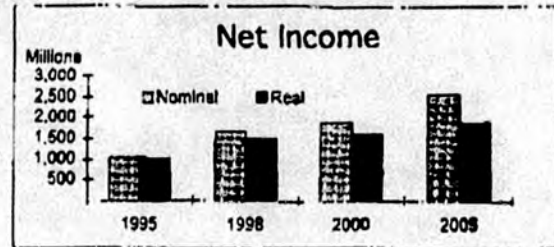
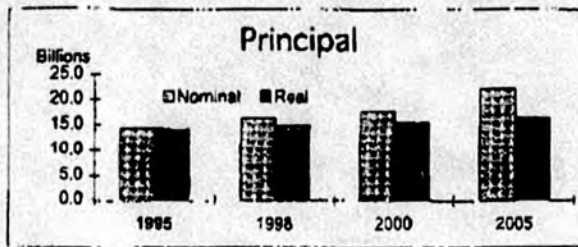
Thanks again for inviting our participation in this important public policy debate.

c: Byron I. Mallott, Executive Director

Post-It® Fax Note	7671	Date	8/10/95	# of pages	15
To	Mallott	From	Jim Kelly		
Co./Dept.		Co.	APFC		U
Phone #	258-9867	Phone #			
Fax #	258-9867	Fax #	258-9867		

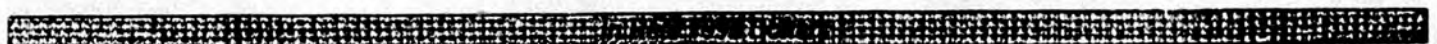
12

Status Quo with Base-Case Assumptions and 6% Real Rates of Return



PRINCIPAL				
	FY Begin Balance	Appropriations	Dedicated State Revenues	FY End Balance
FY 95	12,973	500	318	14,145
96	14,145	217	429	14,791
97	14,791	227	449	15,467
98	15,467	244	500	16,211
99	16,211	259	524	16,993
00	16,993	263	549	17,805
01	17,805	264	575	18,643
02	18,643	261	601	19,506
03	19,506	259	629	20,394
04	20,394	258	657	21,309
05	21,309	258	686	22,251

DISTRIBUTIONS				RESERVES	
Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
1,013	565	348	7	86	703
1,411	603	429		379	1,082
1,508	650	449		409	1,491
1,647	695	500		452	1,943
1,763	763	524		476	2,419
1,885	854	549		482	2,901
2,009	916	575		518	3,419
2,140	982	601		557	3,976
2,277	1,047	629		601	4,577
2,421	1,115	657		649	5,226
2,572	1,187	686		700	5,926



FY 95	12,973	500	318	348	14,145
96	14,132		207	456	14,812
97	14,584		222	471	15,281
05	15,639		190	503	16,330

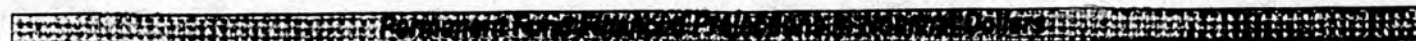
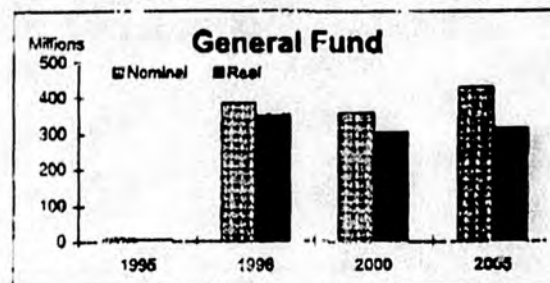
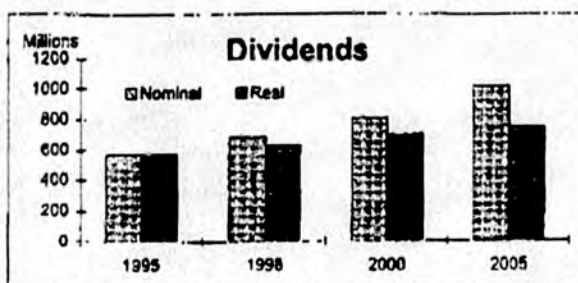
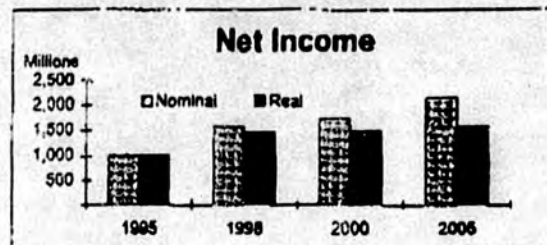
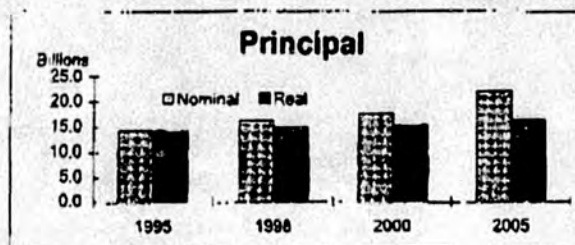
1,013	565	348	7	86	703
1,505	635	410		413	1,775
1,617	723	449		413	2,489
1,887	871	482		512	4,349

	Nominal	Inflation	Real
FY 95:	6.47%	2.61%	3.86%
FY 96 - 97:	8.99%	2.99%	6.00%
FY 1998-2005:	9.18%	3.18%	6.00%

STATUS QUO WITH BASE CASE ASSUMPTIONS AND 6% REAL RATE OF RETURN

Department of Revenue Spring 1995 Base-Case Oil Revenues and Inflation Rates
Total Rates of Return Assumed at 6% Above Base-Case Inflation Rates

Status Quo with Base-Case Assumptions and 6% Real Rates of Return, All Income After PFDs and Inflation-Proofing to General Fund



PRINCIPAL						DISTRIBUTIONS				RESERVES	
	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	500	318	348	14,145	1,013	565	348	7	86	703
96	14,145		217	429	14,791	1,411	603	429	379		703
97	14,791		227	449	15,467	1,472	646	449	377		703
98	15,467		244	500	16,211	1,571	683	500	388		703
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02	18,643		281	601	19,508	1,879	895	601	383		703
03	19,508		258	629	20,394	1,962	935	629	399		703
04	20,394		258	657	21,309	2,048	976	657	415		703
05	21,309		256	686	22,251	2,137	1,019	686	432		703

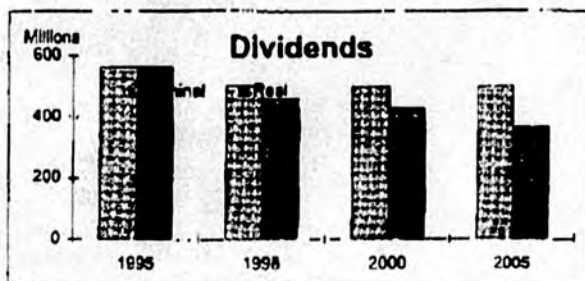
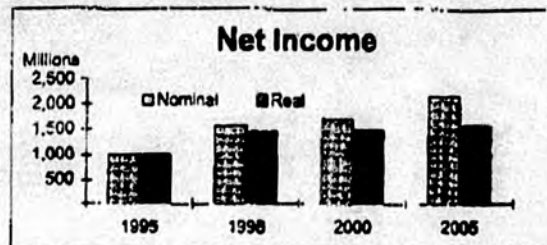
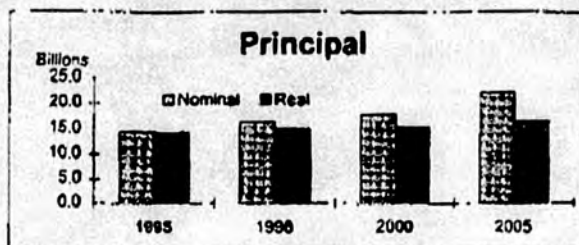
95	12,973	500	318	348	14,145	1,013	565	348	7	86	703
96	14,132		207	458	14,812	1,435	624	410	355		642
97	14,584		222	471	15,281	1,476	698	449	307		603
98	15,839		190	503	16,330	1,588	748	482	317		516

	Nominal	Inflation	Real
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Department of Revenue Spring 1996 Base-Case Oil Revenues and Inflation Rates
Total Rates of Return Assumed at 6% Above Base-Case Inflation Rates
All Income After PFDs and Inflation-Proofing to General Fund

(3N)

Base-Case With 6% ROR, Dividends Capped at \$500 Million, All Income After PFDs and Inflation-Proofing to General Fund



PERMANENT FUND REVENUES AND EXPENDITURES, 1995-2005

PRINCIPAL					
	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance
95	12,973	500	318	348	14,145
96	14,145		217	429	14,791
97	14,791		227	449	15,467
98	15,467		244	500	16,211
99	16,211		259	524	16,993
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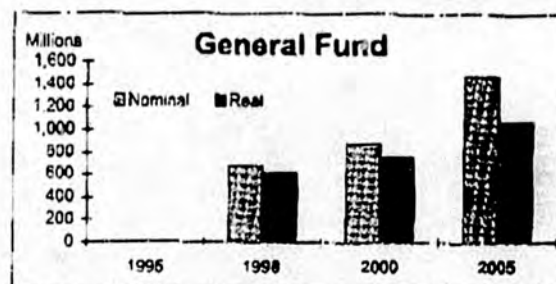
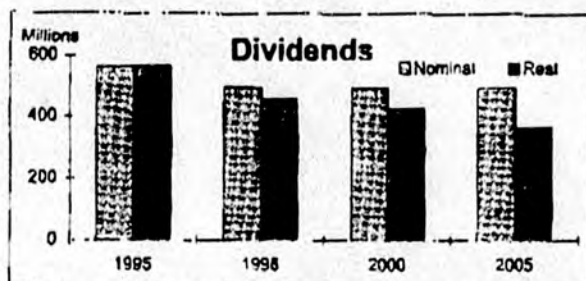
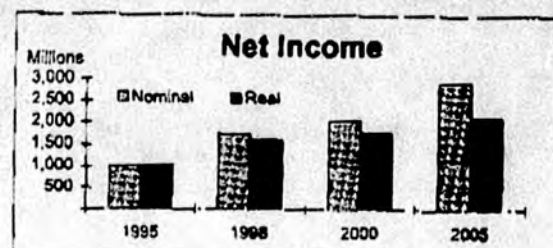
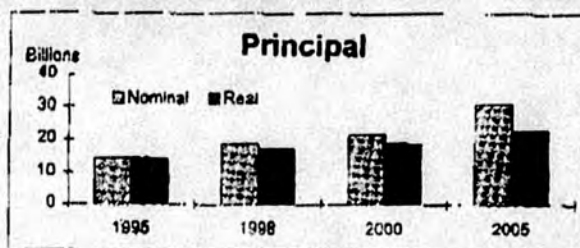
DISTRIBUTIONS				RESERVES	
Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
1,013	565	348	7	86	703
1,411	500	429	481		703
1,472	500	449	523		703
1,571	500	500	571		703
1,644	500	524	620		703
1,719	500	549	671		703
1,798	500	575	723		703
1,879	500	601	778		703
1,962	500	629	834		703
2,048	500	657	891		703
2,137	500	686	951		703

	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	500	318	348	14,145	1,013	565	348	7	86	703
96	14,132		207	456	14,812	1,435	457	410	522		642
97	14,584		222	471	15,281	1,478	429	449	576		683
98	15,639		190	503	16,330	1,568	387	482	698		516

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Department of Revenue Spring 1995 Base-Case Oil Revenues and Inflation Rates
Total Rates of Return Assumed at 6% Above Base-Case Inflation Rates
All Income After PFDs and Inflation-Proofing to General Fund

100% of Oil Royalties to the Permanent Fund; Dividends Capped at \$500 Million Realized Gains Added to Principal And Counted Toward Inflation-Proofing



Permanent Fund Financial Operations in Nominal Dollars

PRINCIPAL						DISTRIBUTIONS				RESERVES	
	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	500	318	348	14,139	1,013	565	348	7	86	703
96	14,139	461	867	10	15,477	1,441	500	10	476		703
97	15,477	502	907	11	16,896	1,569	500	11	556		703
98	16,896	558	976	10	18,441	1,744	500	10	675		703
99	18,441	607	1,035	13	20,095	1,898	500	13	776		703
00	20,095	658	1,053	15	21,821	2,058	500	15	883		703
01	21,821	711	1,055	16	23,604	2,222	500	16	995		703
02	23,604	766	1,046	18	25,433	2,394	500	18	1,110		703
03	25,433	822	1,038	19	27,312	2,570	500	19	1,228		703
04	27,312	880	1,033	21	29,247	2,751	500	21	1,350		703
05	29,247	940	1,024	23	31,234	2,937	500	23	1,475		703

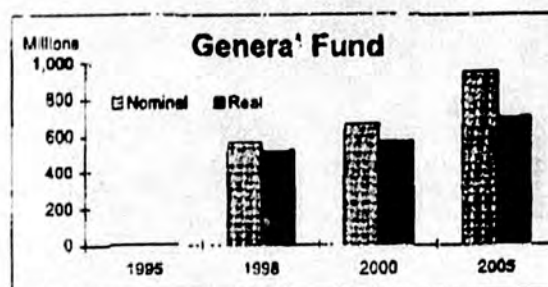
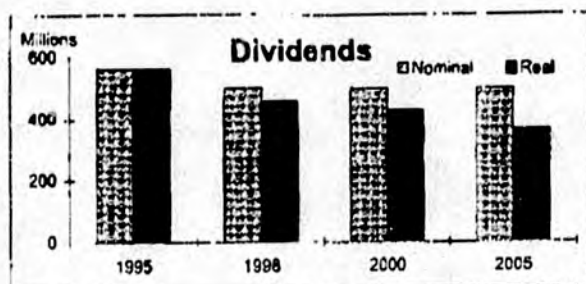
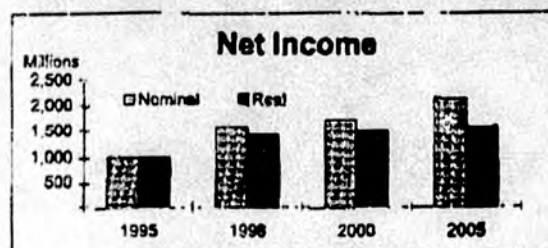
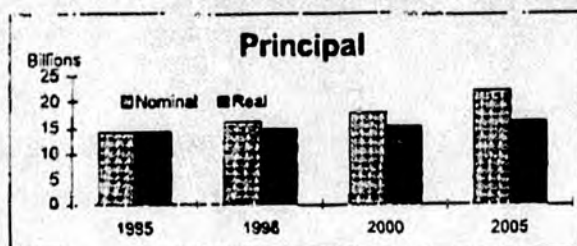
	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	500	318	348	14,139	1,013	565	348	7	86	703
96	15,438	510	828	9	16,850	1,593	457	9	617		642
97	17,247	565	848	13	18,728	1,765	429	13	758		603
98	21,465	690	758	17	22,923	2,158	367	17	1,082		516

	Nominal	Inflation	Real
FY 98:	6.47%	2.61%	3.86%
FY 96 - 97:	8.99%	2.99%	6.00%
FY 1998-2005:	9.18%	3.16%	6.00%

DOR Spring 1995 Base-Case Inflation Rates and PF Oil Revenues x 4
Total Rates of Return Assumed at 6% Above Base-Case Inflation Rates
Realized Capital Gains (32% of Total Return) added to Principal and
Counted Towards Inflation-Proofing; Dividends Capped at \$500 Million

(5N)

25% of Oil Royalties to the Permanent Fund; Dividends Capped at \$500 Million Realized Gains Added to Principal And Counted Toward Inflation-Proofing



Permanent Fund Financial Projections in Nominal Dollars

PRINCIPAL					DISTRIBUTIONS				RESERVES		
	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	500	318	348	14,139	1,013	565	348	7	88	703
96	14,139	451	217	5	14,812	1,410	500	5	454		703
97	14,812	472	227	6	15,517	1,474	500	6	438		703
98	15,517	504	244		16,265	1,576	500		572		703
99	16,265	528	259		17,051	1,649	500		621		703
00	17,051	552	263		17,867	1,725	500		673		703
01	17,867	577	264		18,708	1,804	500		727		703
02	18,708	603	264		19,572	1,885	500		782		703
03	19,572	630	250	1	20,463	1,969	500	1	838		703
04	20,463	658	258	1	21,380	2,055	500	1	896		703
05	21,380	688	258	2	22,324	2,143	500	2	955		703

Permanent Fund Financial Projections in Real 1995 Dollars

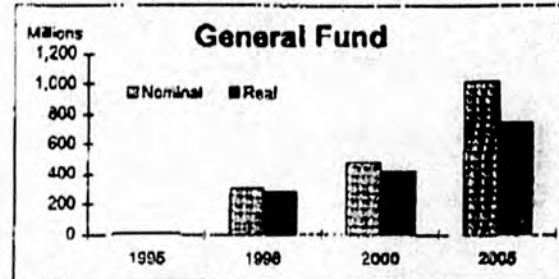
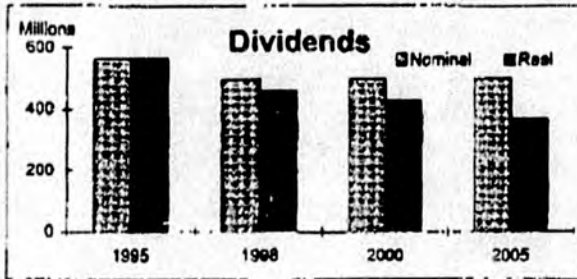
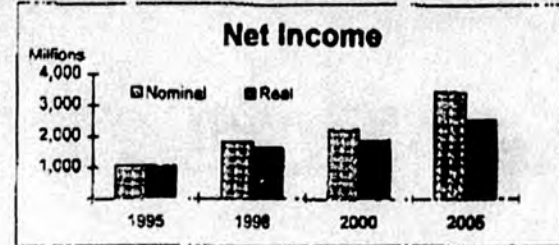
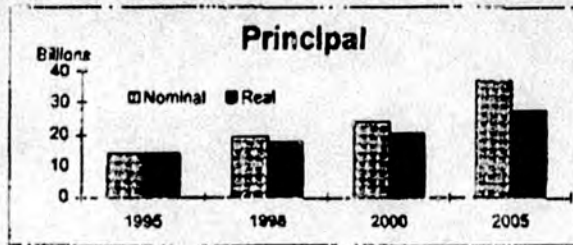
FY	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	500	318	348	14,139	1,013	565	348	7	88	703
96	14,178	451	207		14,862	1,440	457		522		642
97	14,635	474	222		15,334	1,481	429		578		603
98	15,691	503	190	2	16,384	1,573	387	2	701		516

	Nominal	Inflation	Real
FY 95:	6.47%	2.61%	3.86%
FY 96 - 97:	8.99%	2.99%	6.00%
FY 1998-2005:	9.18%	3.18%	6.00%

DOR Spring 1995 Base-Case Inflation Rates and PF Oil Revenues
Total Rates of Return Assumed at 6% Above Base-Case Inflation Rates
Realized Capital Gains (32% of Total Return) added to Principal and
Counted Towards Inflation-Proofing; Dividends Capped at \$500 Million

(6N)

4% of Fund's Cost Value Distributed, Including Dividends Capped at \$500 Million. Net Income Not Distributed is Transferred to Principal; 100% of Royalties to Fund



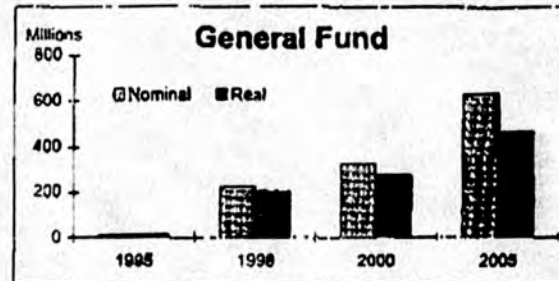
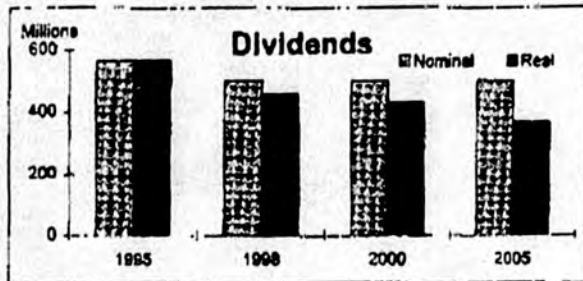
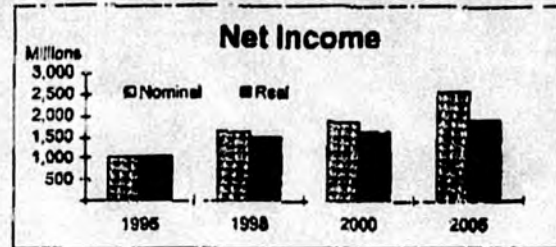
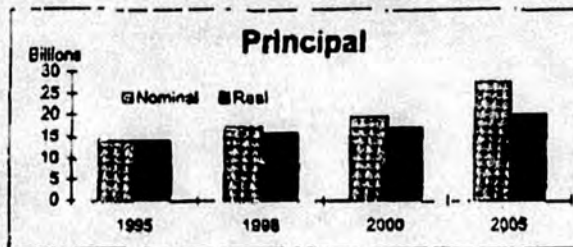
PRINCIPAL						DISTRIBUTIONS				RESERVES	
	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	500	318	348	14,139	1,013	565	348	7	86	703
96	14,139	322	867	458	15,787	1,441	500	458	160		703
97	15,787	401	907	466	17,561	1,598	500	466	231		703
98	17,561	431	976	567	19,535	1,808	500	567	310		703
99	19,535	476	1,035	629	21,676	2,001	500	629	395		703
00	21,676	499	1,053	723	23,951	2,208	500	723	486		703
01	23,951	550	1,055	795	26,351	2,427	500	795	582		703
02	26,351	604	1,046	871	28,872	2,658	500	871	683		703
03	28,872	661	1,038	951	31,522	2,901	500	951	789		703
04	31,522	720	1,033	1,035	34,311	3,158	500	1,035	901		703
05	34,311	783	1,024	1,124	37,242	3,425	500	1,124	1,018		703

	Nominal	Inflation	Real
FY 95:	6.47%	2.61%	3.86%
FY 96 - 97:	8.99%	2.99%	6.00%
FY 1998-2005:	9.18%	3.18%	6.00%

DOR Spring 1995 Base-Case Inflation Rates and PF Oil Revenues x 4
Total Rates of Return Assumed at 6% Above Base-Case Inflation Rates
4% of Fund's Cost Value Distributed, Including PFDs Capped at \$500 Million
All Income Not Distributed to PFDs, Inflation-Proofing or General Fund is Transferred to Principal

(7N)

4% of Fund's Cost Value Distributed, Including Dividends Capped at \$500 Million. Net Income Not Distributed is Transferred to Principal; 25% of Royalties to Fund



PRINCIPAL FUND BALANCE AND DISTRIBUTIONS

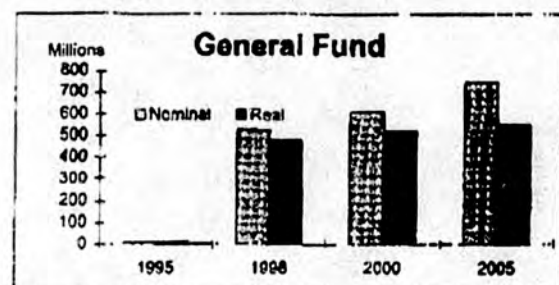
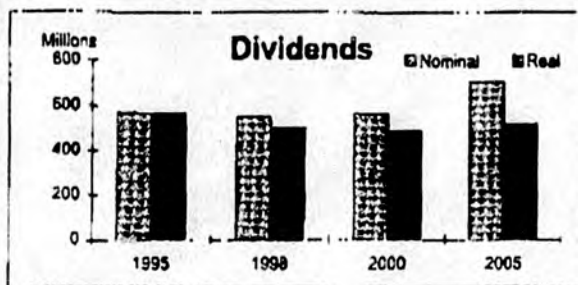
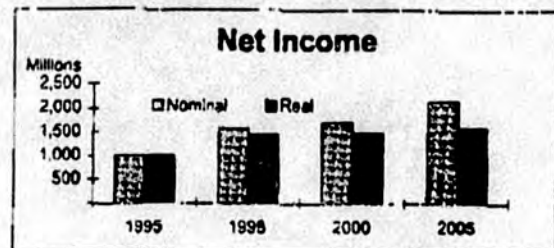
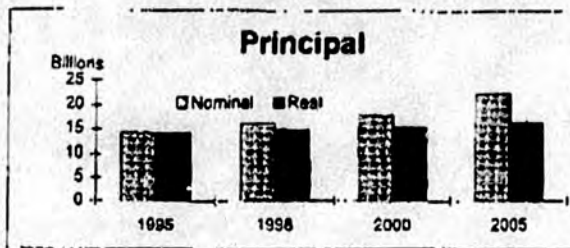
PRINCIPAL					DISTRIBUTIONS				RESERVES	
FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
12,973	500	318	348	14,139	1,013	565	348	7	86	783
14,139	377	217	439	15,132	1,410	500	439	133		783
15,132	402	227	426	16,187	1,504	500	426	176		783
16,187	415	244	504	17,350	1,640	500	504	222		783
17,350	442	259	540	18,590	1,753	500	540	272		783
18,590	449	263	600	19,902	1,873	500	600	324		783
19,902	479	264	641	21,286	2,000	500	641	380		783
21,286	510	261	685	22,743	2,133	500	685	438		783
22,743	543	259	732	24,277	2,274	500	732	499		783
24,277	578	258	780	25,893	2,422	500	780	564		783
25,893	614	256	832	27,595	2,578	500	832	632		783
12,973	500	318	348	14,139	1,013	565	348	7	86	783
14,791	379	207	460	15,853	1,499	457	460	203		842
15,955	388	222	515	17,081	1,608	429	515	278		803
18,003	451	190	610	20,252	1,892	387	610	464		516

	Nominal	Inflation	Real
FY 95:	6.47%	2.61%	3.86%
FY 96 - 97:	8.99%	2.98%	6.00%
FY 1998-2005:	9.18%	3.18%	6.00%

DOR Spring 1995 Base-Case Inflation Rates and PF Oil Revenues
 Total Rate of Return Assumed at 6% Above Base-Case Inflation Rates
 4% of Fund's Cost Value Distributed, Including PFDs Capped at \$500 Million
 All Income Not Distributed to PFDs, Inflation-Proofing or General Fund is Transferred to Principal

8N

SB 51 With Remaining Income After Inflation-Proofing and PFDs to General Fund, Base-Case Assumptions With 6% Real Rates of Return



PRINCIPAL DISTRIBUTIONS RESERVES

PRINCIPAL					DISTRIBUTIONS				RESERVES	
FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
12,973	500	318	348	14,139	1,013	565	348	7	88	703
14,139		217	429	14,785	1,410	582	429	419		703
14,785		227	449	15,460	1,472	581	449	462		703
15,460		244	499	16,204	1,570	544	499	527		703
16,204		259	524	16,986	1,643	547	524	573		703
16,986		263	549	17,798	1,719	563	549	607		703
17,798		264	574	18,636	1,797	589	574	634		703
18,636		261	601	19,498	1,878	615	601	662		703
19,498		259	628	20,386	1,962	643	628	690		703
20,386		258	657	21,301	2,047	671	657	719		703
21,301		256	686	22,242	2,136	701	686	750		703

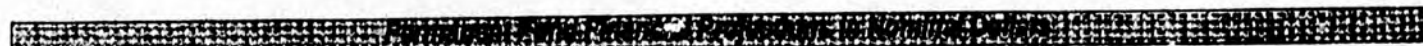
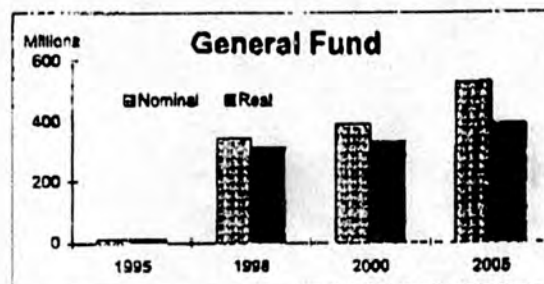
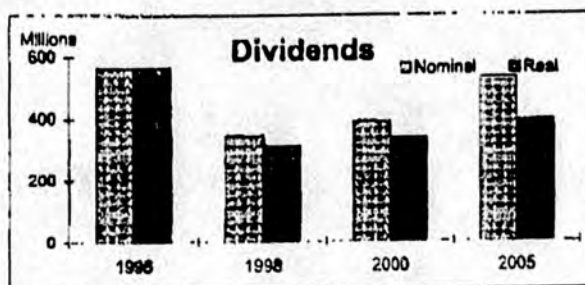
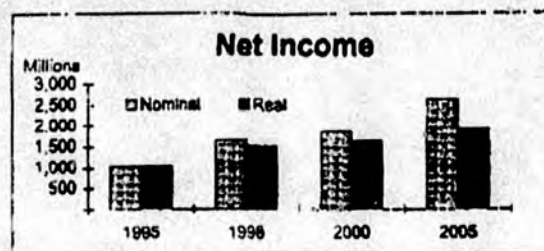
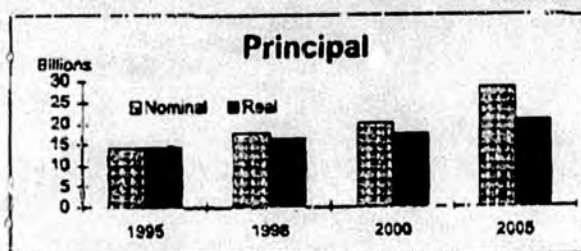
12,973	500	318	348	14,139	1,013	565	348	7	88	703
14,126		207	456	14,808	1,435	497	410	481		642
14,579		222	471	15,275	1,475	483	449	521		603
15,633		190	503	16,324	1,568	514	482	550		510

	Nominal	Inflation	Real
FY 95:	6.47%	2.61%	3.86%
FY 96 - 97:	8.99%	2.99%	6.00%
FY 1998-2005:	9.18%	3.18%	6.00%

I-P First, PFDs Based on "Real Income" Formula; Remaining Net Income to GF
 Department of Revenue Spring 1995 Base-Case Oil Revenues and Inflation Rates
 Total Rates of Return Assumed at 6% Above Base-Case Inflation Rates

9N

3.5% of Fund's Market Value Distributed, 50% to Dividends and 50% to General Fund; Remaining to Principal



PRINCIPAL						DISTRIBUTIONS				RESERVES	
	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Deductions)	FY End Balance
95	12,973	500	318	348	14,139	1,013	565	348	7	86	703
96	14,139	362	217	448	15,158	1,418	204	440	304		703
97	15,158	433	227	428	16,246	1,507	323	428	323		703
98	16,246	452	244	507	17,448	1,646	344	507	344		703
99	17,448	488	258	544	18,736	1,763	366	544	366		703
00	18,736	502	263	604	20,106	1,887	390	604	390		703
01	20,106	540	264	648	21,557	2,019	416	648	416		703
02	21,557	580	261	694	23,053	2,159	443	694	443		703
03	23,053	623	258	743	24,717	2,307	471	743	471		703
04	24,717	668	258	794	26,437	2,484	501	794	501		703
05	26,437	715	258	849	28,257	2,630	533	849	533		703

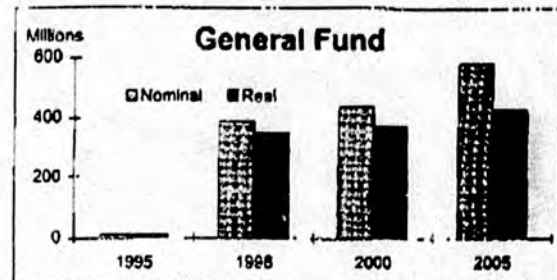
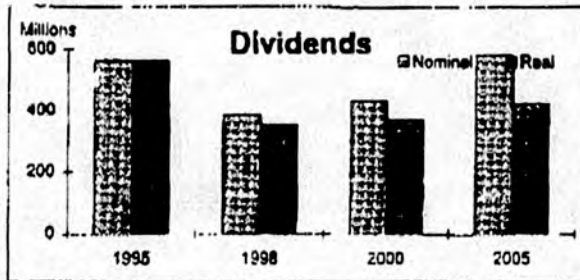
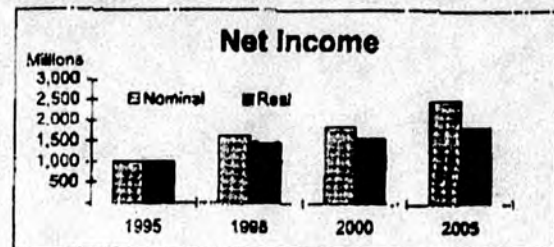
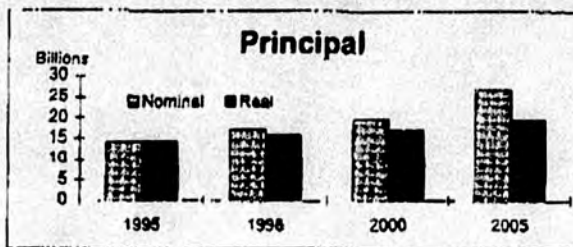
95	12,973	500	318	348	14,139	1,013	565	348	7	86	703
96	14,844	413	207	463	15,942	1,504	214	463	314		842
97	16,081	431	222	518	17,256	1,620	335	519	335		803
05	19,403	525	190	623	20,739	1,930	391	623	391		516

	Nominal	Inflation	Real
FY 95:	6.47%	2.61%	3.86%
FY 96 - 97:	8.99%	2.89%	6.00%
FY 1998-2005:	9.18%	3.18%	6.00%

DOR Spring 1995 Base-Case Inflation Rates and PF Oil Revenues
 Total Rates of Return Assumed at 6% Above Base-Case Inflation Rates
 3.5% of Fund's Market Value (Adding \$1.5 Billion in Unrealized Gains) Distributed,
 50% Each to PFDs and General Fund; All Remaining Income is Transferred to Principal

103

**4% of Fund's Market Value Distributed,
50% to Dividends and 50% to General Fund; Remaining to Principal**



PRINCIPAL						DISTRIBUTIONS				RESERVES	
	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	508	318	348	14,139	1,013	508	348	7	88	703
96	14,139	281	217	438	15,074	1,410	348	438	348		703
97	15,074	345	227	423	16,069	1,499	345	423	365		703
98	16,069	358	244	498	17,167	1,629	387	498	387		703
99	17,167	382	259	532	18,340	1,736	411	532	411		703
00	18,340	388	263	592	19,581	1,846	438	592	436		703
01	19,581	414	284	631	20,890	1,969	482	631	462		703
02	20,890	444	281	673	22,267	2,095	489	673	489		703
03	22,267	475	259	716	23,718	2,228	518	716	518		703
04	23,718	508	258	762	25,246	2,368	549	762	549		703
05	25,246	542	258	811	26,856	2,515	581	811	581		703

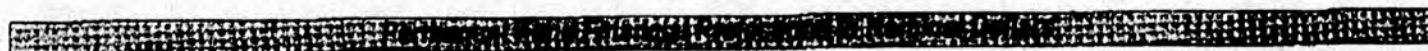
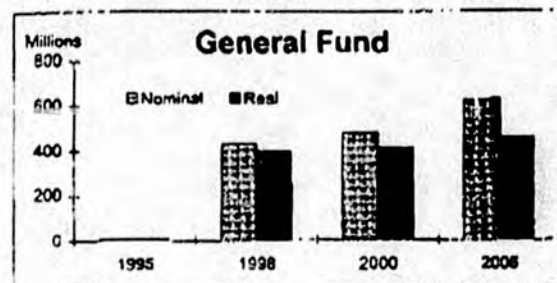
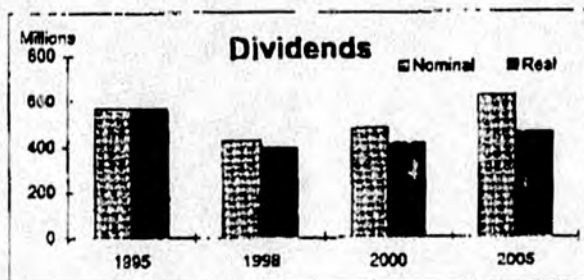
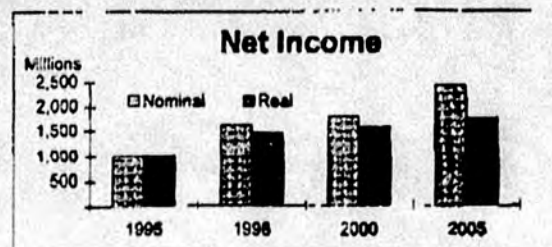
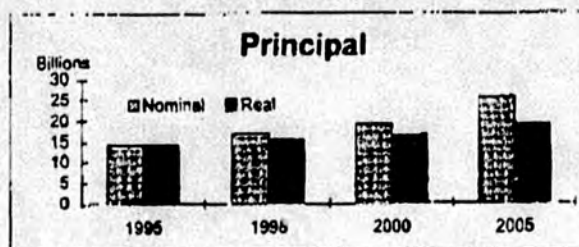
	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	508	318	348	14,139	1,013	565	348	7	88	703
96	14,683	325	207	455	15,668	1,488	354	455	354		642
97	15,741	331	222	508	16,808	1,587	374	508	374		603
98	16,529	398	190	595	19,710	1,846	427	595	427		518

	Nominal	Inflation	Real
FY 95:	6.47%	2.81%	3.86%
FY 96 - 97:	8.99%	2.99%	6.00%
FY 1998-2005:	9.18%	3.16%	6.00%

DOR Spring 1995 Base-Case Inflation Rates and PF Oil Revenues
 Total Rates of Return Assumed at 6% Above Base-Case Inflation Rates
 4% of Fund's Market Value (Adding \$1.5 Billion in Unrealized Gains) Distributed,
 50% Each to PFDs and General Fund; All Remaining Income is Transferred to Principal

11N

4.5% of Fund's Market Value Distributed, 50% to Dividends and 50% to General Fund; Remaining to Principal



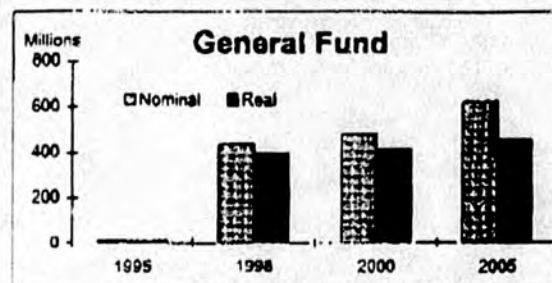
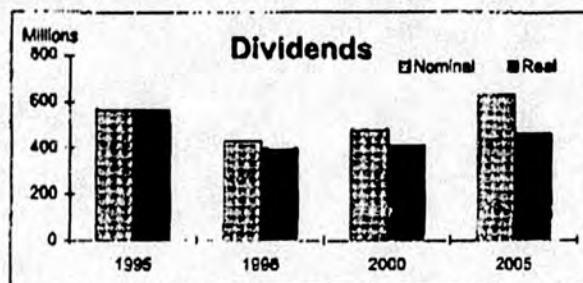
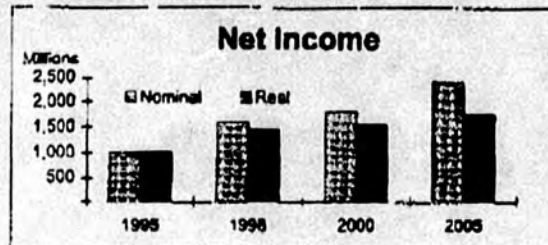
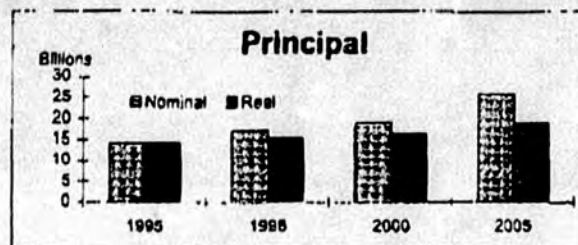
PRINCIPAL						DISTRIBUTIONS				RESERVES	
FY	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	500	318	348	14,139	1,013	565	348	7	86	703
96	14,139	201	217	435	14,992	1,410	387	435	387		703
97	14,992	259	227	418	15,895	1,491	407	418	407		703
98	15,895	263	244	490	16,892	1,612	430	490	430		703
99	16,892	281	259	521	17,953	1,709	454	521	454		703
00	17,953	275	263	579	19,071	1,812	479	579	479		703
01	19,071	295	264	615	20,244	1,928	505	615	505		703
02	20,244	315	261	652	21,473	2,033	530	652	533		703
03	21,473	337	259	691	22,761	2,152	562	691	562		703
04	22,761	360	258	732	24,111	2,276	592	732	592		703
05	24,111	384	256	775	25,525	2,406	624	775	624		703

FY	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	500	318	348	14,139	1,013	565	348	7	86	703
96	14,524	240	207	448	15,435	1,473	393	448	393		642
97	15,408	236	222	497	16,368	1,555	411	497	411		643
98	17,695	281	190	569	18,733	1,766	458	569	458		518

	Nominal	Inflation	Real
FY 95:	6.47%	2.61%	3.86%
FY 96 - 97:	8.99%	2.99%	8.00%
FY 1998-2005:	9.18%	3.18%	6.00%

DOOR Spring 1995 Base-Case Inflation Rates and PF Oil Revenues
 Total Rates of Return Assumed at 6% Above Base-Case Inflation Rates
 4.5% of Fund's Market Value (Adding \$1.5 Billion in Unrealized Gains) Distributed,
 50% Each to PFDs and General Fund; All Remaining Income is Transferred to Principal

3.5% of Fund's Market Value Distributed, \$500 Million to Dividends and the Rest to General Fund; Remaining Income to Principal



PRINCIPAL DISTRIBUTIONS AND RESERVES

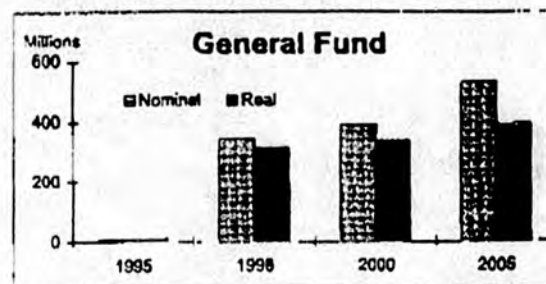
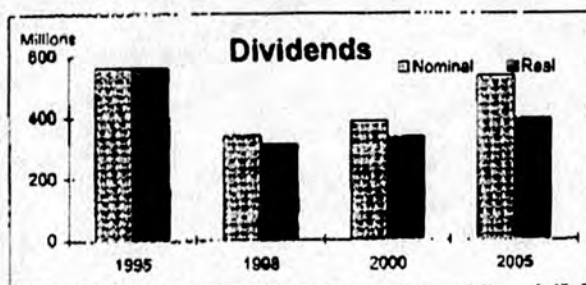
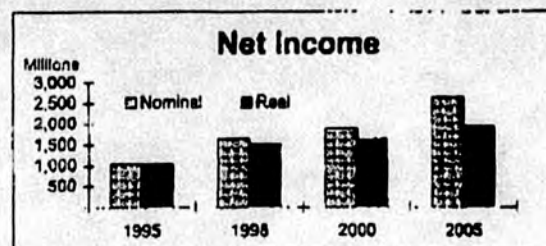
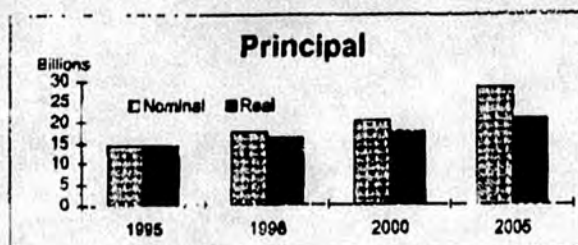
PRINCIPAL						DISTRIBUTIONS				RESERVES	
	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	500	318	348	14,139	1,013	565	348	7	86	703
96	14,139	201	217	435	14,992	1,410	301	435	301		703
97	14,992	259	227	418	15,885	1,481	317	418	317		703
98	15,885	263	244	480	16,892	1,612	334	480	334		703
99	16,892	281	259	521	17,953	1,709	353	521	353		703
00	17,953	275	263	579	19,071	1,812	372	579	372		703
01	19,071	295	264	615	20,244	1,920	393	615	393		703
02	20,244	315	261	652	21,473	2,023	414	652	414		703
03	21,473	337	259	691	22,761	2,152	437	691	437		703
04	22,761	360	258	732	24,111	2,276	460	732	460		703
05	24,111	384	256	775	25,525	2,408	485	775	485		703

95	12,973	500	318	348	14,139	1,013	565	348	7	86	703
96	14,324	240	207	448	15,435	1,473	393	448	393		642
97	15,408	236	222	497	16,368	1,555	411	497	411		663
05	17,695	281	190	569	18,733	1,788	458	569	458		516

	Nominal	Inflation	Real
FY 95:	6.47%	2.61%	3.86%
FY 96 - 97:	8.99%	2.99%	6.00%
FY 1998-2005:	9.18%	3.18%	6.00%

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50% Each to PFDs and Rest to General Fund; All Remaining Income is Transferred to Principal

4% of Fund's Market Value Distributed, \$500 Million to Dividends and the Rest to General Fund; Remaining Income to Principal



Permanent Fund Financial Projections in Nominal Dollars

PRINCIPAL						DISTRIBUTIONS				RESERVES	
FY	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	500	318	348	14,139	1,013	565	348	7	86	703
96	14,139	362	217	440	15,158	1,410	304	440	304		703
97	15,158	433	227	428	16,246	1,507	223	428	323		703
98	16,246	452	244	507	17,448	1,648	344	507	344		703
99	17,448	486	259	544	18,736	1,783	366	544	366		703
00	18,736	502	263	604	20,106	1,887	390	604	390		703
01	20,106	540	264	648	21,557	2,019	416	648	416		703
02	21,557	580	261	694	23,093	2,159	443	694	443		703
03	23,093	623	259	743	24,717	2,307	471	743	471		703
04	24,717	668	258	794	26,437	2,464	501	794	501		703
05	26,437	715	256	849	28,257	2,630	533	849	533		703

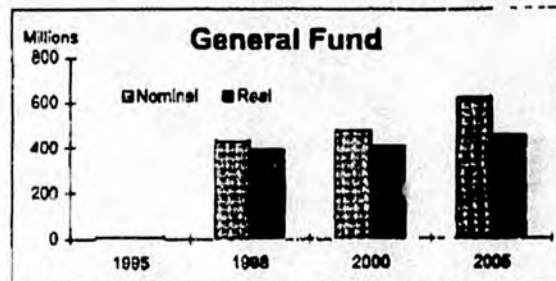
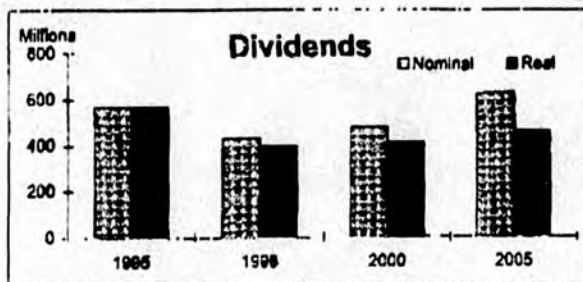
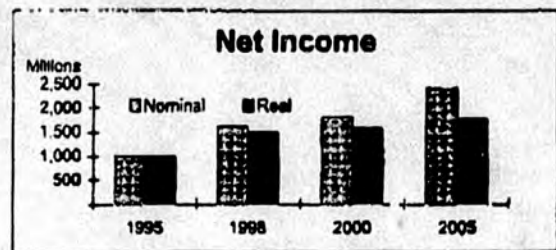
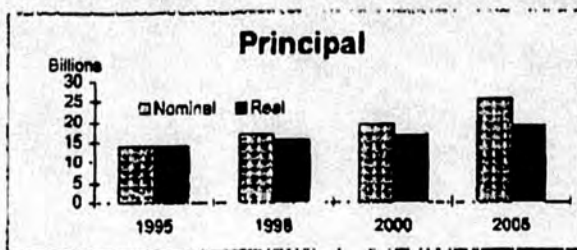
2000-2001											
FY	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	500	318	348	14,139	1,013	565	348	7	86	703
96	14,844	413	207	463	15,942	1,504	314	463	314		642
97	16,081	431	222	519	17,256	1,620	335	519	335		603
98	19,402	525	190	623	20,739	1,930	391	623	391		516

	Nominal	Inflation	Real
FY 95:	6.47%	2.61%	3.86%
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(14N)

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PRINCIPAL						DISTRIBUTIONS				RESERVES	
	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
95	12,973	500	318	348	14,139	1,013	565	348	7	86	703
96	14,139	197	217	435	14,888	1,410	391	435	387		703
97	14,888	259	227	418	15,881	1,491	407	418	407		703
98	15,881	262	244	490	16,888	1,612	430	490	430		703
99	16,888	281	259	521	17,948	1,709	453	521	453		703
00	17,948	275	263	579	19,066	1,811	479	579	479		703
01	19,066	295	264	615	20,239	1,919	505	615	505		703
02	20,239	315	261	652	21,468	2,032	533	652	533		703
03	21,468	337	259	691	22,753	2,151	562	691	562		703
04	22,753	360	258	732	24,105	2,275	592	732	592		703
05	24,105	383	256	775	25,519	2,406	624	775	624		703

	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance	Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance
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97	15,404	236	222	497	16,364	1,555	411	497	411		603
98	17,631	281	190	569	18,729	1,766	458	569	458		516

	Nominal	Inflation	Real
FY 95:	8.47%	2.61%	3.86%
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More gas will enter pipeline

Arco wins strategic tussle with BP over Prudhoe Bay shipments

The Associated Press

FAIRBANKS — The Alaska Oil and Gas Conservation Commission has granted Arco's request to raise the amount of natural gas liquids flowing through the trans-Alaska oil pipeline.

The decision is a defeat for BP Exploration (Alaska) Inc. BP's experts have argued that the gas should be reinjected to push more oil out of Prudhoe Bay and that it could reduce oil recovery for decades to come.

Arco Alaska Inc. says the shipments leave enough gas for reinjection.

In announcing its decision Wednesday, the commission said the disagreement between Prudhoe Bay's operators was leading to a waste of resources.

The three-member panel directed oil field operators to blend as much of the gas liquids as possible for movement through the pipeline until August of next year, which may give the companies enough

time to resolve their differences.

The commission also scheduled another hearing for next month to consider restructuring Prudhoe's conflicting gas and oil ownership interests, which the commissioners said was a contributing factor in the dispute over uses of gas byproducts from the North Slope's largest field.

"Current property and contractual arrangements governing the operation and development of the Prudhoe Oil Pool

are inadequate to prevent, and may promote, physical waste," the commissioners found.

"This is a good decision for Arco, a good decision for the Prudhoe Bay unit and a good decision for the state of Alaska," said Arco Alaska spokesman Ronnie Chaopell.

But Jim Palmer, BP's director of external affairs, said the commission may have sent a mixed message by ordering producers to pump the maxi-

Please see Page D-4. GAS

GAS: Arco wins fight to ship more rather than reinject it back into wells

Continued from Page D-1

mum allowable limit of natural gas liquids through the pipeline while also directing them to continue injecting gas into the field.

"We're studying it," Palmer said. "We'll comply with the legal order, but that doesn't mean we're not looking at other options."

Chuck Logsdon, the state's chief petroleum economist, figures Alaska could earn as much as \$14 million a year if Arco fol-

lows through with its request to mix an extra 20,000 barrels of gas liquids a day into the North Slope's pipeline stream.

But he noted that collecting the quick windfall could be costly if BP is proved correct and if Prudhoe Bay's lifetime production is substantially diminished.

"If you sell those gas liquids today, are you really just robbing Peter to pay Paul?" Logsdon asked. "In the long-term perspective, that argument is cen-

tral."

Last winter, Alaska's two biggest oil producers engaged in a four-day standoff as Arco sought to pump extra gas into the pipeline.

BP retaliated by adjusting valves at a North Slope mixing facility under their control to cut off Arco's extra shipments.

Both companies appealed to the state Oil and Gas Conservation Commission.

In a series of hearings that began in May, the

commission collected more than 7,000 pages of testimony from industry experts.

Wednesday's 25-page ruling made repeated references to the fundamental strategic disagreement among the field's joint operators.

"Arco and BP agree that current production practices are producing physical waste from the Prudhoe Oil Pool, but disagree why," the commission noted in its ruling.

John Shively, who heads

the state Department of Natural Resources, said the commission overstepped its authority by intervening in a dispute more properly handled by his department.

"We will probably continue to hold our own hearings," Shively said. "At best, there are two government agencies doing the same thing." DNR has a hearing scheduled for Aug. 22 on the natural gas issues, said Ken Boyd of the state Division of Oil and Gas.

In recent years, Alaska crude flowing through the trans-Alaska oil pipeline has been supplemented with about 74,000 barrels a day of natural liquids.

Arco and Exxon want to increase those shipments, reflecting the 42 percent share each holds in Prudhoe Bay's natural gas.

BP, which owns 50 percent of the field's oil but only 11 percent of the gas, sees more benefits in reinjecting extra gas to force more oil out of Alaska's aging field.

ADN 11 Aug 95

State fiscal panel nearing end of preliminary findings

By DAVID GERMAIN
The Associated Press

JUNEAU — A grab-bag of money measures — from reducing Alaska's dependence on oil revenue to bringing back the income tax — are under consideration by a panel examining the state's long-term financial troubles.

The Long Range Fiscal Planning Commission this weekend is putting finishing touches on a preliminary report to hold state spending in line with revenues.

Appointed last spring by Gov. Tony Knowles and legislative leaders, the 15-member panel is trying to come up with a business plan to deal with ongoing cash shortages that are expected to grow worse in the next decade.

The preliminary report, expected to be finalized at a meeting today and Saturday in Anchorage, makes no recommendations. That will come in October, when the panel issues its final report to the Legislature and the governor.

Many of the ideas the panel has discussed are old ones, such as reviving the income tax, a politically unpopular proposal that some commission members feel is inevitable.

Equally unpopular is a proposal to cap payouts to Alaskans from the state's Permanent Fund, using the excess revenues for government spending.

Panel members said no matter what recommendations they make, the message is clear: State government must make painful decisions over the next few years to avoid the sort of deficit spending that

“We’re not in a crisis situation now. The problem is, if we don’t do something, we will be in that position a few years from now.”

— Annalee McConnell, state budget director

plagues other states.

“We’re not in a crisis situation now. The problem is, if we don’t do something, we will be in that position a few years from now,” said Annalee McConnell, state budget director and a member of the panel.

In recent years, the state has avoided budget deficits only by drawing on reserve funds, money that came largely from tax and royalty lawsuits against oil companies.

This year alone, reserve cash will pay for about one-fifth of the state’s \$2.47 billion budget. If that keeps up, the reserve fund — now at about \$2.3 billion — could be gone over the next decade.

The state already has begun cutbacks, reducing spending this year. The commission is trying to identify other spending cuts, along with ways to bring in more money.

Oil revenues account for four-fifths of the state’s annual income. But the uncertainty of oil prices, along with declining oil production from the vast Prudhoe Bay field, makes it hard to predict revenues.

While state officials want to develop new business to offset those revenues, oil money will continue to be Alaska’s main source of income for the

near future, said Rep. Sean Parnell, R-Anchorage, a commission member.

“There’s no way we can hope to diversify our revenue base enough in the next 10 to 20 years to make up for declining oil revenues,” Parnell said. “Prudhoe Bay is the mother lode of state government, and there’s no way we can replace it.”

That has led to stronger talk of new taxes, whether increasing motor-fuel taxes or bringing back the personal income tax eliminated in the late 1970s, when the state was flush with new oil cash.

“Everyone involved in government finance is kind of sorry we did away with the income tax,” said Bruce Ludwig, a commission member and business manager of the Alaska Public Employees Association, a union representing 1,200 state workers. “It’s going to be real hard for people to accept paying it again.”

Parnell and other Republicans who control the Legislature have said that the public will not accept any new taxes unless the state brings spending under control.

Panel members from both parties said they remain focused on the goal as they develop their final report this month.

SCOMM

101:9

**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

Regular Meeting

Friday , 25 August 8:30 AM to 5:00 PM

8:30AM - 9:30AM	Commissioner Will Condon re: Revenues & Debt
9:30AM - 10:30PM	Duane Guiley, Director School Finance Division, Department of Education-School Financing, Foundation Formula Funding, Disparity Test
10:30AM-12:30PM	Work Sessions on Alternatives
12:30AM-1:30 PM	Lunch
1:30 PM - 5:00PM	Work Sessions on Alternatives

Saturday , 26 August 8:30 AM to 4:30 PM

8:30AM-9:00 AM	Subcommittee Report-Intergovernmental Affairs
9:00AM-11:00PM	Municipal League & Conference of Mayors Teleconference from Barrow
11:00AM-12:00PM	Public Testimony
12:00PM 1:00PM	Lunch
1:00PM - 4:00PM	Work Session on Alternatives
4:00PM -4:30PM	Discuss Public Hearings

e of The Times

tate's spending appetite outgrows income

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

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

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

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

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

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

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

How much revenue does the state of Alaska receive?

It will receive \$3.2 billion in general fund revenues and Permanent Fund earnings during FY96. We will receive \$5 billion from petroleum revenues, \$2 billion from Permanent Fund income (including the \$441 million reserved for inflation-proofing), and \$480 million from other sources.

In addition to the \$3.2 billion dollars in general fund and Permanent Fund revenue, the state also receives and expends federal funds and other funds derived from revenue generating activities. The major sources of revenue to the state are oil and gas rents, royalties and leases, oil and gas properties tax, severance taxes and corporate income taxes.



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

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

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

Additionally, Alaska is fortunate to have more than \$3 billion in cash reserve funds. These substantial reserves constitute one of the primary fiscal tools the state can, and has, used to temporarily fill the fiscal gap. However, these large reserve balances also have a negative side, in that the use of these re-

serves can delay for several more years the difficult actions necessary to close the fiscal gap, with the potential for suddenly magnifying the state's fiscal and economic problems when the reserves finally are exhausted.

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

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

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

Next: Cutting government spending will hurt.

ce of The Times

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

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

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

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

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

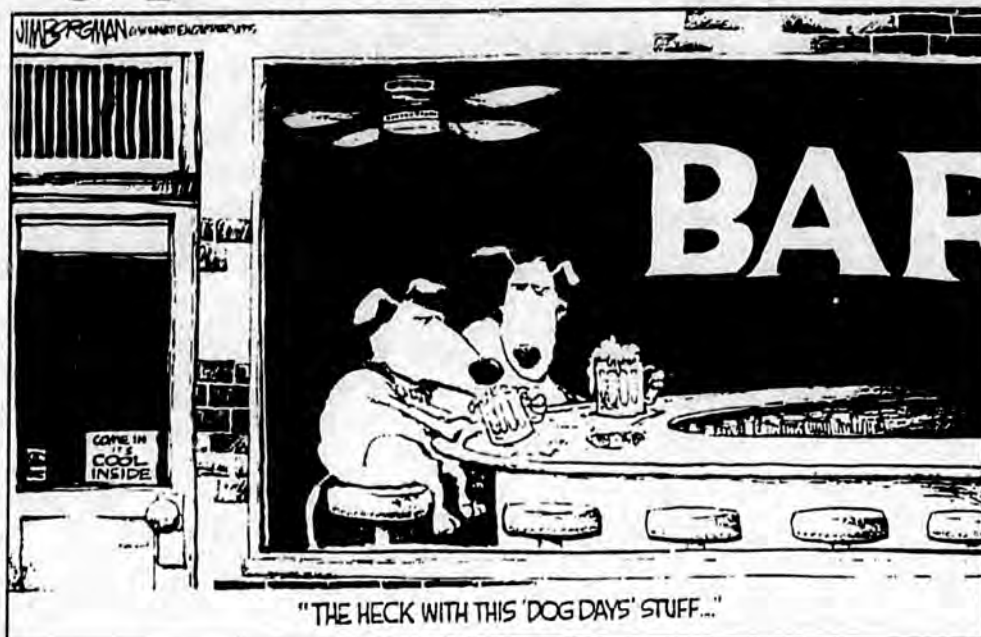
Efforts to date have not been enough to offset the decline in revenues. However, without this steady attention to reducing expenditures, the gap could soon have forced drastic reductions in services and programs, loss of the Permanent Fund, or significant new taxes.

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

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

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

The volatility of Alaska's revenues



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

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

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

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

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

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

The commission at this time is not en-

dorsing any specific recommendations, but expects to make its recommendations from among the choice that are being presented, supplemented by any ideas which come out in public hearings.

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

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

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

The commission will hear public comment during the following hearings:

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

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

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

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

Next, spending habits and revenue flow.

The Anchorage Times

Publisher: BILL J. ALLEN

"Believing in Alaskans, putting Alaska first"

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

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

Generation gap

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

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

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

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

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

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

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

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

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

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

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

We believe so.

Alberta shops for pointers in using oil cash

By LISA SCAGLIOTTI

Daily News business reporter

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

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

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

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

Like Alaska, Alberta's economy de-

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

Please see Back Page, FUND

FUND: Alberta has second thoughts

Continued from Page A-1

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

But the two funds followed very different paths.

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

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

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

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

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

Alberta also wasn't diligent about its deposits to the Heritage Fund. By 1986, as oil prices crashed, the government quit adding to the fund. Since then, the Heritage Fund balance has hovered around \$8.4 billion, generating annual income of

about \$700 million, which is put directly into the province's general budget to pay for government services.

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

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

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

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

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

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

August 23, 1995

State of Alaska
Long-Range Fin. Plan. Comm.
716 W. 4th Ave.
Anchorage, AK 99501

Having read the invitation to comment on the issues regarding the budget problem in the "Voice of The Times" this morning, I would like to offer the following:

1. As far as I know, Alaska is the only state in the union that pays its residents to live there.
2. Paying people for doing nothing encourages them to do more of nothing.
3. Creation of the dividend distribution has made people feel entitled to, and dependent on the money.
4. Immediately upon distribution, the federal income tax liability extracts a significant amount of the distribution from the state economy.
5. With the inevitable demise of the airline programs that multiply the value of the distributions, the dividends will lose a significant amount of their value to those who have purchased tickets with them in the past.
6. It is arguably foolish to distribute money in the form of dividends, and then collect it in the form of income taxes--creating two bureaucracy to eat up the state's limited resources.
7. If people leave the state of Alaska because the dividend is eliminated, it will help to reduce the cost of state government.
8. If people are here only because of the dividend, maybe they should leave, anyway.
9. Politicians created the problem; they should now be willing to suffer the consequences of correcting the problem.
10. Did the Alaska permanent fund dividend help to entice the giant retailers to the state, helping

to destroy some of the small, independent merchants? (Bankruptcies in Alaska up 144% May, 1995 from May, 1994).

11. Have individuals and families used permanent fund income to obtain long term financing, and now must face the real possibility of that income either disappearing or shrinking drastically?
12. It would be a hardship for many families to lose the entire pfd at one time, so why don't we begin to wean ourselves of it now, and quit counting on it in planning our future budgets?
13. A politician gets elected by promising the people what they want to hear. A statesman does what is prudent and responsible, and lets the chips fall where they may.
14. Should the State of Alaska, with projected deficits ranging from \$513 million to \$1.3 billion be giving away money???

I realize that recommending elimination of the pfd will not be popular with the voters in the short run, and will not resolve the deficit completely. It seems to me, however, that it is the only rational place to start.

Good luck!

Sincerely,



Richard E. Barrett
100 Bunnell, #3A
Anchorage, AK 99508

ASSOCIATION OF ALASKA SCHOOL BOARDS

316 West 11th Street, Juneau, Alaska 99801-1510 • Tel. (907) 586-1083 • Fax (907) 586-2995

August 3, 1995

Advocates for Alaska's Youth

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NATURAL RESOURCES

AUG 9 1995

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Michael Williams

EXECUTIVE
DIRECTOR
Carl F.N. Rose

Bob Loescher
Vice President
Sealaska Corp.
1 Sealaska Plaza
Juneau, Alaska 99801

Dear Bob:

I've collected some thoughts since our discussion on the activities of the Long Range Fiscal Planning Commission. I'd like to share some information with you.

It is estimated that education and education-related funding (including school construction and postsecondary education costs) account for close to \$1 billion of Alaska's \$2.4 billion state operating budget. For many Alaska communities, the school district is the largest employer. Therefore, any reduction of the cost of state government inevitably will affect the state's current commitment to education.

Education is labor-intensive. Roughly 80-85% of school district funds are expended on school employee salaries and benefits. It should be reasonable to assume that cuts in education funding would dictate cuts in personnel costs, but salaries, benefits and certain working conditions are negotiated under a plethora of state laws and regulations which severely limit boards' ability to effect economies in this area. In 1992 noted education authority William Banach told a group of Alaska school board members that, in reality, only 3% or 4% of the budget is discretionary. The rest is locked up in contractual obligations and state/federal mandates.

For nearly a decade the Association of Alaska School Boards, anticipating declining revenues, has called for regulatory and legislative relief which would allow cost containment while preserving the quality of education. Last year HB 217, an education improvement bill designed to accomplish that, passed the Alaska Legislature but was vetoed by Gov. Knowles. Since then, the governor has indicated his willingness to work on a similar measure.

Today, Alaska's school boards cannot layoff teachers when revenues decline. Current tenure laws virtually guarantee lifetime employment to teachers regardless of performance in the classroom or financial constraints. School budgets are driven by the negotiations process and state law, as much or more than by student needs. Legislative remedies similar to HB 217, and others, are essential if the education community is to do its part to help bridge the fiscal gap without substantially diminishing the quality of Alaska's educational system.

We need to examine strategies at the state and local level that will identify 1) the elimination of programs we can't afford to provide, 2) cost containment measures that will make the programs we must continue more economically feasible, and 3) new sources of revenue generation. As the state considers its responsibility to education and the possibility of passing more of that responsibility to the local level, there needs to be some serious discussion regarding local fiscal autonomy.

The state level discussion of economic development is a long range solution and does not address the immediate problem—the fiscal gap. We need to address taxes as a means of revenue generation that will address both short term and long term problems, with an eye to utilizing that revenue appropriately, not simply for the preservation of state government as we know it now.

Enclosed are a number of AASB publications and articles I think you will find interesting.

• **Press release for Annual Teacher Salary & Benefits Report '95, AASB, Report summary page, and Salary Information page. (Entire report enclosed)**

Although school boards are trying to hold the line on expenditures, employee unions push for raises that address the rising cost of living or better. Salary increases have averaged 5% per year statewide. Keep in mind that as the student population has increased, the number of teachers has increased, adding to overall costs.

Although AASB reports the *average* teacher salary, this can be misleading. It appears somewhat stagnant due to retirement incentive programs (RIP's) which retire high end teachers and replaces them with less experienced, less expensive educators, but, again, the growing number of teachers have added to the overall personnel costs in salary and benefits.

• **Press release for Administrator Salary & Benefits Report '95, AASB, Report summary page. (Entire report enclosed)**

This information shows a decrease in the 1995 average superintendent salary. The press release also mentions a reduced number of administrators. This reflects an ongoing attempt by boards to reduce operating costs.

• **Classified Salary & Benefits Report '95, AASB**

This category of employees have generally been the primary target of cuts in terms of numbers. However, they are becoming increasingly more unionized which further reduces school boards' ability to contain costs in this area.

• **Labor Relations Update, May 1995, AASB**

This insert appeared in the May issue of the monthly AASB newsletter *Commentary*. It gives a description of our position on HB 217, and outlines our concern with (1) improving the quality of instruction (2) our attempt to hold costs in line with revenues and (3) fairness to employees.

• **"In tenure debate, what about kids' security?" Guest editorial by Carl Rose, AASB Anchorage Times, Juneau Empire, Fairbanks Daily News-Miner, Ketchikan Daily News**

This article is an example of how public perception affects education. It was written in response to media coverage generally condemning tenure reform without having a grasp of the issues involved. It is an example of what school boards, as elected officials who are accountable to the public at election time, face when seeking change within the education establishment.

I am currently involved in a series of discussions with our Board of Directors on issues surrounding the state's fiscal gap in order to formulate recommendations for the Commission to consider.

It was good talking with you. I look forward to more of the same.

Sincerely,



Carl Rose,
Executive Director

Enclosures
in Commission
Office.

MEMORANDUM

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

August 22, 1995

TO: Lee Gorsuch
LRFPC Member

FROM: Brad Pierce 
Senior Policy Analyst

SUBJECT: Draft Scenario Projection

Attached are two separate runs of my interpretation of the scenarios you requested at the last Commission meeting. Note that I did not have any information from the Permanent Fund on effects to the Earnings Reserve so I did not include the ERA in the model – this is strictly a fiscal gap/CBR estimate. I ran it with a sales tax and an income tax to show the difference, since you didn't specify which of the general taxes you wanted to use.

The following assumptions apply:

Lines

- 1 – 6 Revenues are per DOR information supplied to the Commission.
- 6 Net income per your request.
- 7 Total revenues are the sum of lines 1 – 7.
- 8 – 10, 12 & 13 LRFPC Base Case expenditures frozen at FY 96 nominal level for 5 years.
- 11 Debt service assumes no new debt.
- 14 Total expenditures are the sum of lines 8 – 13.
- 15 Projected fiscal gap is line 7 minus line 14.
- 16 CBR balance assumes \$756 million FY 96 transfer to the Permanent Fund corpus.
- 17 & 18 Dividends and inflation proofing are per APF projections.
- 19 Budget cuts from base case show the annual effects of the 5 year expenditure freeze.

I hope this works for you. Please call me at 465-4677 if you want further refinements.

GORSUCH BUDGET SCENARIO PROJECTION 2

(Nominal Dollars)

AVAILABLE REVENUES (\$ Millions):		<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>
1	GENERAL FUND REVENUES (Base Case)	1,963.1	1,931.4	2,013.6	2,045.0	2,059.5	2,071.6	2,038.3	2,018.3	2,002.7	1,979.1
2	HWY MOTOR FUELS TAX INCREASE TO NATIONAL AVG		26.0	27.3	28.6	30.0	31.4	32.9	34.5	36.2	37.9
3	TOBACCO INCREASE FROM \$.29 - \$.39/PKG		5.3	5.6	5.8	6.1	6.4	6.7	7.0	7.4	7.7
4	ALCOHOLIC BEVERAGES INCREASE (VARIES BY PROD)		2.7	2.8	3.0	3.1	3.3	3.4	3.6	3.8	3.9
5	INCOME TAX		75.0	288.3	302.2	316.8	332.1	348.2	365.0	382.6	401.1
6	PF NET INCOME TO GF	80	160	240	320	400	400	400	400	400	400
7	TOTAL REVENUES	2,043.1	2,200.4	2,577.5	2,704.6	2,815.5	2,844.8	2,829.5	2,828.4	2,832.7	2,829.8
EXPENDITURES (\$ Millions):											
8	OPERATING - AGENCY	1,157.8	1,157.8	1,157.8	1,157.8	1,157.8	1,224.2	1,293.2	1,365.0	1,439.7	1,517.3
9	FORMULA	413.8	413.8	413.8	413.8	413.8	430.4	447.6	465.5	484.2	503.6
10	K - 12 EDUCATION	660.3	660.3	660.3	660.3	660.3	698.3	738.6	781.1	826.1	873.7
11	DEBT SERVICE	109.4	86.6	81.5	72.8	50.8	33.4	20.5	16.5	15.2	14.4
12	CAPITAL	116.1	116.1	116.1	116.1	116.1	119.8	123.6	127.5	131.6	135.8
13	LOANS/FUND TRANSFERS	18.7	18.7	18.7	18.7	18.7	19.4	20.2	21.0	21.9	22.8
14	TOTAL EXPENDITURES	2,476.1	2,453.3	2,448.2	2,439.5	2,417.5	2,525.5	2,643.7	2,776.7	2,918.6	3,067.5
15	PROJECTED ANNUAL FISCAL GAP	-433.0	-252.9	129.3	265.1	398.0	319.2	185.8	51.7	-86.0	-237.7
16	CONSTITUTIONAL BUDGET RESERVE BALANCE	1,316.5	1,691.3	2,114.8	2,695.8	3,183.3	3,502.5	3,688.3	3,740.0	3,654.0	3,416.3
17	PF DIVIDENDS	500.0	493.0	485.0	478.0	471.0	464.0	457.0	450.0	443.0	436.0
18	PF INFLATION PROOFING	267.0	281.0	351.0	399.0	464.0	495.0	530.0	567.0	608.0	654.0
	BUDGET CUTS FROM BASE CASE		124.5	255.5	392.5	535.6	559.8	585.2	611.7	639.5	668.5

Office of Management and Budget
8/23/95

GORSUCH BUDGET SCENARIO PROJECTION 2

(FY 96 Dollars)

AVAILABLE REVENUES (\$ Millions):	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
GENERAL FUND REVENUES (Base Case)	1,963.1	1,875.4	1,894.9	1,865.1	1,820.5	1,774.7	1,692.3	1,624.1	1,561.9	1,495.9
HWY MOTOR FUELS TAX INCREASE TO NATIONAL AVG		25.2	25.6	26.1	24.1	26.9	27.3	27.8	28.2	28.7
TOBACCO INCREASE FROM \$.29 - \$.39/PKG		5.1	5.2	5.3	4.9	5.5	5.6	5.7	5.8	5.8
ALCOHOLIC BEVERAGES INCREASE (VARIES BY PROD)		2.6	2.7	2.7	2.5	2.8	2.8	2.9	2.9	3.0
INCOME TAX		72.8	271.3	275.6	254.9	284.5	289.1	293.7	298.4	303.2
PERMANENT FUND NET INCOME TO GF	80.0	155.4	225.9	291.9	321.9	342.7	332.1	321.9	312.0	302.3
TOTAL REVENUES	2,043.1	2,136.5	2,425.5	2,466.7	2,428.8	2,437.1	2,349.3	2,276.0	2,209.2	2,138.9
EXPENDITURES (\$ Millions):										
OPERATING - AGENCY	1,157.8	1,124.2	1,089.5	1,056.0	1,023.4	1,048.7	1,073.7	1,098.4	1,122.8	1,146.9
FORMULA	413.8	401.8	389.4	377.4	365.8	368.7	371.6	374.6	377.6	380.6
K - 12 EDUCATION	660.3	641.1	621.4	602.2	583.7	598.3	613.2	628.5	644.3	660.4
DEBT SERVICE	109.4	84.1	76.7	66.4	44.9	28.6	17.0	13.3	11.9	10.9
CAPITAL	116.1	112.7	109.3	105.9	102.6	102.6	102.6	102.6	102.6	102.6
LOANS/FUND TRANSFERS	18.7	18.2	17.6	17.1	16.5	16.7	16.8	16.9	17.1	17.2
TOTAL EXPENDITURES	2,476.1	2,382.1	2,303.9	2,224.9	2,136.9	2,163.6	2,195.0	2,234.4	2,276.2	2,318.6
PROJECTED ANNUAL FISCAL GAP	-433.0	-245.5	121.7	241.8	291.9	273.5	154.2	41.6	-67.0	-179.7
CONSTITUTIONAL BUDGET RESERVE BALANCE	1,316.5	1,642.2	1,990.2	2,458.7	2,813.8	3,000.6	3,062.3	3,009.6	2,849.8	2,582.2
PF DIVIDENDS	500.0	478.7	456.4	436.0	416.3	397.5	379.4	362.1	345.5	329.6
PF INFLATION PROOFING	267.0	272.8	330.3	363.9	410.1	424.1	440.1	456.3	474.2	494.3
BUDGET CUTS FROM BASE CASE		120.9	240.5	357.9	473.4	479.6	485.8	492.2	498.7	505.3

Office of Management and Budget

8/23/95 14:36

GORSUCH BUDGET SCENARIO PROJECTION

(Nominal Dollars)

AVAILABLE REVENUES (\$ Millions):		FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
1	GENERAL FUND REVENUES (Base Case)	1,963.1	1,931.4	2,013.6	2,045.0	2,059.5	2,071.6	2,038.3	2,018.3	2,002.7	1,979.1
2	HWY MOTOR FUELS TAX INCREASE TO NATIONAL AVG		26.0	27.3	28.6	30.0	31.4	32.9	34.5	36.2	37.9
3	TOBACCO INCREASE FROM \$.25 - \$.39/PKG		5.3	5.6	5.8	6.1	6.4	6.7	7.0	7.4	7.7
4	ALCOHOLIC BEVERAGES INCREASE (VARIES BY PROD)		2.7	2.8	3.0	3.1	3.3	3.4	3.6	3.8	3.9
5	SALES TAX @ 4% (\$58.9M/1% - FOOD EXEMPT)			235.6	247.0	258.9	271.4	284.5	298.3	312.7	327.8
6	PF NET INCOME TO GF	80	160	240	320	400	400	400	400	400	400
7	TOTAL REVENUES	2,043.1	2,125.4	2,524.8	2,649.4	2,757.6	2,784.1	2,765.8	2,761.7	2,762.7	2,756.5
EXPENDITURES (\$ Millions):		FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
8	OPERATING - AGENCY	1,157.8	1,157.8	1,157.8	1,157.8	1,157.8	1,224.2	1,293.2	1,365.0	1,439.7	1,517.3
9	FORMULA	413.8	413.8	413.8	413.8	413.8	430.4	447.6	465.5	484.2	503.6
10	K - 12 EDUCATION	660.3	660.3	660.3	660.3	660.3	698.3	738.6	781.1	826.1	873.7
11	DEBT SERVICE	109.4	86.6	81.5	72.8	50.8	33.4	20.5	16.5	15.2	14.4
12	CAPITAL	116.1	116.1	116.1	116.1	116.1	119.8	123.6	127.5	131.6	135.8
13	LOANS/FUND TRANSFERS	18.7	18.7	18.7	18.7	18.7	19.4	20.2	21.0	21.9	22.8
14	TOTAL EXPENDITURES	2,476.1	2,453.3	2,448.2	2,439.5	2,417.5	2,525.5	2,643.7	2,776.7	2,918.6	3,067.5
15	PROJECTED ANNUAL FISCAL GAP	-433.0	-327.9	76.6	209.9	340.1	258.6	122.1	-15.0	-155.9	-311.0
16	CONSTITUTIONAL BUDGET RESERVE BALANCE	1,316.5	1,614.0	1,978.5	2,494.5	2,918.4	3,176.9	3,299.0	3,284.1	3,128.2	2,817.2
17	PF DIVIDENDS	500.0	493.0	485.0	478.0	471.0	464.0	457.0	450.0	443.0	436.0
18	PF INFLATION PROOFING	267.0	281.0	351.0	399.0	464.0	495.0	530.0	567.0	608.0	654.0
	BUDGET CUTS FROM BASE CASE		124.5	255.5	392.5	535.6	559.8	585.2	611.7	639.5	668.5

Office of Management and Budget
8/23/95

GORSUCH BUDGET SCENARIO PROJECTION

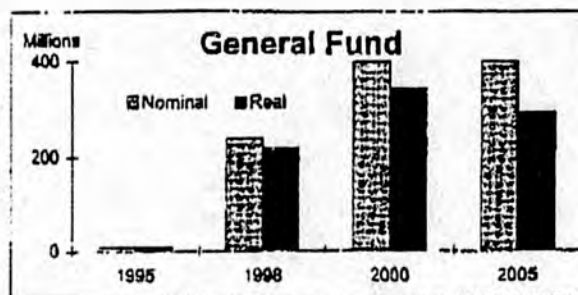
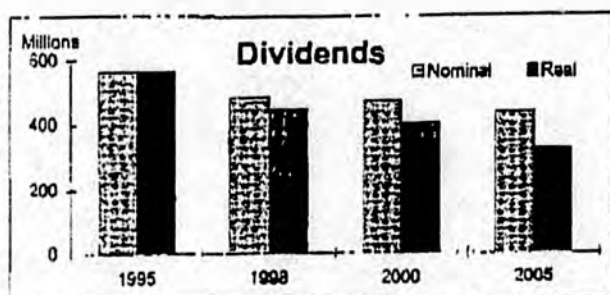
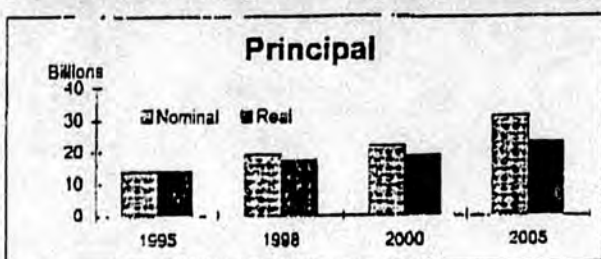
(FY 96 Dollars)

AVAILABLE REVENUES (\$ Millions):	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
GENERAL FUND REVENUES (Base Case)	1,963.1	1,875.4	1,894.9	1,865.1	1,820.5	1,774.7	1,692.3	1,624.1	1,561.9	1,495.9
HWY MOTOR FUELS TAX INCREASE TO NATIONAL AVG		25.2	25.6	26.1	26.5	26.9	27.3	27.8	28.2	28.7
TOBACCO INCREASE FROM \$.29 - \$.39/PKG		5.1	5.2	5.3	5.4	5.5	5.6	5.7	5.8	5.8
ALCOHOLIC BEVERAGES INCREASE (VARIES BY PROD)		2.6	2.7	2.7	2.7	2.8	2.8	2.9	2.9	3.0
SALES TAX @ 4% (\$58.9M/1% - FOOD EXEMPT)		0.0	221.7	225.3	228.9	232.5	236.2	240.0	243.9	247.8
PERMANENT FUND NET INCOME TO GF	80.0	155.4	225.9	291.9	353.6	342.7	332.1	321.9	312.0	302.3
TOTAL REVENUES	2,043.1	2,063.7	2,376.0	2,416.3	2,437.5	2,385.1	2,296.4	2,222.4	2,154.6	2,083.5
EXPENDITURES (\$ Millions):										
OPERATING - AGENCY	1,157.8	1,124.2	1,089.5	1,056.0	1,023.4	1,048.7	1,073.7	1,098.4	1,122.8	1,146.9
FORMULA	413.8	401.8	389.4	377.4	365.8	368.7	371.6	374.6	377.6	380.6
K - 12 EDUCATION	660.3	641.1	621.4	602.2	583.7	598.3	613.2	628.5	644.3	660.4
DEBT SERVICE	109.4	84.1	76.7	66.4	44.9	28.6	17.0	13.3	11.9	10.9
CAPITAL	116.1	112.7	109.3	105.9	102.6	102.6	102.6	102.6	102.6	102.6
LOANS/FUND TRANSFERS	18.7	18.2	17.6	17.1	16.5	16.7	16.8	16.9	17.1	17.2
TOTAL EXPENDITURES	2,476.1	2,382.1	2,303.9	2,224.9	2,136.9	2,163.6	2,195.0	2,234.4	2,276.2	2,318.6
PROJECTED ANNUAL FISCAL GAP	-433.0	-318.4	72.1	191.4	300.6	221.5	101.4	-12.0	-121.6	-235.1
CONSTITUTIONAL BUDGET RESERVE BALANCE	1,316.5	1,567.1	1,861.8	2,275.1	2,579.6	2,721.6	2,739.1	2,642.7	2,439.7	2,129.4
PF DIVIDENDS	500.0	478.7	456.4	436.0	416.3	397.5	379.4	362.1	345.5	329.6
PF INFLATION PROOFING	267.0	272.8	330.3	363.9	410.1	424.1	440.1	456.3	474.2	494.3
BUDGET CUTS FROM BASE CASE		120.9	240.5	357.9	473.4	479.6	485.8	492.2	498.7	505.3

Office of Management and Budget

8/23/95 15:06

Dividends Capped at \$500 Million and Decline by 1.5% Per Year, \$80 Million Compounded for 5 Years to GF; ERA and \$756 Million of Transition Funds to Principal I-P Reduced by % of Equity Holdings (50-70%); All Remaining Income to Principal



Permanent Fund Financial Projections in Nominal Dollars

PRINCIPAL					
	FY Begin Balance	Appropriations	Dedicated State Revenues	Inflation-Proofing	FY End Balance
95	12,973	500	318	348	14,139
96	14,139	2,210	217	267	16,833
97	16,833	664	227	281	18,005
98	18,005	672	244	351	19,272
99	19,272	674	259	399	20,603
00	20,603	664	263	464	21,995
01	21,995	774	264	495	23,528
02	23,528	895	281	530	25,214
03	25,214	1,027	259	587	27,088
04	27,088	1,171	258	608	29,108
05	29,108	1,329	256	654	31,345

DISTRIBUTIONS				RESERVES		
Net Income	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance	FY
1,013	565	348	7	86	703	95
1,410	500	267	80			96
1,598	493	281	160			97
1,748	485	351	240			98
1,870	478	399	320			99
1,999	471	464	400			00
2,133	464	495	400			01
2,281	457	530	400			02
2,444	450	567	400			03
2,623	443	608	400			04
2,819	438	654	400			05

In Real 1995 Dollars

95	12,973	500	318	348	14,139
96	16,452	614	207	320	17,609
00	17,683	570	222	399	18,877
05	21,361	975	190	480	23,004

95	1,013	565	348	7	86	703
96	1,597	443	320	219		
00	1,716	404	399	343		
05	2,069	320	480	294		

	Nominal	Inflation	Real
FY 95:	6.47%	2.61%	3.86%
FY 96 - 97:	8.99%	2.99%	6.00%
FY 1998-2005:	9.16%	3.18%	6.00%

OOR Spring 1995 Base-Case Inflation Rates and PF Oil Revenues
Total Rates of Return Assumed at 6% Above Base-Case Inflation Rates
Dividends Capped at \$500 Million and Decline 1.5% Per Year; \$80 Million
Compounded for 5 Years to GF; ERA Plus & \$756 Million of Transition Funds to Principal
I-P Reduced by % of Equity Holdings (50-70%); All Remaining Income to Principal

Post-It™ brand fax transmittal memo 7671 # of pages 1

To: *Annalee* From: *Grant*

Co. Co.

Dept. Phone #

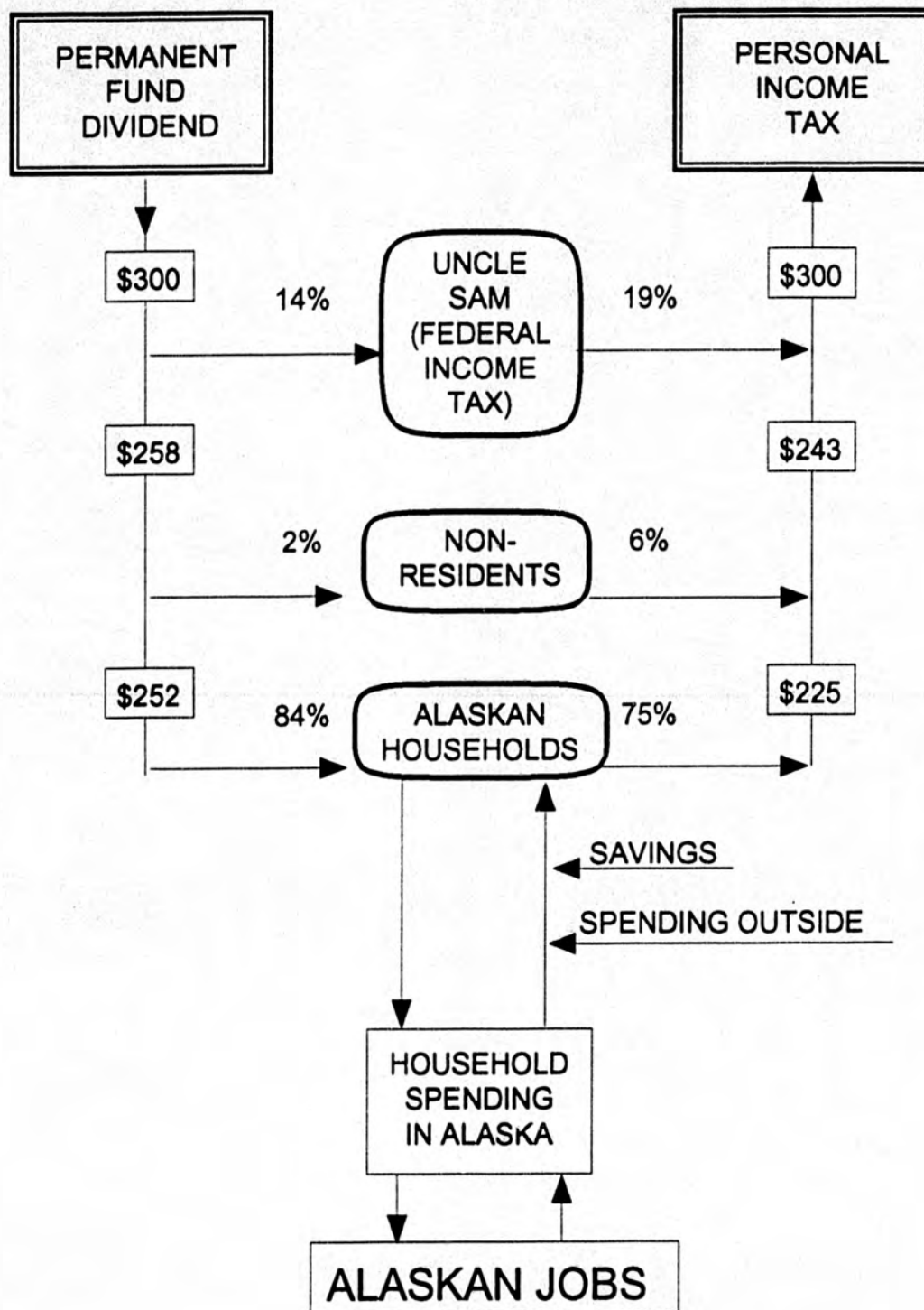
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THE PURCHASING POWER OF THE 1989 STATE BUDGET: JOBS AND INCOME GENERATED

STATEWIDE

CATEGORY OF STATE GOVT EXPENDITURES	SPENDING (\$MILL)	DIRECT EFFECTS		TOTAL EFFECTS		"BANG PER BUCK" TOTAL EFFECT PER MILLION \$ OF STATE SPENDING			
		GOVT JOBS (000)	HH INCOME (\$MILL)	ALL JOBS (000)	HH INCOME (\$MILL)	PUBLIC JOBS	PRIVATE JOBS	TOTAL JOBS	INCOME (\$THOUSAND)
=====	=====	=====	=====	=====	=====				
GRAND TOTAL	\$3,608	31.83	\$2,190	81.40	\$3,021	8.8	13.7	22.6	\$837
=====	=====								
TOTAL GENERAL FUND	\$3,169	31.83	\$1,751	74.90	\$2,441	10.0	13.6	23.6	\$770
=====	=====								
OPERATING BUDGET	\$2,825	31.83	\$1,751	70.43	\$2,292	11.3	13.7	24.9	\$811
=====	=====								
PERSONAL SERVICES	\$884					21.8	16.2	38.0	\$1,106
Wages	\$663	19.27	\$665	29.94	\$898	29.1	16.1	45.2	\$1,354
Benefits	\$221	-	\$219	3.67	\$80	0.0	16.6	16.6	\$362
=====	=====								
GRANTS	\$1,250								
Local Aid	\$792	-	-	-	-	0.0	29.5	29.5	\$807
Wages	-	12.55	\$389	18.80	\$525	-	-	48.3	\$1,350
Benefits	-	-	\$128	2.15	\$47	-	-	16.7	\$365
Other	-	-	-	2.44	\$67	-	-	8.9	\$243
Local Debt Service	\$109	-	-	0.35	\$12			NA	NA
Individuals	\$349	-	\$349	5.17	\$462	0.0	14.8	14.8	\$1,323
=====	=====								
CONTRACTS	\$366	-	-	5.75	\$142	0.0	15.7	15.7	\$389
=====	=====								
DEBT SERVICE	\$143	-	-	0.46	\$15			NA	NA
=====	=====								
COMMODITIES	\$85	-	-	0.76	\$21	0.0	8.9	8.9	\$243
=====	=====								
TRAVEL	\$36	-	-	0.40	\$9	0.0	11.1	11.1	\$243
=====	=====								
EQUIPMENT	\$25	-	-	0.22	\$6	0.0	8.9	8.9	\$243
=====	=====								
MISCELLANEOUS	\$36	-	-	0.32	\$9	0.0	8.9	8.9	\$243
=====	=====								
CAPITAL BUDGET	\$344	-	-	4.46	\$149	0.0	13.0	13.0	\$432
=====	=====								
PERMANENT FUND DIVIDEND	\$439	-	\$439	6.50	\$581	0.0	14.8	14.8	\$1,323
=====	=====								

LEAKS & SPENDING: THE DIVIDEND AND INCOME TAX

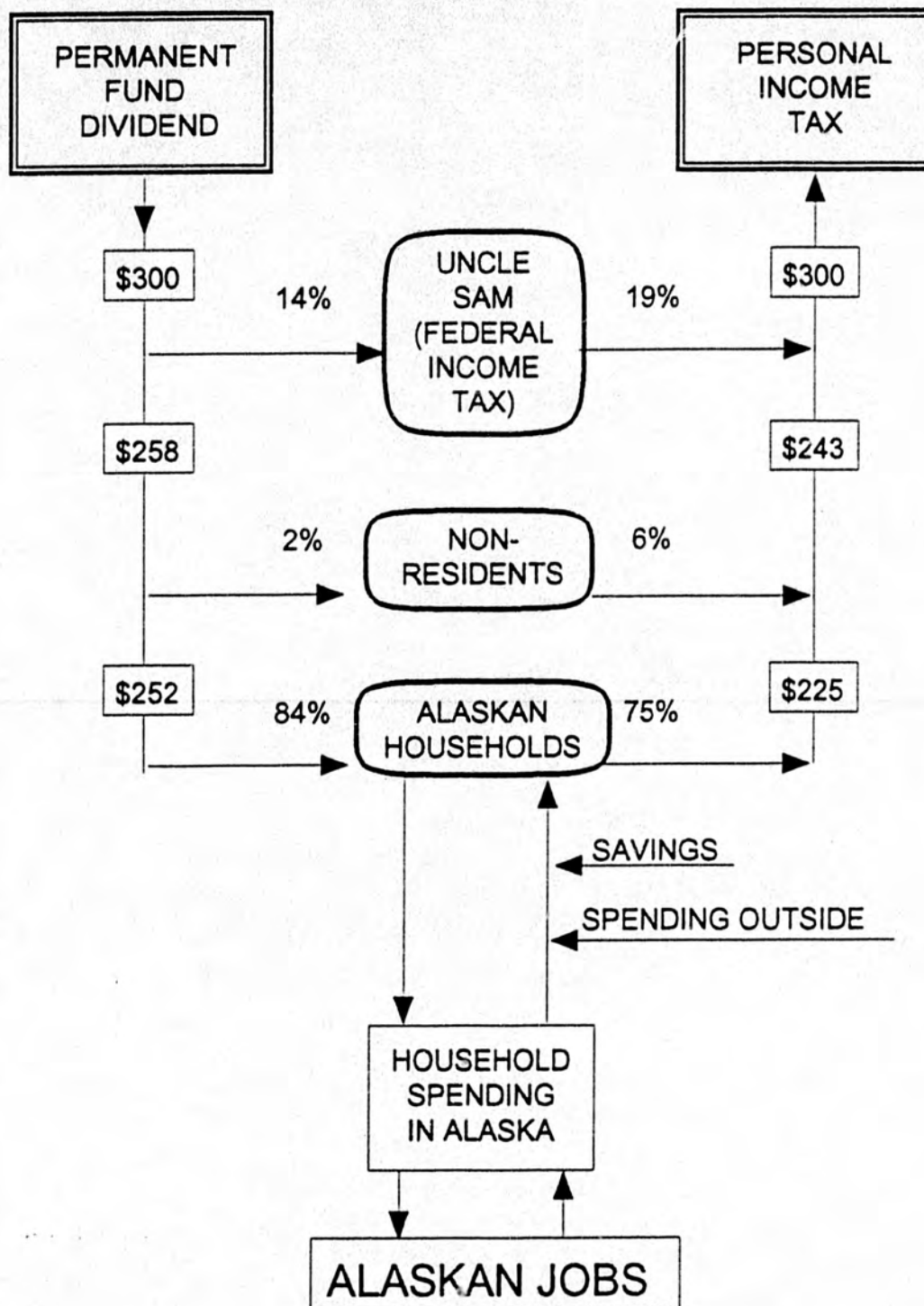


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Wages	\$663	19.27	\$665	29.94	\$898	29.1	16.1	45.2	\$1,354
Benefits	\$221	-	\$219	3.67	\$80	0.0	16.6	16.6	\$362
=====	=====	=====	=====	=====	=====				
GRANTS	\$1,250								
Local Aid	\$792	-	-	-	-	0.0	29.5	29.5	\$807
Wages	-	12.55	\$389	18.80	\$525	-	-	48.3	\$1,350
Benefits	-	-	\$128	2.15	\$47	-	-	16.7	\$365
Other	-	-	-	2.44	\$67	-	-	8.9	\$243
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=====	=====	=====	=====	=====	=====				
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=====	=====	=====	=====	=====	=====				
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=====	=====	=====	=====	=====	=====				
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=====	=====	=====	=====	=====	=====				

LEAKS & SPENDING: THE DIVIDEND AND INCOME TAX



P.

Port Alsworth, Alaska 99653
August 24, 1995

To: Alaska Long Range Financial Planning Commission
From: Jay S. Hammond
Subject: Implementing Proposals To Fill fiscal Gap

First, congratulations (commiserations?) for for being assigned the task of addressing Alaska's most crucial financial issue. Second, thank you for permitting me to perhaps further muddy the waters somewhat, while, hopefully, at the same time, suggesting a filtration process which might permit a solution to flow past political impoundments.

The basic solution, of course, is really quite simple: You either reduce the size of the gap or increase the amount of fill. While you've been given the chore of surveying the site, engineering the project and mixing the fill, no matter how logical your proposals may be, they'll each prove but another exercise in futility unless you can sluice them around those impoundments.

In your preliminary report there are several scenarios which could fill the gap. Most have three basic elements: 1. Cut spending; 2. Raise taxes and 3. Cap or eliminate dividends.

They all have something else in common: Regardless of merit, unless we provide some innovative means of detouring them around those political obstacles, all will high center.

Take cuts in spending: While politically popular in theory, in practice even the current, perhaps most fiscally conservative legislature ever, found it impossible to toss more than a few dollars saved into the void.

Similarly, even that most modest "revenue enhancement" which would have gleaned the greatest percentage of non-resident contributions, Governor Hickie's \$100 "Employment Tax", was shot down.

And if screams of public protest served to kill efforts to cut or raise but a few million to toss in the gap, you can bet proposals to cap or eliminate dividends will increase the crescendo ten-fold.

Some blame me in part for conditioning the public to consider dividends their due. If so, it is a charge to which I plead happily guilty. However, along with that admission let me suggest means by which the politics of

1.

dividends may be used to facilitate, rather than frustrate, filling the fiscal gap.

First, you must accept the rude fact the legislature not only will not, but cannot make substantial additional cuts nor impose new taxes no matter how modest or justified. The current legislative process simply will permit neither, even if most members support them. For example, most Alaskans agree it makes sense to at least trim back programs not based on need, such as Power Equalization; glean a few dollars from the roughly \$900,000,000 which flow out of Alaska in the pockets of non-resident fishermen or construction workers and perhaps even curb some benefits for public employees. Yet because of a committee system which permits an arbitrary chairman to frustrate majority will, such measures have virtually no chance of passage.

How can this be changed? Were the public allowed to vote on these matters they'd probably pass; but do you think for a moment a committee chairman dependant upon say "the fish vote" for re-election would ever let a new fish tax out of committee? Of course not. Similarly, while it's most generous for other Alaskans to pay part of my power bill while I'm catching their fish in Naknek, it's just a bit stupid to continue to do so in light of our looming fiscal crisis.

Equally stupid in my view was elimination of the Income Tax. Suspension or reduction may have made sense at one time, but wiping it out completely made it virtually impossible for any new development, save oil-related, which generated population increases, to pay its own way. Moreover, elimination created an almost insurmountable electoral obstacle to its re-imposition. Should the income tax be re-imposed, I believe it should be a "sliding scale tax" which rose or fell, dependant upon legislative ability to cut spending, oil prices and need to recoup dollars drawn from reserve accounts the previous year to ~~meet~~ fill budget gaps. This would permit the legislature to continue to gamble "on the come" should they so desire, while providing safeguards against fiscal chaos should they act imprudently or *like Jerry*.

In my view, the best chance of reducing political resistance to any of the above cuts or enhancements lies in the Permanent Fund Dividend Program and its potential for presenting the public with substantial compensation for what trauma those actions would trigger.

Not only has the dividend program been deemed by many as economically the "best bang for the buck" of any state
e

expenditure, it is the only state program based on absolute equity. Moreover, it has already demonstrated its ability to curb runaway spending. Or does anyone yet naively believe we would now have 13 billion in the Permanent Fund were there not a ring of militant dividend recipients fending off invasion by politicians who would rather spend all the people's resource wealth as they saw fit, rather than permit the people to spend the small portion allotted in dividends?

But now is the time for dividends to play even a greater roll by serving as a buffer against the pain of reduced services or increased taxes and user fees. Since it is a buffer legally provided only Alaskan residents, it also has the potential to promote local hire while it uniformly raises the tax base of every Alaskan community.

In light of the above, rather than capping or eliminating dividends, and squandering all the above potential, perhaps we should INCREASE that potential by increasing dividends.

HOW DIVIDENDS CAN BE USED TO FURTHER CUT SPENDING

Were dividends increased, political opposition to reduction of non-mandated programs would reduce as well. Dividend dollars could then be tapped thru many means. For example all non-mandated state funded programs could be placed on a dividend checkoff list. I've little doubt many, such as Ratnet, would glean sufficient dollars from the dividend check off to survive. Those which did not could then die with far less political pain.

Similarly, programs such as power equilization could become needs-based more easily. Those which could not be so modified without excessive political flak, such as the logevity bonus, should be restructured to return to the original intent of the act and thus phased out far more quickly, while at the same time eliminating gross inequities within the present plan.

DIVIDENDS CAN REDUCE OPPOSITION TO NEW TAXES AND USER FEES

Not only do dividends help all Alaskans more easily pay taxes and user fees they could be used to place a far greater burden of same on transient workers. I'm told it might even be possible to make transients bare the entire tax burden should we fully utilize the potential of dividends.

For example, were every Alaskan, on paper at least, granted their full per capita annual share of the resource wealth as a dividend, it would come to almost \$10,000. Instead they now receive but 1/10 that amount in a check. The other nine tenths is retained by the state in what might be termed a

"dividend tax". In essence, dividends are being taxed at 90%. Were a credit against an income tax granted for that dividend tax, few alaskans would owe any income tax whatsoever.

If you really want to get innovative, think what we could do to facilitate, if not virtually mandate, local hire were employees allowed to transfer any unused "dividend Tax Credits" to employers as a means of reducing corporate taxes!

Were dividends increased, logical arguments against other taxes would be greatly reduced. While some argue sales taxes are the exclusive domain of municipalities, such of course is not true. Gasoline, liquor and cigarette taxes are really nothing but sales taxes which flow into state coffers. Since most of those taxes fail to tap the largest percentage of dividend dollars: those going to minors, some suggest their dividend dollars be tapped thro tuition charges.

My point of course is to urge you to consider innovatively using dividend dollars to help balance the budget, while permitting (obligating?) the public to determine the programs they are willing to pay for with their dividend dollars. I can think of no more politically palatable means of curbing run away spending. Lamentably, most proposals you list would do just the opposite. In my view the plan which might best meet the above objectives is not even considered. That is the so-called Harbour Plan. I urge you to review it.

In conclusion I want to leave you with an unanswered question I've posed at every one of the dozen or so "economic conferences" I attended in recent months: "Would someone please tell me when it EVER makes more sense to cap or eliminate dividends, thereby imposing a "head tax" on every Alaskan and only Alaskans, than it would to simply crank up appropriate taxes or user fees to raise the same amount of revenue, much of which would be paid by non-resident transients and those of us who can best afford it?

If you conclude, as have I, that the answer to my question is: NEVER; then capping or eliminating dividends would seem even more stupid than wiping the income tax off the books.

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Data: Dept. of Revenue (projections: spring, 1995, base case)
 Permanent Fund Corp. (projections: June 30, 1995, base case)
 Reserves: 2,500
 Rate of inflation: 4.0%
 Rate of conventional revenue enhancement: 6.0%
 Rate of population increase: 1.6%
 Rate of expense reduction: 2.0%
 Rate of return (reserves): 5.0%

Present System of State Spending Fiscal Gap

(unit: one million dollars)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Without new income or expense reduction						With new income			With expense reduction				
	Natural	Permanent					Enhanced							
Fiscal	Resource	Conventional	Fund	Income		Gap	Conventional	Income	Gap				Gap	Reserves
Year	Revenue	Revenue	Income	(2+3+4)	Expense	(6-5)	Rev	(2+4+8)	(6-9)	Reduction	Expense	(12-9)	(yr-end)	
1998	1,622	300	801	2,723	3,243	520	300	2,723	520	0	3,243	520	2,079	
1999	1,654	309	846	2,809	3,425	615	318	2,818	607	65	3,360	542	1,614	
2000	1,668	318	893	2,880	3,616	737	337	2,898	718	136	3,481	583	1,083	
2001	1,680	327	942	2,950	3,819	869	357	2,979	840	213	3,606	627	479	
2002	1,647	337	993	2,976	4,033	1,056	379	3,018	1,015	535	3,497	479	0	
2003	1,627	346	1,045	3,018	4,259	1,240	401	3,074	1,185	1,185	3,074	0	0	
2004	1,611	355	1,100	3,067	4,497	1,430	425	3,137	1,360	1,360	3,137	0	0	
2005	1,588	365	1,157	3,109	4,749	1,639	451	3,195	1,553	1,553	3,195	0	0	
2006	1,526	375	1,216	3,116	5,015	1,899	478	3,219	1,796	1,796	3,219	0	0	
2007	1,466	384	1,276	3,127	5,296	2,169	507	3,249	2,047	2,047	3,249	0	0	
2008	1,471	394	1,340	3,205	5,592	2,387	537	3,348	2,244	2,244	3,348	0	0	
2009	1,420	405	1,406	3,231	5,905	2,674	569	3,395	2,511	2,511	3,395	0	0	
2010	1,368	416	1,474	3,259	6,236	2,978	603	3,446	2,790	2,790	3,446	0	0	
2011	1,044	410	1,542	2,996	6,585	3,589	639	3,226	3,360	3,360	3,226	0	0	
2012	988	420	1,612	3,020	6,954	3,934	678	3,278	3,676	3,676	3,278	0	0	
2013	925	430	1,685	3,041	7,343	4,303	719	3,329	4,015	4,015	3,329	0	0	
2014	873	441	1,760	3,074	7,755	4,680	762	3,395	4,360	4,360	3,395	0	0	
2015	821	452	1,838	3,111	8,189	5,078	807	3,466	4,723	4,723	3,466	0	0	
2016	772	464	1,918	3,154	8,648	5,493	856	3,546	5,101	5,101	3,546	0	0	
2017	718	475	2,001	3,195	9,132	5,937	907	3,627	5,505	5,505	3,627	0	0	
2018	669	487	2,087	3,244	9,643	6,399	962	3,718	5,925	5,925	3,718	0	0	
2019	623	500	2,177	3,299	10,183	6,884	1,019	3,818	6,365	6,365	3,818	0	0	
2020	583	512	2,269	3,364	10,753	7,390	1,080	3,932	6,821	6,821	3,932	0	0	
2021	540	525	2,365	3,430	11,356	7,926	1,145	4,050	7,306	7,306	4,050	0	0	
2022	505	538	2,464	3,507	11,992	8,484	1,214	4,183	7,809	7,809	4,183	0	0	
2023	467	552	2,567	3,586	12,663	9,077	1,287	4,321	8,342	8,342	4,321	0	0	
2024	434	566	2,674	3,673	13,372	9,699	1,364	4,472	8,901	8,901	4,472	0	0	
2025	390	580	2,784	3,754	14,121	10,367	1,446	4,620	9,501	9,501	4,620	0	0	

97,478

100,228

Permanent Fund at end 2025: 57,915

(for notes, see reverse)

Data: Dept. of Revenue (projections: spring, 1995, base case)

Permanent Fund Corp. (projections: June 30, 1995, base case)

Transitional withdrawal rate: **15.5%** in 1998 to final rate in **2018**

Final withdrawal rate: **5.0%**

Rate of total return: **9.0%**

Reserves: 2,500

Rate of inflation: 4.0%

Rate of population increase: 1.6%

Rate of conventional revenue enhancement: 6.0%

Unit: one million dollars

System of Sustainable State Spending Fiscal Gap

	1	2	3	4	5	6	7	8	9	10	11	12
	Without new income or expense reduction					With new income			With expense reduction			
	Permanent					Enhanced						
Fiscal Year	Fund Withdrawal	Conventional Revenue	Income (2+3)	Expense (4)	Gap (5-4)	Conventional Revenue	Income (2+7)	Gap (5-8)		Expense Reduction	(=8)	Gap (11-8)
1998	2,943	300	3,243	3,243	0	300	3,243	0		0	3,243	0
1999	2,916	309	3,225	3,425	199	318	3,234	191		191	3,234	0
2000	2,858	318	3,176	3,616	440	337	3,195	422		422	3,195	0
2001	2,801	327	3,128	3,819	691	357	3,158	661		661	3,158	0
2002	2,760	337	3,096	4,033	936	379	3,138	894		894	3,138	0
2003	2,731	346	3,077	4,259	1,182	401	3,132	1,126		1,126	3,132	0
2004	2,711	355	3,066	4,497	1,431	425	3,136	1,361		1,361	3,136	0
2005	2,696	365	3,061	4,749	1,688	451	3,147	1,602		1,602	3,147	0
2006	2,686	375	3,061	5,015	1,954	478	3,164	1,851		1,851	3,164	0
2007	2,679	384	3,063	5,296	2,233	507	3,185	2,110		2,110	3,185	0
2008	2,672	394	3,066	5,592	2,526	537	3,209	2,384		2,384	3,209	0
2009	2,666	405	3,072	5,905	2,834	569	3,236	2,670		2,670	3,236	0
2010	2,663	416	3,079	6,236	3,157	603	3,267	2,970		2,970	3,267	0
2011	2,662	410	3,072	6,585	3,513	639	3,302	3,284		3,284	3,302	0
2012	2,653	420	3,073	6,954	3,881	678	3,331	3,623		3,623	3,331	0
2013	2,637	430	3,067	7,343	4,276	719	3,355	3,988		3,988	3,355	0
2014	2,614	441	3,055	7,755	4,699	762	3,376	4,379		4,379	3,376	0
2015	2,593	452	3,045	8,189	5,144	807	3,400	4,789		4,789	3,400	0
2016	2,574	464	3,038	8,648	5,610	856	3,430	5,218		5,218	3,430	0
2017	2,557	475	3,033	9,132	6,099	907	3,464	5,667		5,667	3,464	0
2018	2,543	487	3,031	9,643	6,612	962	3,505	6,138		6,138	3,505	0
2019	2,679	500	3,179	10,183	7,004	1,019	3,698	6,485		6,485	3,698	0
2020	2,822	512	3,334	10,753	7,419	1,080	3,902	6,851		6,851	3,902	0
2021	2,970	525	3,495	11,356	7,861	1,145	4,115	7,240		7,240	4,115	0
2022	3,121	538	3,659	11,992	8,332	1,214	4,335	7,657		7,657	4,335	0
2023	3,275	552	3,827	12,663	8,836	1,287	4,562	8,101		8,101	4,562	0
2024	3,432	566	3,998	13,372	9,374	1,364	4,796	8,576		8,576	4,796	0
2025	3,593	580	4,173	14,121	9,948	1,446	5,039	9,083		9,083	5,039	0

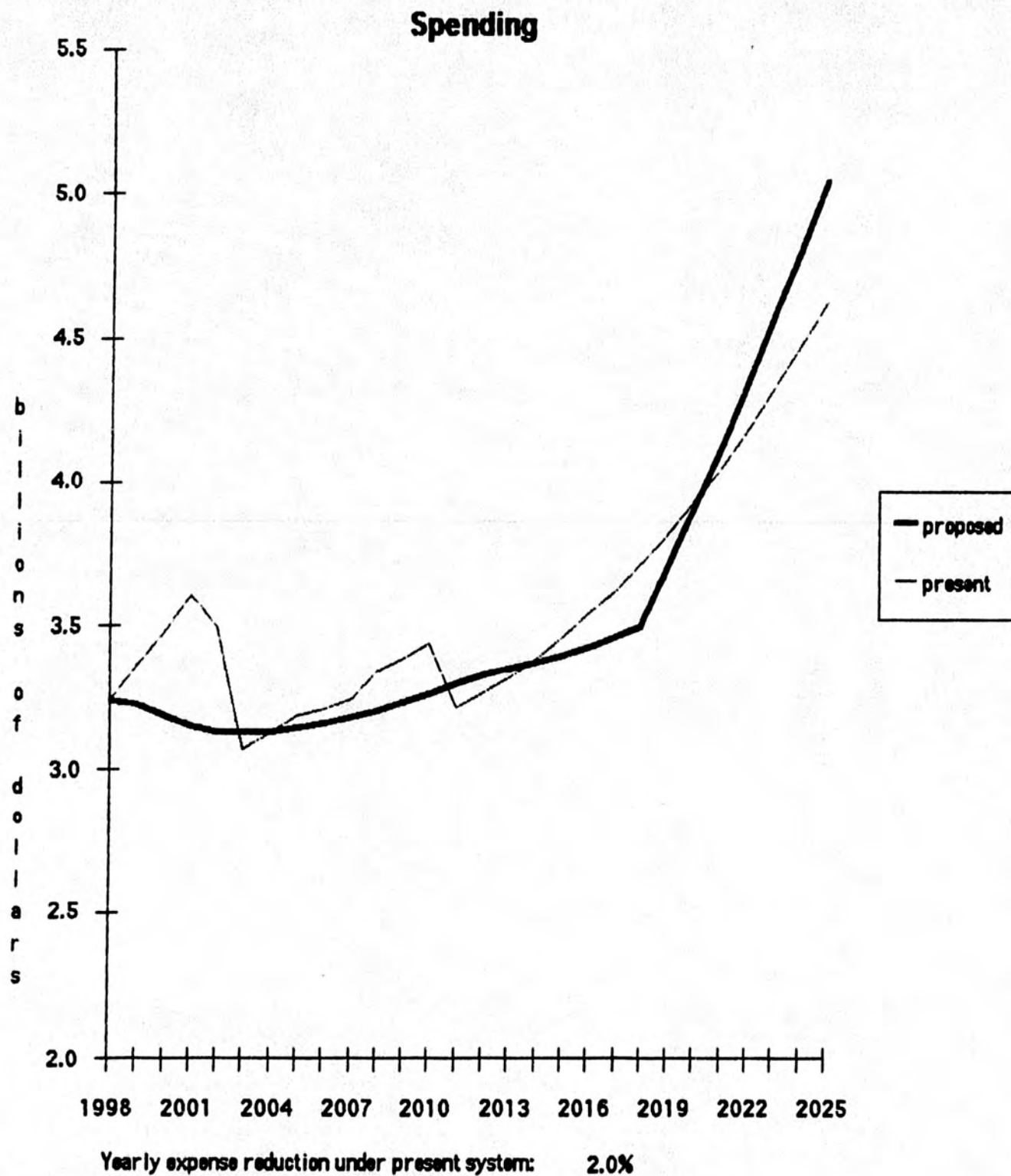
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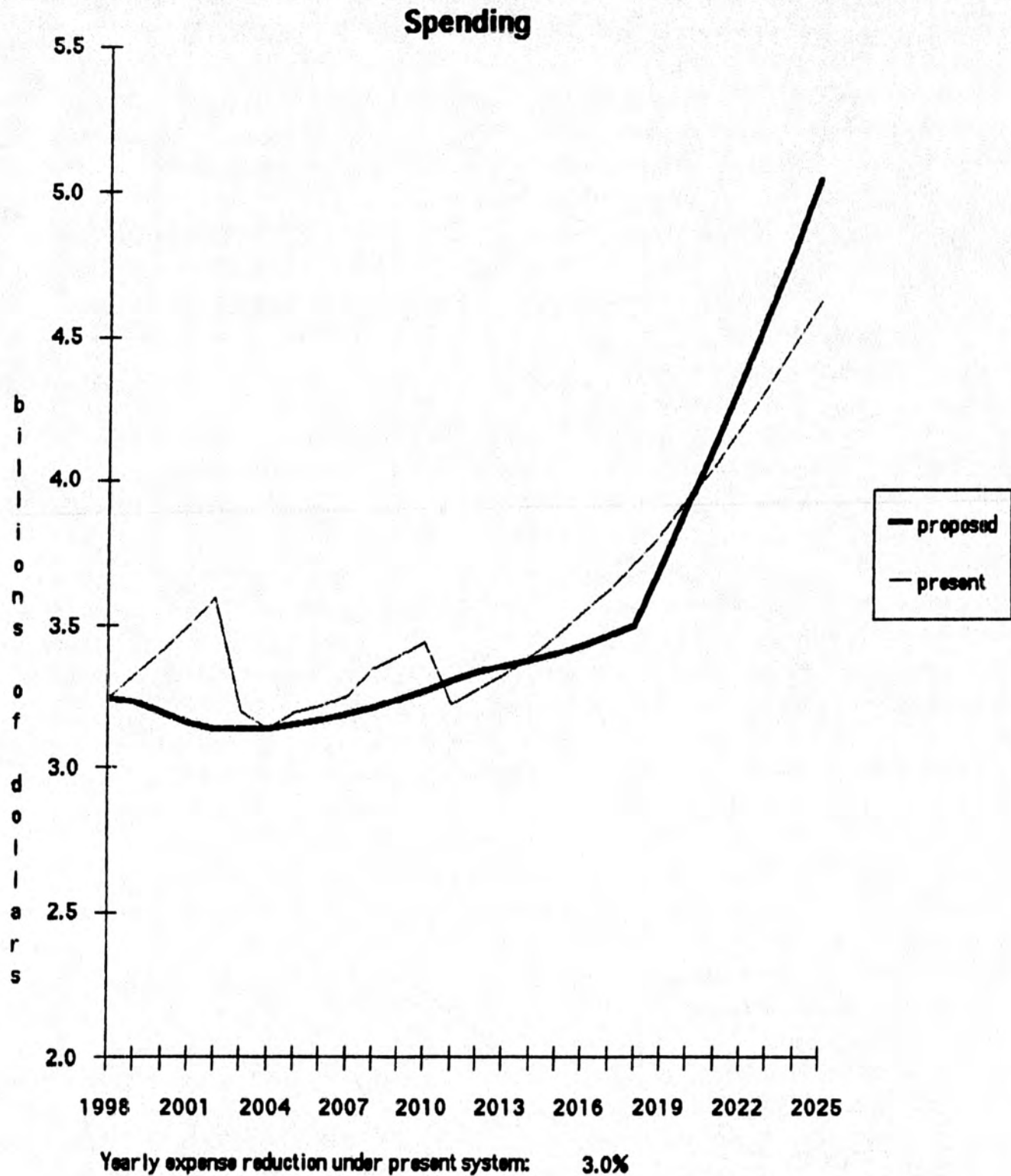
Permanent Fund at end 2025: 78,467

(for notes, see reverse.)

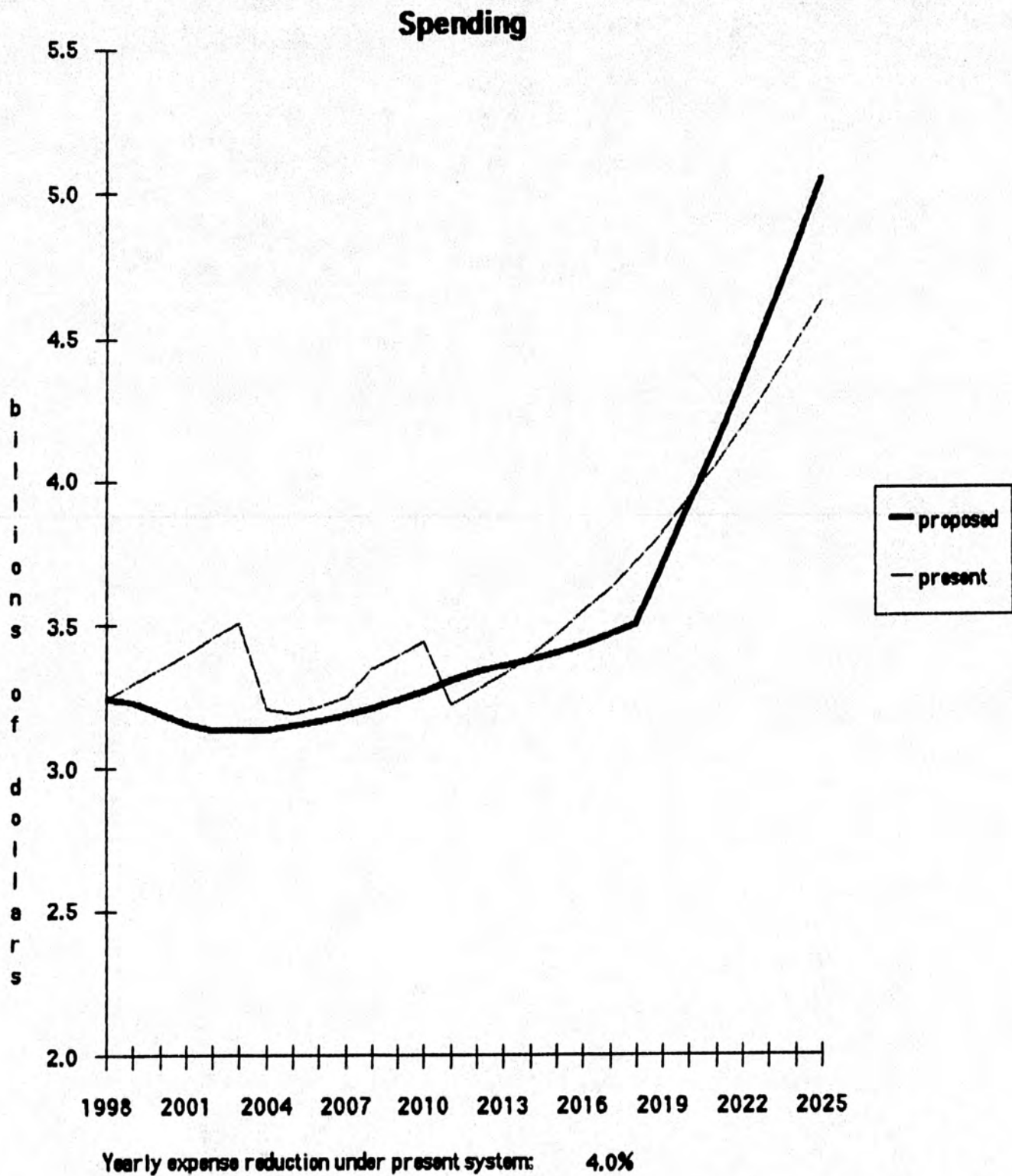
Present and Proposed Systems of State Spending



Present and Proposed Systems of State Spending

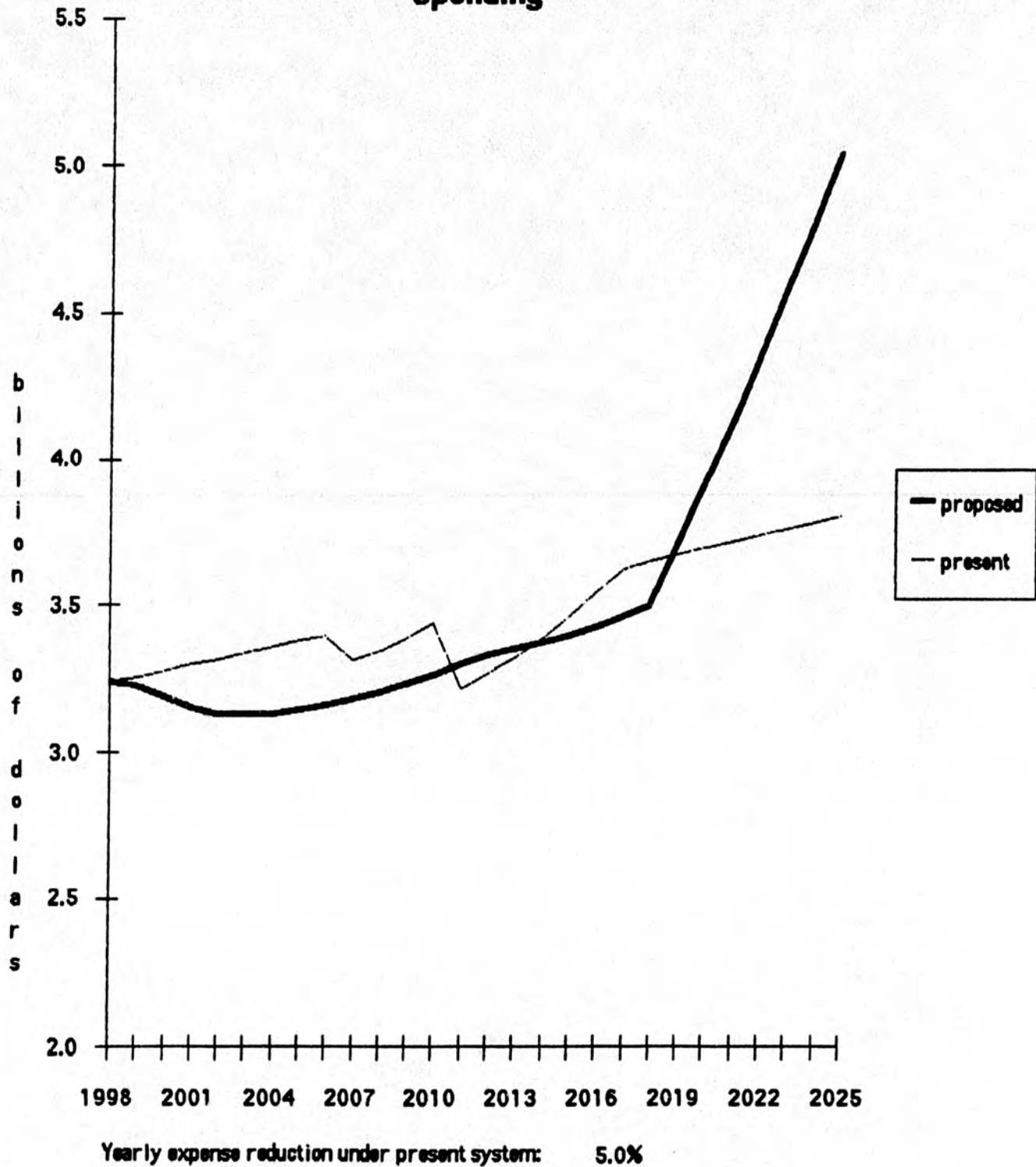


Present and Proposed Systems of State Spending

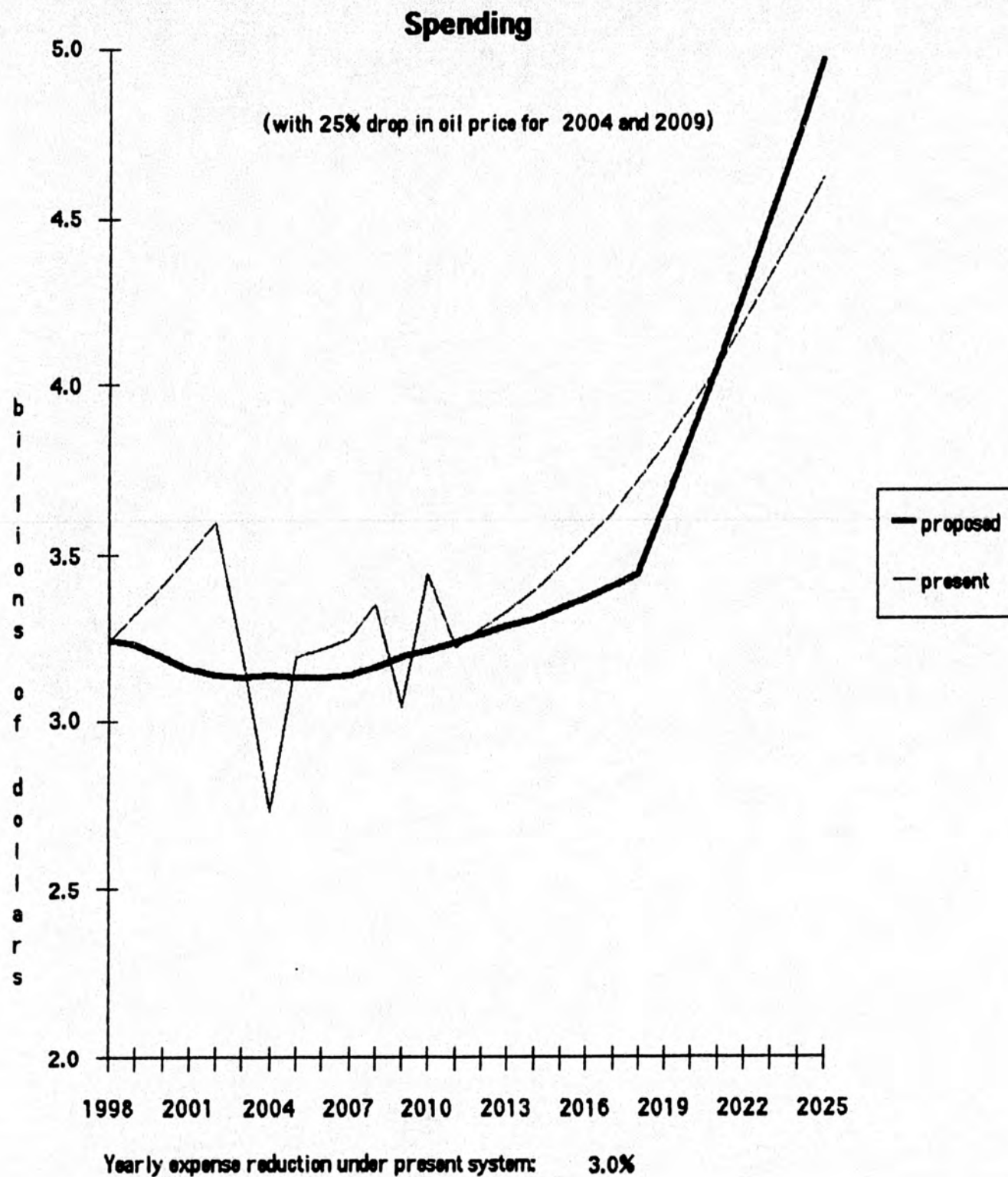


Present and Proposed Systems of State Spending

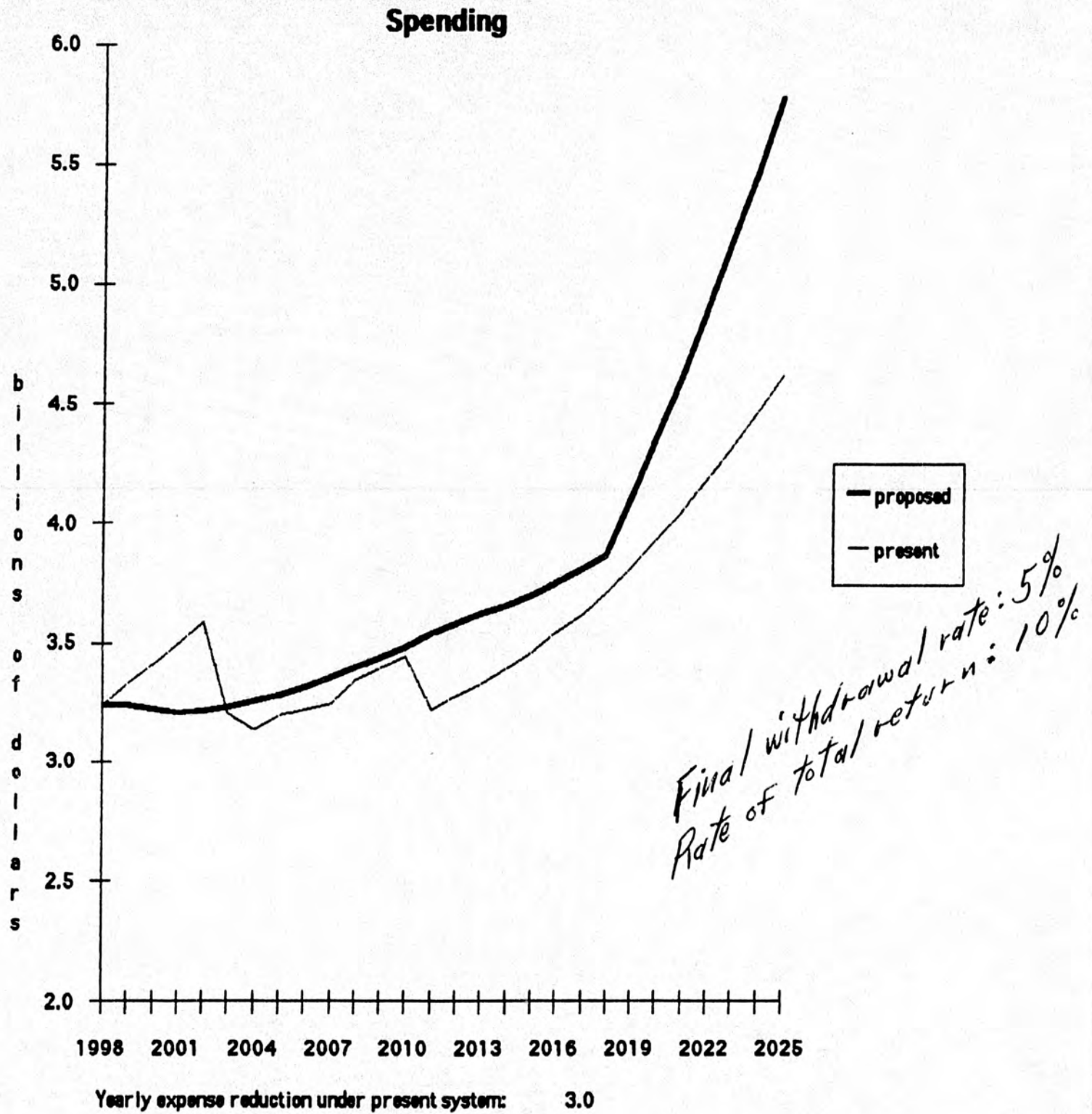
Spending



Present and Proposed Systems of State Spending



Present and Proposed Systems of State Spending



FAX MEMORANDUM

TO:

Post-It™ brand fax transmittal memo 7671		# of pages > 1	
To	Brian Rogers ?	From	Mary Marshburn
Co.	Judy Brady	Co.	Oil & Gas Policy
Dept.	Oil & Gas Policy	Phone #	562-2728
Fax #	965-3008	Fax #	562-0048

FROM: Mary Marshburn, Project Coordinator, Oil and Gas Policy Council, Dept. Of Commerce & Economic Development

DATE: August 21, 1995

SUBJ: A. D. Little Petroleum Fiscal Study Presentation

On June 28, 1995, the Oil and Gas Policy Council commissioned a study by A. D. Little/John Gault to assist the Council in assessing measures that could enhance the international competitiveness of the investment climate in Alaska for oil and gas exploration, development and production for existing marginal and undiscovered fields. John Gault will present the findings to the Council at its meeting of September 7, 1995.

The Council thought that someone from your organization might wish to attend and listen to the presentation either at the meeting or a teleconference site. The meeting will be held at the APUC conference room 305, 1016 W. 6th Avenue, Anchorage. The presentation is scheduled to begin at 10:15 a.m. and last approximately two hours. It will also be teleconferenced to the LIO sites in Anchorage, Juneau, Fairbanks and Kenai. In Barrow it will be the North Slope Borough's teleconference site in the ASRC Building.

Seating in the APUC conference room is limited and you may wish to attend at an LIO teleconference site.

Invitation to attend
Oil & Gas Policy Council
presentation Sept 7



LEGISLATIVE TELECONFERENCE NETWORK

SIGN-IN SHEET

SPONSOR: Long Range Financial Planning

SUBJECT: _____

START/END TIME: _____ DATE: _____

PLEASE PRINT

	Name/Representing	Address	Zip	Phone No.	Testify	Observe	Bill No.
1.	RON HAMMETH, AARP	3512 STANFORD DR, ANCH	99508	279-2329		✓	
2.	Charles E. McKee	P.O. Box 143452	99514		✓		
3.	JAY HAMMOND	Port Alsworth, A	99653	345-0839	✓		
4.	Eric F. Myers ~~by phone~~ ^{by phone} ~~(Paul Swenor)~~	Anchorage, Alaska	99517	248-3366	✓		
5.	Paul Swenor (on-line)				✓		
6.	DONALD N. ANDERSON	ANCHORAGE	99507	561-2467	✓		
7.	Kym Swift	BIG LAKE		2767648	✓		
8.							
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12.							
13.							
14.							
15.							

**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

Regular Meeting

Friday, 25 August 8:30 AM to 5:00 PM

8:30AM - 9:30AM	Commissioner Will Condon re: Revenues & Debt
9:30AM - 10:30PM	Duane Guiley, Director School Finance Division, Department of Education-School Financing, Foundation Formula Funding, Disparity Test
10:30AM-12:30PM	Work Sessions on Alternatives
12:30AM-1:30 PM	Lunch
1:30 PM - 5:00PM	Work Sessions on Alternatives

Saturday, 26 August 8:30 AM to 4:30 PM

8:30AM-9:00 AM	Subcommittee Report-Intergovernmental Affairs
9:00AM-11:00PM	Municipal League & Conference of Mayors Teleconference from Barrow
11:00AM-12:00PM	Public Testimony
12:00PM 1:00PM	Lunch
1:00PM - 4:00PM	Work Session on Alternatives
4:00PM -4:30PM	Discuss Public Hearings

e of The Times

State's spending appetite outgrows income

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

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

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

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

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

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

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

How much revenue does the state of Alaska receive?

It will receive \$3.2 billion in general fund revenues and Permanent Fund Dividends during FY96. We will receive \$1.5 billion from petroleum revenues, \$2 billion from Permanent Fund income (including the \$441 million reserved for inflation-proofing), and \$480 million from other sources.

In addition to the \$3.2 billion dollars in general fund and Permanent Fund revenue, the state also receives and expends federal funds and other funds derived from revenue generating activities. The major sources of revenue to the state are oil and gas rents, royalties and bonuses, oil and gas properties tax, severance taxes and corporate income taxes.



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

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

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

Additionally, Alaska is fortunate to have more than \$3 billion in cash reserve funds. These substantial reserves constitute one of the primary fiscal tools the state can, and has, used to temporarily fill the fiscal gap. However, these large reserve balances also have a negative side, in that the use of these re-

serves can delay for several more years the difficult actions necessary to close the fiscal gap, with the potential for suddenly magnifying the state's fiscal and economic problems when the reserves finally are exhausted.

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

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

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

Next: Cutting government spending will hurt.

ce of The Times

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

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

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

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

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

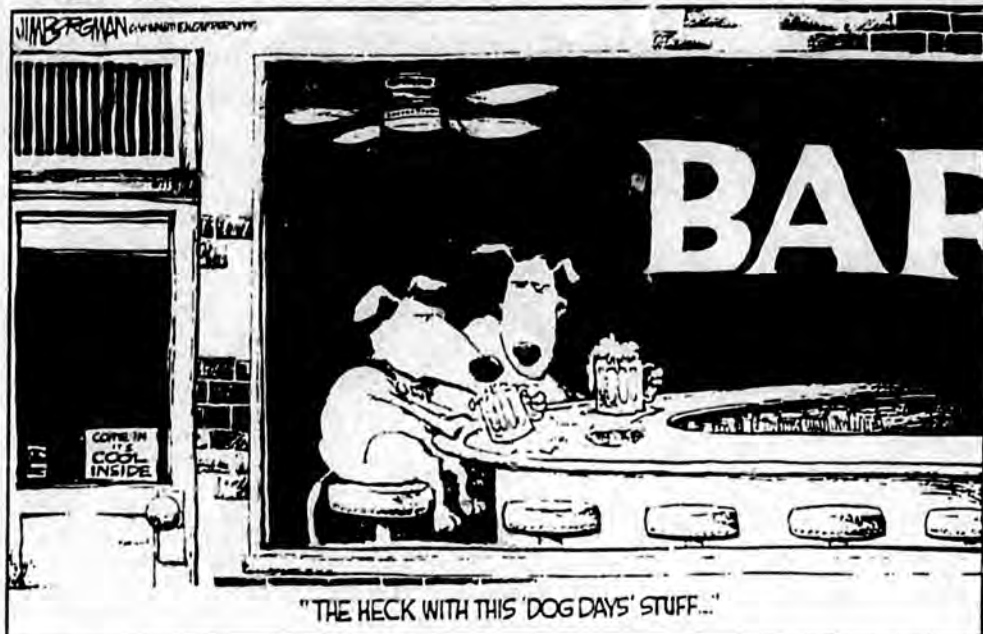
Efforts to date have not been enough to offset the decline in revenues. However, without this steady attention to reducing expenditures, the gap could soon have forced drastic reductions in services and programs, loss of the Permanent Fund, or significant new taxes.

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

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

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

The volatility of Alaska's revenues



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

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

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

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

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

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

The commission at this time is not en-

dorsing any specific recommendations, but expects to make its recommendations from among the choice that are being presented, supplemented by any ideas which come out in public hearings.

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

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

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

The commission will hear public comment during the following hearings:

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

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

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

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

Next, spending habits and revenue flow.

The Anchorage Times

Publisher: BILL J. ALLEN

"Believing in Alaskans, putting Alaska first"

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

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

Generation gap

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

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

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

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

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

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

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

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

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

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

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

We believe so.

Alberta shops for pointers in using oil cash

By LISA SCAGLIOTTI
Daily News business reporter

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

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

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

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

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

Like Alaska, Alberta's economy de-

Please see Back Page, FUND

FUND: Alberta has second thoughts

Continued from Page A-1

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

But the two funds followed very different paths.

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

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

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

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

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

Alberta also wasn't diligent about its deposits to the Heritage Fund. By 1986, as oil prices crashed, the government quit adding to the fund. Since then, the Heritage Fund balance has hovered around \$8.4 billion, generating annual income of

about \$700 million, which is put directly into the province's general budget to pay for government services.

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

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

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

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

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

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

August 23, 1995

State of Alaska
Long-Range Fin. Plan. Comm.
716 W. 4th Ave.
Anchorage, AK 99501

Having read the invitation to comment on the issues regarding the budget problem in the "Voice of The Times" this morning, I would like to offer the following:

1. As far as I know, Alaska is the only state in the union that pays its residents to live there.
2. Paying people for doing nothing encourages them to do more of nothing.
3. Creation of the dividend distribution has made people feel entitled to, and dependent on the money.
4. Immediately upon distribution, the federal income tax liability extracts a significant amount of the distribution from the state economy.
5. With the inevitable demise of the airline programs that multiply the value of the distributions, the dividends will lose a significant amount of their value to those who have purchased tickets with them in the past.
6. It is arguably foolish to distribute money in the form of dividends, and then collect it in the form of income taxes--creating two bureaucracy to eat up the state's limited resources.
7. If people leave the state of Alaska because the dividend is eliminated, it will help to reduce the cost of state government.
8. If people are here only because of the dividend, maybe they should leave, anyway.
9. Politicians created the problem; they should now be willing to suffer the consequences of correcting the problem.
10. Did the Alaska permanent fund dividend help to entice the giant retailers to the state, helping

to destroy some of the small, independent merchants? (Bankruptcies in Alaska up 144% May, 1995 from May, 1994).

11. Have individuals and families used permanent fund income to obtain long term financing, and now must face the real possibility of that income either disappearing or shrinking drastically?
12. It would be a hardship for many families to lose the entire pfd at one time, so why don't we begin to wean ourselves of it now, and quit counting on it in planning our future budgets?
13. A politician gets elected by promising the people what they want to hear. A statesman does what is prudent and responsible, and lets the chips fall where they may.
14. Should the State of Alaska, with projected deficits ranging from \$513 million to \$1.3 billion be giving away money???

I realize that recommending elimination of the pfd will not be popular with the voters in the short run, and will not resolve the deficit completely. It seems to me, however, that it is the only rational place to start.

Good luck!

Sincerely,



Richard E. Barrett
100 Bunnell, #3A
Anchorage, AK 99508

ASSOCIATION OF ALASKA SCHOOL BOARDS

316 West 11th Street, Juneau, Alaska 99801-1510 • Tel. (907) 586-1083 • Fax (907) 586-2995

August 3, 1995

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Bob Loescher
Vice President
Sealaska Corp.
1 Sealaska Plaza
Juneau, Alaska 99801

Dear Bob:

I've collected some thoughts since our discussion on the activities of the Long Range Fiscal Planning Commission. I'd like to share some information with you.

It is estimated that education and education-related funding (including school construction and postsecondary education costs) account for close to \$1 billion of Alaska's \$2.4 billion state operating budget. For many Alaska communities, the school district is the largest employer. Therefore, any reduction of the cost of state government inevitably will affect the state's current commitment to education.

Education is labor-intensive. Roughly 80-85% of school district funds are expended on school employee salaries and benefits. It should be reasonable to assume that cuts in education funding would dictate cuts in personnel costs, but salaries, benefits and certain working conditions are negotiated under a plethora of state laws and regulations which severely limit boards' ability to effect economies in this area. In 1992 noted education authority William Banach told a group of Alaska school board members that, in reality, only 3% or 4% of the budget is discretionary. The rest is locked up in contractual obligations and state/federal mandates.

For nearly a decade the Association of Alaska School Boards, anticipating declining revenues, has called for regulatory and legislative relief which would allow cost containment while preserving the quality of education. Last year HB 217, an education improvement bill designed to accomplish that, passed the Alaska Legislature but was vetoed by Gov. Knowles. Since then, the governor has indicated his willingness to work on a similar measure.

Today, Alaska's school boards cannot layoff teachers when revenues decline. Current tenure laws virtually guarantee lifetime employment to teachers regardless of performance in the classroom or financial constraints. School budgets are driven by the negotiations process and state law, as much or more than by student needs. Legislative remedies similar to HB 217, and others, are essential if the education community is to do its part to help bridge the fiscal gap without substantially diminishing the quality of Alaska's educational system.

We need to examine strategies at the state and local level that will identify 1) the elimination of programs we can't afford to provide, 2) cost containment measures that will make the programs we must continue more economically feasible, and 3) new sources of revenue generation. As the state considers its responsibility to education and the possibility of passing more of that responsibility to the local level, there needs to be some serious discussion regarding local fiscal autonomy.

The state level discussion of economic development is a long range solution and does not address the immediate problem—the fiscal gap. We need to address taxes as a means of revenue generation that will address both short term and long term problems, with an eye to utilizing that revenue appropriately, not simply for the preservation of state government as we know it now.

RECEIVED
NATURAL RESOURCES

AUG 9 1995

SEALASKA CORP.

Enclosed are a number of AASB publications and articles I think you will find interesting.

- **Press release for Annual Teacher Salary & Benefits Report '95, AASB, Report summary page, and Salary Information page. (Entire report enclosed)**

Although school boards are trying to hold the line on expenditures, employee unions push for raises that address the rising cost of living or better. Salary increases have averaged 5% per year statewide. Keep in mind that as the student population has increased, the number of teachers has increased, adding to overall costs.

Although AASB reports the *average* teacher salary, this can be misleading. It appears somewhat stagnant due to retirement incentive programs (RIP's) which retire high end teachers and replaces them with less experienced, less expensive educators, but, again, the growing number of teachers have added to the overall personnel costs in salary and benefits.

- **Press release for Administrator Salary & Benefits Report '95, AASB, Report summary page. (Entire report enclosed)**

This information shows a decrease in the 1995 average superintendent salary. The press release also mentions a reduced number of administrators. This reflects an ongoing attempt by boards to reduce operating costs.

- **Classified Salary & Benefits Report '95, AASB**

This category of employees have generally been the primary target of cuts in terms of numbers. However, they are becoming increasingly more unionized which further reduces school boards' ability to contain costs in this area.

- **Labor Relations Update, May 1995, AASB**

This insert appeared in the May issue of the monthly AASB newsletter *Commentary*. It gives a description of our position on HB 217, and outlines our concern with (1) improving the quality of instruction (2) our attempt to hold costs in line with revenues and (3) fairness to employees.

- **"In tenure debate, what about kids' security?" Guest editorial by Carl Rose, AASB *Anchorage Times, Juneau Empire, Fairbanks Daily News-Miner, Ketchikan Daily News***

This article is an example of how public perception affects education. It was written in response to media coverage generally condemning tenure reform without having a grasp of the issues involved. It is an example of what school boards, as elected officials who are accountable to the public at election time, face when seeking change within the education establishment.

I am currently involved in a series of discussions with our Board of Directors on issues surrounding the state's fiscal gap in order to formulate recommendations for the Commission to consider.

It was good talking with you. I look forward to more of the same.

Sincerely,


Carl Rose,
Executive Director

*Enclosures
in Commission
Office.*

1. To MAUIE: ^{PER DIEM FOLKS} Kelly Martin stuff.

25 Aug 95

Condon:

Debt capacity \$100M per yr

S&P feels commission can contribute to stability and increase debt ceiling/reliability

Capital budgeting using debt good because reserves are used that could be invested

TAXES MATH OK:

EFFECTS: WHO PAYS

~~effect~~ ON economy AS A WHOLE

\$13B economy today

GAP not only govt but total economy

1. New \$:
- EL of perm fund
 - economic development i.e. New oil fields
 - inc. taxes on resources
 - leaving the state

Net effect of \$100M out of economy = 1200 jobs (LOOK AT ISER REPORT)

★ ADD
EFFECT
10. # of jobs

DOL fall FORECAST: PRICE SAME
production lower
will incl. export ban

OVER 5 YRS

\$500-600 COUNT ON OVER Next 5 YRS

(OUR BASE CASE INCL \$150/yr yr)

VIDEOCONFERENCING will be run through
Univ. Network @ \$150 HR. SHOULD BE
ON-LINE by September.

WHEN I ASKED THEM TO HAVE HIM ADD DEBT TO
HIS PRESENTATION, THEY SAID HE DIDNT HAVE *
DEBT PRESENTATION READY

Pourchot

Summarize resolution + response

4

Nordale

* Preliminary report appendix to final *

Rogers

Local govt relationships

Lieber

McConnell: lots of plans could work
but implementation is critical

drafting

How many recommendations to legislature?

Pourchot: draft resolution

* look for local govt TF report

~~Duane Guley is here on
annual leave.~~

Scott Goldsmith coming tomorrow

Brian's Friday Plan:

1. Cur Spending

- Annual expenditure goal 10 yrs.
- Specific cuts ea yr (goal)

Goals such: ^{DONT HIT} ~~ECONOMY TOO HARD~~
Net economic growth
Amount of performance of PF

Money:

Problem: What about bad yr -
SB51

★ SAT
Adopt consensus Pol on PF

check base case → ASK BRAD RE: ASSUMPTION 4.79 RER

LIEBER: can fix CBR, 3/4 invade after

Ne: TESTS:

Natural Disaster

Fed Budget Cuts

PF Inv. Policies

Repay measures

UNCL Report

2 plans ie. Credo / Not Credo

- ^{decrease} ~~increase~~ in revenues
- mid course collections

Principles

- Preserve PFC
- Capitalize revenues
- use of EER
- Stabilization
- share pain
- balanced budget
- sustainable

JB: Munder Committee
invite economists to discuss plans.

9:30

26 Aug 95

(1)

AML BOARD + CONFERENCE OF MAYORS.

Krome Selby: review report

pts to consider - Appreciation

1. Recognize gap exists
2. Some options appear viable, plz don't disrupt sources of municipal taxes.
3. Willing to work for services/answers
4. Don't shift burdens to munis
5. Priorities do exist, unclear what those are in report
6. Coop. transfer of programs, coordination/consolidation
* funds
7. Analyze impacts on local govt / work closely + provide feedback

M. Noedale: muni studies/state vs. local srcs

Pouchot: what traditional ~~is~~ property tax, 2. sales tax (mixed feelings)

. do retail local + state sales tax? JS: No

Locher: any policy papers to the commission?

J. Selby: if commission wants, they will do.

* FORMAL REQUEST *

Locher: short timeframe

(Federal transferance of programs? How do you see discussion re: both fed + state transfers.

Selby: also need to discuss funding transfers, want assurance of stable funding base

2

② 26 Aug 95

Loebcher: * Need list of programs ~~likely~~ possible to transfer *

- What ~~WMA~~ thinking in area of consolidation, services, etc.

Prady: School vs muni tension

Selby: education responsibility of the state

Loebcher: were looking for specifics

class 3 roads

1. inc fuel tax to nat'l median dedicate to maint. up to \$1/mile (1500 permits)
 2. Repeal Sec 52 exp. + make voluntary OK, plz recommend
 3. Oil/gas 20 mill tax (orig 50/50 split)
concerns is split not exceed on future properties means \$ to state.
 4. Would like specifics re: transfers, coordination, consolidations.
- JS Analysis eliminate TF on welfare + public assistance

M. Noedale:

McConnell tax-deduction/accruality - ? OK
YES, LEGISLATURE RELUCTANT

McConnell: implementation of fiscal plan needs support

Rogers: If \$ removed from local govt, where would you cut first?
Reductions least unpalatable?

Rasmussen: already experienced cuts
Lynn? Kenai: please no unfunded mandates

Noedake: what about termination of programs?

Lupton: 20% tax exemption / 40 new week

Nauve: \$22m to go to 40 new week

Goeluch: 1. measure state govt against AK ok?
2. using capacity correctly?
3. Can we get into from main league?

Starje
Stanton: ok

Rosemary } Needs discussion re: state + local govt
Hagerig } w/ fed govt
M. J. J. } potential for impacts on local govt
when federal budget passed.

Noedake: Need list of possible federal impacts.

Gonzales: * Follow through on final report *
Dorli } willing to meet w/ commission
Bolo }

AMLD 3 } city operates on local
Presidents } revenue sharing
City } concerned about municipal govt's
Belson } disolving
where did the fiscal gap from
since they live in the third world

Don't cut dividends
look at 4 dam pool & ^{meawide} cruise ship tax ⁴

Alarie
Stanton:

1. Need to look at enhancing revenues
2. Municipalities diverse

Buckland:

1. Depends on subsistence & permanent fund.

Joe

Public

Hammond:

dividend check-off list (all may not
const. mandated)

i.e. Corner

PCE

ALB: return to original intent

Charles?
Mick?

Fiscal gap: problem w salmon industry.
no regulatory process to prevent
unethical practices by realtors & real
estate agents

ERIC?
MEYER?

Tobacco Tax Revenues/

- FRIE (i.e. USE FEE)
- Significant revenue
- AK 1991 - 127M direct & indirect costs
- OTHER STATES WA @ \$1.50 pack
825 " 1996

Pouchoir check dollar amounts
i.e. total vs. incremental and demand
57? 47 lessening
4%

Look at 2⁰⁰ + 3⁰⁰

David?
Sweander?

OWN 40% massive
60% declines

Below average of OTHER
States esp w coupled w sales
taxes

FAILURE TO INITIATE?
DON'T STOP

BC: 220 TAX (provincial)
 Alberta: 87 = 294 91 - 1.40 (provincial tax)
 • ~~the~~ much political supporters

Donald Anderson: • recovery # diff programs
 i.e. charge tuition for public school
 • imposing taxes & fees
 And cost 5% to administer taxes
 cost ~~to~~ bed to enforce/collect.
 • major programs (e. retirement) and
 those should be looked at first for
 elimination.

* RAW FISH TAX - DOUBLED, $\frac{1}{2}$ of orig. back to
muni (new total)
check USE 380M (MAYBE TO LOOK AT) → POLICY ANALYSIS RE FISH TAXING
* Grad - incremental difference highway motor LANDING
fuel tax *
✓ DOR

- NOTE STATUTE, ETC + SOURCE

* ON TABLE: LIQUOR DISPENSARY LICENSES

RUN FIGURES OUT TO 210

SCHOOL TAX - ON HOLD

SHOW PF BALANCE + EARNINGS RESERVE

OTHER FUNDS:

DISCUSSION

RIEDEL: DON'T affect gap

DEBTSVC: LEVEL OR DECREASE

MOTOR FUELS TAX: use to close gap or use for
maintenance

BASE CASES

- List of commonalities
- Footnote differences / reason + philosophy
- total

↑ DO BY MON

TELECONF w/ chores assignments

- 13th 20th EAGLE RIVER COFC MIKE NAVARRE will do

Navarre: Sept 30th Kenai Chapter:

Beady + O'Connor

② Include DOR "WHY WE HAVEN'T
CRASHED"