

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

2381 SCOMM 101 LONG RANGE FINANCIAL PLANNING COMMISSION, 1995

DRAFT!!!**Designated Fund Sources**
(shown in thousands)**DRAFT!!!**

<u>Code</u>	<u>Est. Balance 6/30/95</u>	<u>FY96 Budget</u>	<u>Fund Name</u>	<u>Comments</u>
1059	20.5	2,250.6	Correctional Industries Fund	
1077	0.0	2,676.5	Indv/Foundt'n/Corp Gifts/Grants/Bequests	Funds received to be directed toward a specific area (i.e., donations to support the state museum)
1084	760.0	2,500.0	Alyeska Settlement Fund	
1086	327.0	2,560.0	Southeast Energy Fund	
1090	0.0	0.0	Four Dam Pool Transfer Fund	

Internal Service Funds:

1026	0.0	34,405.9	Highway Working Capital Fund	Funds transferred by other state agencies and political subdivisions as reimbursement for services provided.
1081	1,428.0	23,032.5	Information Services Fund	

Transfer of funds between agencies or budgets for contractual obligations:

1007	0.0	192,302.9	Interagency Receipts	Funds transferred from one state agency to another in payment of services provided under specific contracts.
1055	0.0	13,781.2	Inter-agency Rcpts/Oil & Hazardous Waste	Funds transferred from DEC appropriation from the Oil & Hazardous Substance Response Fund to another state agency.
1061	0.0	81,116.2	Capital Improvement Project Receipts	Reflects capital supported expenditures in operating budget)

Designated Fund Sources

Code	Est. Balance 6/30/95	FY96 Budget	Fund Name	Comments
General Funds:				
1003	185.0	2,476.0	General Fund Match	
1004			General Fund Receipts	
1005			General Fund/Program Receipts	
1006			Gen. Fund/Mental Health Trust	
Loan Funds:				
1013	130.0	2.0	Alcoholism & Drug Abuse Revolving Loan Fund 21642 ✓	Portion of revolving funds used specifically for servicing loans. An appropriation is not required to pay for loans. Active. No loans to date.
1020	12,566.00.0	0.0	Grain Reserve Loan Fund	Nonactive fund.
1021	13,690.0	1,449.0	Agricultural Loan Fund 21606 ✓	Active. Principal & interest receipts used for new loans and servicing loans.
1035	261.0 678.0	238.0	Veterans Revolving Loan Fund 21605 ✓	Nonactive fund. Principal & interest receipts that are not used for loan servicing costs go to the general fund.
1036	7,105.0 15,156.0	2,431.1	Commercial Fishing Loan Fund 21608 ✓	Active. Principal & interest receipts used for new loans and servicing loans.
1046	?	0.0	Student Revolving Loan Fund	Active. Principal & interest receipts used for new loans and servicing loans.
1051	475.0 562.1	95.4	Rural Development Initiative 21644 ✓	AS 44.47.800 - Must be specifically appropriated back to the fund
1057	559.0 316.0	8.0	Small Business Loan Fund 21607 ✓	Nonactive fund. Principal & interest receipts that are not used for loan servicing costs go to the general fund.
1058	0.0	0.0	Tourism Revolving Loan Fund 21609	Nonactive fund. Principal & interest receipts that are not

BRADY SCENARIO: Poison Pills: PFD Pool Fills Gap/Income Tax Triggered at \$500.00 PFD

Scenario #1

Spending: FY 97-00 held flat
FY 01-04 .5% increase
FY 05-08 held flat
FY 09-10 .5% increase

Strategy:

1. Permanent Fund excess earnings flow to general fund (per SB 51).
2. Implement tax increases. In years FY 98-02, there is a surplus based on spending assumptions. Therefore, there is "room" to phase tax increases. Income tax is authorized with its trigger tied to event #4.
3. Any gap is filled from the PFD pool; dividends are reduced accordingly.
4. When an individual PFD is less than \$500.00, an income tax is triggered.
5. CBR is restructured as a reserve for significant oil price/revenue fluctuations. Any remaining CBR balance is deposited into the PF.

What It Means:

1. Creates a constituency for reduced spending. If the Legislature "gobbles," PFDs will be reduced and will be closer to an income tax.
2. Creates a constituency for increased economic development and other revenue generation because it pushes out a day when PFD is reduced.
3. Puts in place a "poison pill" trigger if gap consistently increases.

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
Expenditures															
State Budget	2,476.1	2,476.1	2,476.1	2,476.1	2,476.1	2,599.9	2,729.9	2,866.4	3,009.7	3,009.7	3,009.7	3,009.7	3,009.7	3,160.2	3,318.2
Revenues															
ADOR Forecast	1,774.7	1,828.6	1,907.5	1,948.2	1,971.6	1,992.7	1,968.6	1,967.8	1,961.6	1,947.6	1,895.3	1,845.5	1,860.3	1,820.3	1,779.8
Misc. Adjustments	188.4	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
User Fee Increases		3.0	6.0	9.0	12.0	15.0	18.0	21.0	24.0	27.0	30.0	33.0	36.0	39.0	42.0
Alcohol Tax Increase		19.0	20.2	21.4	22.8	24.3	25.7	27.2	28.7	30.4	32.2	34.0	36.0	38.0	40.2
DMV Fees (Double)		29.0	29.5	29.9	30.4	30.9	31.4	31.9	32.4	32.9	33.5	34.0	34.5	35.1	35.6
Fish Bus Tax		39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0
Tobacco Tax		43.0	45.1	47.3	48.5	51.9	54.4	57.1	59.8	62.7	65.7	68.9	72.3	75.7	79.4
Hwy Fuel Tax		39.3	41.2	43.2	45.3	47.5	49.6	52.2	54.7	57.3	60.1	63.0	66.0	69.2	72.6
Marine Motor Fuel		5.0	5.2	5.5	5.8	6.0	6.3	6.6	7.0	7.3	7.6	8.0	8.4	8.8	9.2
PF Excess Earnings(SB 51)		298.0	376.0	436.0	484.0	506.0	528.0	551.0	574.0	598.0	622.0	647.0	673.0	700.0	727.0
Total Revenues	1,963.1	2,393.9	2,559.7	2,669.5	2,749.4	2,803.3	2,811.0	2,843.8	2,871.2	2,892.2	2,875.4	2,862.4	2,815.5	2,815.1	2,814.8
Gap/Surplus:	-513.0	-82.2	83.6	193.4	273.3	203.4	81.1	-22.6	-138.5	-117.5	-134.3	-147.3	-94.2	-245.1	-403.4
Dividend Distribution															
Per SB 51	582,000	518,000	479,000	458,000	450,000	470,000	491,000	513,000	536,000	559,000	583,000	608,000	633,000	660,000	687,000
Balance after used to fill gap:		435,800						490,405	397,485	441,485	448,685	460,685	538,785	414,899	283,589
Population	657,041	657,041	657,041	657,041	711,900	711,900	711,900	711,900	711,900	711,900	711,900	711,900	711,900	711,900	711,900
Individual Dividend Amt	885.79	663.28	729.03	697.06	632.11	660.21	689.7	688.87	558.34	620.15	630.26	647.12	756.83	582.81	398.36

Income Tax triggered because PFD less than \$500.00

[illegible]

ENDOWMENT SCENARIO PROJECTION

(FY 96 Dollars)

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
AVAILABLE REVENUES (\$ Millions):															
EXISTING GENERAL FUND SOURCES	1,952.3	1,862.9	283.3	278.2	271.4	265.6	259.9	254.3	247.2	241.1	235.2	229.3	223.6	218.1	212.6
PERMANENT FUND NET INCOME	1,213.0	1,244.8													
HIGHWAY MOTOR FUEL TAX @ \$ 21.9/GAL INDEXED)		38.2	38.5	38.8	39.1	39.4	39.7	40.0	40.3	40.7	41.0	41.3	41.7	42.0	42.3
TOBACCO (\$1/PKG CIGS; 75% CHEW INDEXED)		41.8	42.1	42.4	42.8	43.1	43.4	43.8	44.1	44.5	44.9	45.2	45.6	45.9	46.3
MARINE MOTOR FUEL (\$.08/GAL PER HB 122 INDEXED)		4.9	4.9	4.9	5.0	5.0	5.1	5.1	5.1	5.2	5.2	5.3	5.3	5.3	5.4
USER FEE INCREASE ASSUMPTION		2.9	5.6	8.2	10.6	12.9	14.9	16.9	18.7	20.4	22.0	23.4	24.8	26.0	27.1
ALCOHOL TAXES (INCREASE PER HB 96)		18.4	19.0	19.5	20.2	20.8	21.3	21.9	22.4	23.0	23.6	24.1	24.7	25.4	26.0
FISH BUSINESS TAX (DOUBLE W/ 25% TO MUNIS)		37.9	36.7	35.6	34.5	33.4	32.4	31.4	30.4	29.5	28.6	27.7	26.8	26.0	25.2
MOTOR VEHICLE REGISTRATION FEES (DOUBLE)		28.2	28.4	28.6	28.8	29.1	29.3	29.5	29.8	30.0	30.3	30.5	30.7	31.0	31.2
TOTAL REVENUES	3,165.3	3,279.9	2,790.3	2,664.3	2,554.2	2,513.9	2,480.3	2,445.0	2,406.6	2,368.6	2,330.1	2,289.9	2,248.8	2,207.7	2,167.2
EXPENDITURES (\$ Millions):															
TOTAL GF SPENDING	2,476.1	2,404.2	2,330.1	2,256.3	2,186.7	2,206.2	2,223.9	2,241.7	2,259.6	2,277.7	2,295.9	2,314.3	2,332.8	2,351.4	2,370.2
PERMANENT FUND INFLATION PROOFING	429.0	436.0													
PERMANENT FUND DIVIDENDS	582.0	586.5	255.1	251.1	247.3	243.5	239.8	236.1	232.5	228.9	225.4	222.0	218.6	215.2	211.9
TRANSFER TO EARNINGS RESERVE	201.0														
TOTAL EXPENDITURES	3,688.1	3,426.8	2,585.2	2,509.8	2,436.0	2,449.7	2,463.6	2,477.8	2,492.1	2,506.6	2,521.3	2,536.2	2,551.3	2,566.7	2,582.2
PROJECTED ANNUAL FISCAL GAP	-622.8	-146.9	205.2	154.8	118.2	64.1	16.6	-32.8	-85.4	-138.0	-191.2	-246.4	-302.5	-359.0	-415.0
CONSTITUTIONAL BUDGET RESERVE															
BALANCE	1,982.7	2,162.8	0.0												
DRAW FROM EARNINGS RESERVE															
PF EARNINGS RESERVE BALANCE	906.0	1,099.1	0.0												
UNFILLED FISCAL GAP								-32.8	-85.4	-138.0	-191.2	-246.4	-302.5	-359.0	-415.0
PERMANENT FUND PRINCIPAL	14,791.0	15,016.0	18,274.4	18,626.7	19,064.7	19,517.3	19,930.3	20,345.7	20,744.7	21,131.1	21,476.0	21,786.9	22,120.0	22,431.4	22,722.0

ENDOWMENT SCENARIO PROJECTION

(Nominal Dollars)

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
AVAILABLE REVENUES (\$ Millions):															
EXISTING GENERAL FUND SOURCES	1,952.3	1,918.6	301.0	305.0	307.0	310.0	313.0	316.0	317.0	319.0	321.0	323.0	325.0	327.0	329.0
PERMANENT FUND NET INCOME	1,213.0	1,282.0													
FUND WITHDRAWAL			2,478.0	2,421.0	2,378.0	2,410.0	2,450.0	2,488.0	2,524.0	2,559.0	2,593.0	2,624.0	2,653.0	2,681.0	2,709.0
HIGHWAY MOTOR FUEL TAX @ \$.210/GAL INDEXED)		39.3	40.9	42.5	44.2	46.0	47.8	49.7	51.7	53.8	56.0	58.2	60.5	63.0	65.5
TOBACCO (\$1/PKG CIGS; 75% CHEW; INDEXED)		43.0	44.7	46.5	48.4	50.3	52.3	54.4	56.6	58.9	61.2	63.7	66.2	68.9	71.6
MARINE MOTOR FUEL (\$.08/GAL PER HB 122 INDEXED)		5.0	5.2	5.4	5.6	5.9	6.1	6.3	6.6	6.8	7.1	7.4	7.7	8.0	8.3
USER FEE INCREASE ASSUMPTION		3.0	6.0	9.0	12.0	15.0	18.0	21.0	24.0	27.0	30.0	33.0	36.0	39.0	42.0
ALCOHOL TAXES (INCREASE PER HB 96)		19.0	20.2	21.4	22.8	24.3	25.7	27.2	28.7	30.4	32.2	34.0	36.0	38.0	40.2
FISH BUSINESS TAX (DOUBLE W/ 25% TO MUNIS)		39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0
MOTOR VEHICLE REGISTRATION FEES (DOUBLE)		29.0	30.2	31.4	32.6	33.9	35.3	36.7	38.2	39.7	41.3	42.9	44.7	46.5	48.3
TOTAL REVENUES	3,165.3	3,377.9	2,965.2	2,921.2	2,899.6	2,934.4	2,967.2	3,038.4	3,085.8	3,133.6	3,180.8	3,225.2	3,268.1	3,310.4	3,353.0
EXPENDITURES (\$ Millions):															
TOTAL GF SPENDING	2,476.1	2,476.1	2,476.1	2,476.1	2,476.1	2,575.3	2,678.4	2,785.7	2,897.3	3,013.3	3,134.7	3,259.6	3,390.1	3,525.9	3,667.2
PERMANENT FUND INFLATION PROOFING	429.0	449.0													
PERMANENT FUND DIVIDENDS	582.0	604.0	271.0	275.4	279.8	284.3	288.8	293.4	298.1	302.9	307.7	312.7	317.7	322.7	327.9
TRANSFER TO EARNINGS RESERVE	201.0	226													
TOTAL EXPENDITURES	3,688.1	3,757.1	2,747.1	2,751.5	2,755.9	2,859.5	2,967.2	3,079.1	3,195.4	3,316.2	3,441.8	3,572.2	3,707.8	3,848.7	3,995.1
PROJECTED ANNUAL FISCAL GAP	-522.8	-379.2	218.0	169.7	133.8	74.9	20.0	-40.8	-109.6	-182.6	-261.0	-347.0	-439.7	-538.3	-642.0
CONSTITUTIONAL BUDGET RESERVE															
BALANCE	1,982.7	2,227.5	0.0												
DRAW FROM EARNINGS RESERVE															
PF EARNINGS RESERVE BALANCE	906.0	1,132.0	0.0												
UNFILLED FISCAL GAP								-40.8	-109.6	-182.6	-261.0	-347.0	-439.7	-538.3	-642.0
PERMANENT FUND PRINCIPAL	14,791.0	15,467.0	19,419.3	20,423.1	21,568.1	22,782.2	24,016.0	25,283.7	26,590.3	27,956.4	29,316.2	30,684.9	32,146.3	33,635.5	35,154.7

Assumptions:

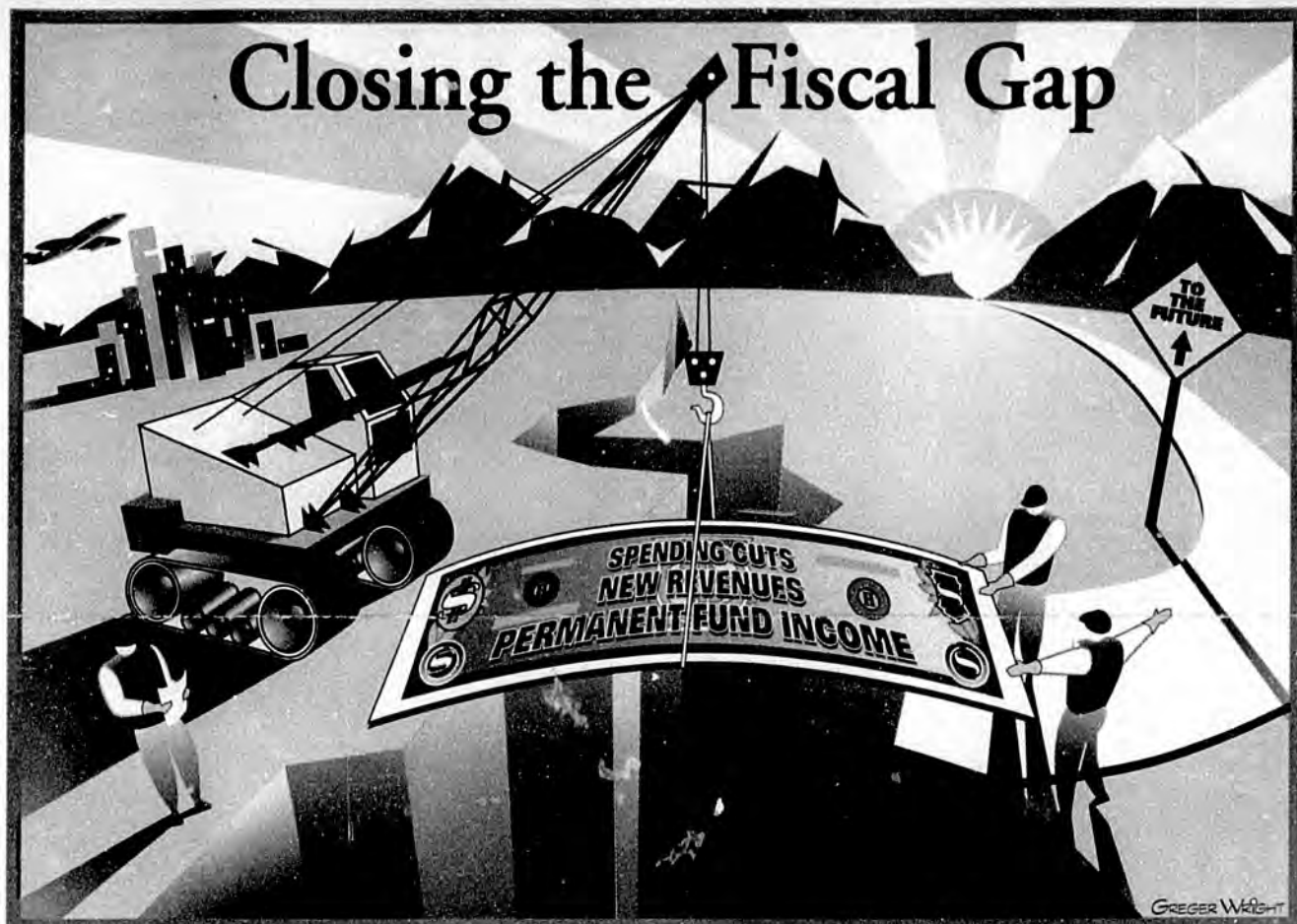
Agreed upon state of taxes starting in FY 97 = \$177; additional taxes in 98 totaling \$422.

DOR base case oil revenues and inflation.

PF historical rate of return @ 7.79%.

Implementation of Cremo proposal in FY 98 @ 13% draw; declining to 6% in FY 10.

Closing the Fiscal Gap



According to the State of Alaska Long-Range Financial Planning Commission, the fiscal gap is real and growing. For six of the past nine years, Alaska spent more than it took in — this year about \$523 million more. This is the fiscal gap, and it could reach \$1.3 billion by the year 2000 unless the state takes corrective action.

Why is there a fiscal gap?

There are two primary reasons for the fiscal gap. First, 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. Fiscal instability complicates the fiscal gap. This is the roller-coaster ride caused by unpredictable oil prices (from a low of \$8 per barrel to a high of \$32 in the past 15 years). At today's oil production rates, each \$1 per barrel change in oil prices causes a \$120 million shift in state revenues.

How has state spending changed?

The Commission examined the major growth areas of the state budget. It used FY 79 as a starting point, the first full year of North Slope oil production and the last budget prepared before state oil revenues tripled. While the overall budget has grown, inflation-adjusted spending per person is the same as in 1979 (population has grown 52%). Even so, cost-cutting efforts to date have not been enough to offset the decline in oil revenues. Since 1979, state agency spending grew 93%, compared to 150% for the budget as a whole. Major increases were grants to individuals (443% not including dividends), and various grants to groups (334%), schools (175%) and local governments (165%).

How do Alaska's taxes compare with other states?

By 1980, Alaska was receiving so much oil money that the state repealed most of its more traditional revenue methods, including the income tax. Alaskans now pay approximately one-third of the state and local taxes paid by the average American. Alaska Permanent Fund dividends more than offset the combined state and local tax burden for most families.

It is time to act!

The Commission has considered a number of fiscal "tools" to use in combination to fill the fiscal gap: cut spending; use reserves and other state assets; raise taxes and user fees; raise revenue through economic development; use Permanent Fund income; increase oil production. Any of these will have some adverse impacts on Alaska's economy. However, failure to make hard fiscal choices now will have an even worse impact. The Commission has published its plan for closing the fiscal gap. To get a copy immediately, please contact any Legislative Information Office, the Commission's office in Anchorage at 258-8165, or by electronic mail at LRFPC%legis@state.ak.us. Otherwise, check the box on the back of this brochure and a copy will be mailed to you.

We'd like your thoughts...

1 When established in 1976, one of the stated purposes of the Permanent Fund was to create a source of revenues to help pay the costs of needed government services when oil revenues declined. Do you support using a portion of Permanent Fund income to meet this objective? ☐ Agree ☐ Disagree ☐ Undecided

2 What are your ideas about the fiscal gap and about whether, when and how to use Permanent Fund income to close it?

Alaska Permanent Fund 1995 Performance

A Public Trust Investing For Alaska's Future

SAVINGS

How much was added to Fund principal in the past year?

\$ 500,000,000	1995 Special Appropriation from Earning Reserves to Principal
318,085,000	1995 Dedicated Oil Revenues
347,614,000	1995 Inflation-Proofing
+ 6,145,000	Settlement Earnings
\$1,171,844,000	Total Saved in 1995

How much have Alaskans saved since creating the Permanent Fund 19 years ago?

\$14,144,742,000	Principal
+ 702,607,000	Earnings Reserve Account
\$14,847,349,000	Total Saved 1976-1995

EARNINGS

How much did the Fund earn in the past year?

\$1,037,122,000	Investment Income
- 24,164,000	Investment Expenses
\$1,012,958,000	Net Income in 1995

How much has the Fund earned since inception?

\$12,284,958,000	Net Income 1976-1995
------------------	----------------------

SPENDING

How much Fund income did the legislature spend this year?

\$565,257,000	Dividend Fund (Payment of dividends and administrative and associated costs)
+ 7,460,000	Department of Law (Fund's share of legal expenses relating to state oil revenues)
\$572,717,000	Total Spent in 1995

BOARD OF TRUSTEES

Alaska Permanent Fund Corporation

Grace Berg Schaible, Chairperson
Eric E. Wohlforth, Vice-Chairperson
Wilson L. Condon
Clark S. Gruening
William L. Hensley
Melphine Evans Reynolds

Byron I. Mallott, Executive Director



Dear Fellow Alaskans,

As a resident of Alaska, you share in the ownership of one of the most unique savings accounts in the world, the Permanent Fund. Several publications are available to keep you up to date with the Fund, and we will gladly send them to you. We would also like you to keep us current with your feelings about the use of the Fund. Please complete this voluntary questionnaire, fold it, tape it and drop it in the mail. We will share the results with your elected representatives. Thank you for your participation.

Grace Berg Schaible
Board of Trustees

Learn more about your Fund and the fiscal gap

Yes, I want the Free item(s) (please check)

- ☐ 1995 Permanent Fund Annual Report (print version)
- ☐ An Alaskan's Guide to the Permanent Fund (print version)
- ☐ CD-ROM Multimedia Guide to the Alaska Permanent Fund (works on both Macintosh and PC platforms)
- ☐ Final Report of the State of Alaska Long-Range Financial Planning Commission

To receive the requested item(s), please fill in your name and address, then fold this pre-paid reply form, tape it closed and mail. The item(s) will be sent to you free of charge.

Name _____

Address _____

City _____ State _____ Zip _____



ANCHORAGE AK 99510-9933
PO BOX 100559

ALASKA PERMANENT FUND CORPORATION

FIRST CLASS MAIL PERMIT NO. 111 ANCHORAGE AK

BUSINESS REPLY MAIL

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

Tentative Video Schedule

LEO
 (2?)
 ANCH, FOX, Bureau w/ audio - ① BLUE OF HOWTO PORTRAY
 9/20 Weds 130 - 430 pm } library (Sony)
 9/21 Thurs 6 - 9 pm*
 LEO
 9/22 Fri 130 - 430 pm
~~9/23 Sat 100 - 400 pm~~
 9/25 Mon 6 - 9 pm*

Meetings Schedule

Thurs 9/28 2 pm - 4 pm
 Fri 9/29 830 2m - 4 pm
 Sat 9/30 ~~830~~ 2m - 5 pm LAST SUPPER
 Sun 10/1 10 2m - 3 pm

To:
 Perry
 From
 Melissa

465
 4648

	\$0.00	88	
	\$0.00	89	
	\$0.00	90	
4,672,955 ### #####		91	553
464 ###	\$915.84	92	574
507 ###	\$949.46	93	593
527 ###	\$983.90	94	608
526	\$939.83	95	622
548	\$955.18	96	637
575	\$978.33	97	653
594	\$987.52	98	668
633	\$1,027.62	99	684
717	\$1,137.90	0	700
779	\$1,207.84	1	717
846	\$1,282.90	2	733
918	\$1,361.09	3	749
993	\$1,442.20	4	765
1,054	\$1,499.17	5	781
1,117	\$1,558.68	6	796
1,182	\$1,619.10	7	811
1,249	\$1,680.63	8	826
1,320	\$1,743.48	9	841
1,393	\$1,810.09	10	855
0000000000000000	0 0000000000000000	==	

600

09

10

PA

	Pop	Dist
96	525	582
97	↓ 1.6%	606
98		600
99		600
00		550
01		500
02		49
03		
04		
05		
06		
07		
08		

System of Sustainable State Spending

How government is financed in Alaska

- The money that comes from the sale and taxation of natural resources, and the income from the investment of that money, provide the State with an endowment.¹

The problem

- The amount withdrawn from the endowment to pay for government is unsustainable.²
- Inevitably, the endowment decreases in size to a point where it can't support spending at the accustomed level.³
- Then spending is cut.
- And the economy fails, because it depends on state spending.⁴

Theory

- Our goal should be to withdraw the highest sustainable amount from the endowment.
- We can attain that goal by systematizing the endowment.

A proposed system

- All of the assets in the endowment (except what is already in the General Fund) are gathered into the Alaska Permanent Fund.
- The fund is invested for long-term appreciation.
- All investment income remains in the fund.
- All natural resource revenue is added to the fund.
- Every year, an amount equal to the fund's projected real growth from investment is withdrawn and can be spent.⁵
- The fund increases in size as the natural resource revenue is added to it.⁶
- The amount withdrawn is the highest sustainable.⁷

(see reverse)

¹ And that's what the federal government intended when it gave the natural resources to the State. The endowment, which is informal, is distributed among several funds, including the Alaska Permanent Fund, the Budget Reserve Fund, the Earnings Reserve Account and the General Fund.

² Even if the Legislature were to reduce appropriations from the endowment substantially, the amount would be unsustainable. That's because the amount of the natural resource revenue feeding the endowment can change greatly when there is a drop in price or a decrease in production.

³ One part of the endowment, the principal of the Alaska Permanent Fund, isn't available for spending.

⁴ Spending was cut in 1986. The economy collapsed.

⁵ Projected real growth from investment is a function of a fixed rate of real growth from investment and value of the fund. A fixed rate of real growth from investment is determined by assuming a rate of total return on investment and a rate of inflation. Value of the fund is the average of the fund's market value at the end of each of the twelve preceding calendar quarters.

⁶ If the real growth from investment in a given year were less than the amount withdrawn, the size of the fund would decrease, at least in real terms, unless the additions in that year made up the difference.

⁷ Highest, because it would be imprudent to withdraw more from the fund than its projected real growth from investment. Sustainable, because the size of the fund continually increases, in real terms.

The principal advantage of the proposed system

- Economic busts (those that are caused by cuts in state spending) are largely eliminated.⁸

Other advantages

- Periodic curtailment of desirable, if not essential, state programs is largely eliminated.
- A meaningful budget becomes feasible, because during the budgetary process the Legislature knows how much money is available for spending.⁹

Transition

- In the first year of a transitional period the amount withdrawn, combined with expected revenue from sources outside the fund, supports spending at the present level.
- For the remainder of the transitional period the amount withdrawn decreases, at least in real terms, to the highest sustainable.¹⁰
- The length of the transitional period is selected with the objective of providing the most money for spending during the period and yet allowing the fund to increase substantially in size.¹¹

Implementation

- To implement the proposed system and transition, a constitutional amendment must be adopted.¹²

Obstacles to implementation

- Temptation to continue spending from the natural resource endowment at an unsustainable rate without a gradual decrease.
- Concern about the fact that the fund could decrease in size.
- The misconception that the proposed system would eliminate the dividend program.¹³
- A legislature that is opposed to any limitation of its power to spend.

Roger Cremo 9/1/95

⁸ The proposed system would come too late to prevent an economic bust that could result from the spending cut required by current conditions. However, the impact would be softened, because the cut would be gradual (see "Transition"). With the present setup, the cut might be devastatingly abrupt and deep.

⁹ Except for what comes from sources outside the fund, but that's easy to forecast.

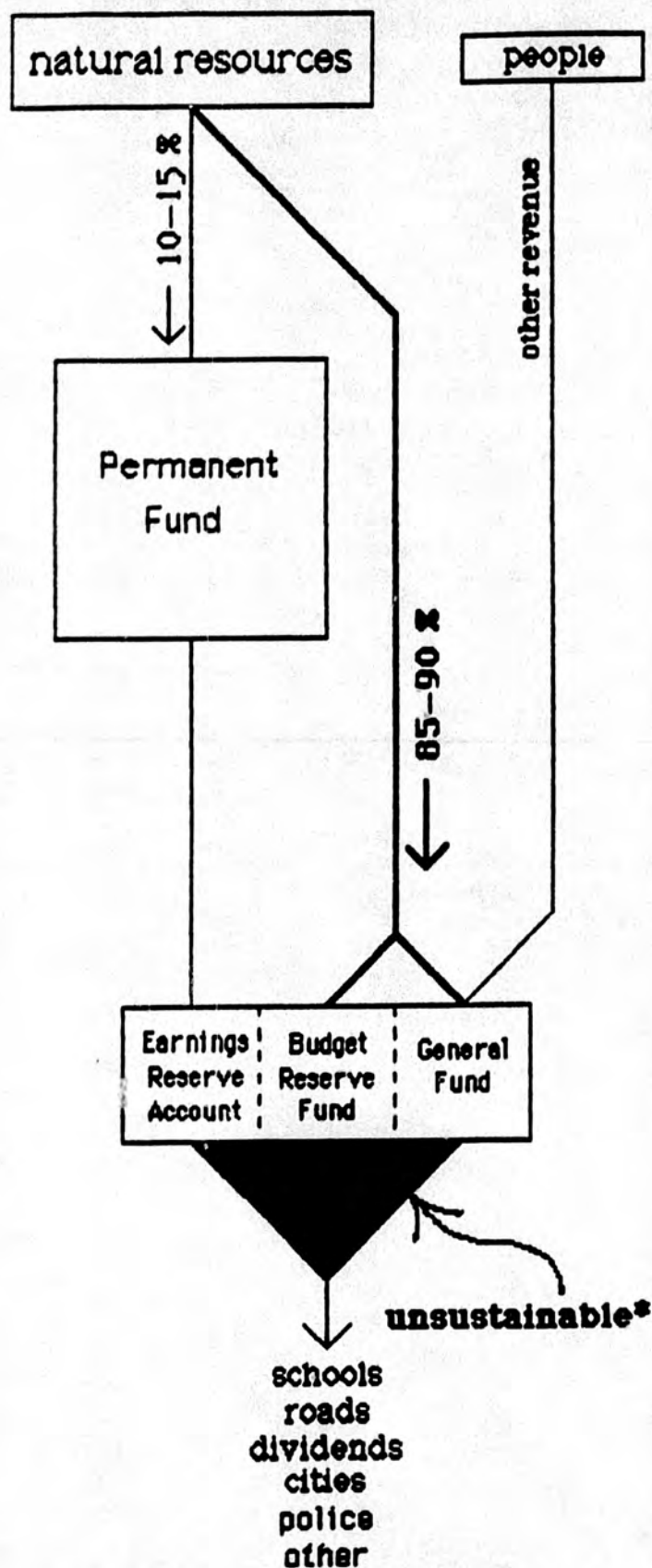
¹⁰ The decrease is gradual. The rate of withdrawal decreases geometrically each year, so that when the transitional period has ended it is a fixed rate of real growth from investment (see footnote 5).

¹¹ Necessarily, selection is based, in part, on the official forecast of natural resource revenue

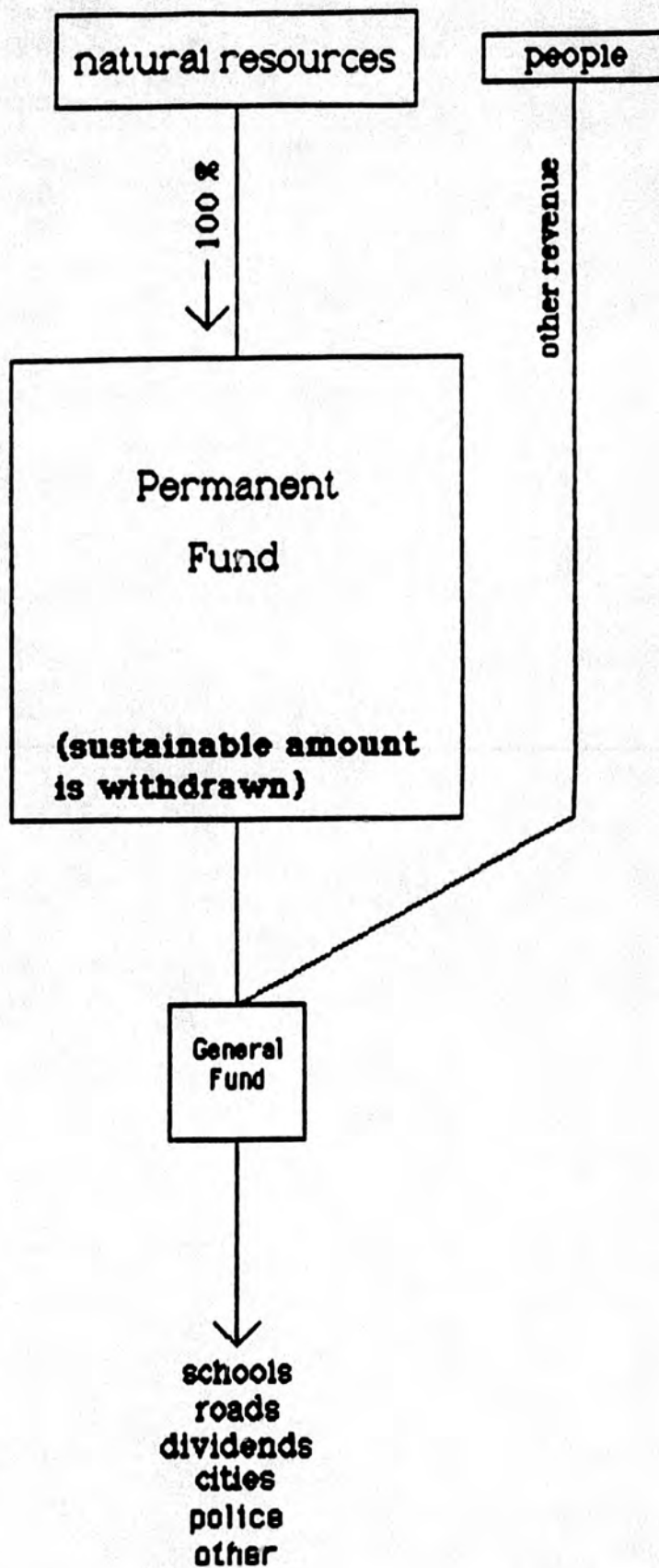
¹² The constitution requires that an amendment be proposed by the Legislature and approved by the people.

¹³ That program, like other governmental programs, is not constitutionally protected. Both now and under the proposed system, its continuation is a matter of legislative discretion and priority. Under the proposed system, however, it may have a better chance of surviving the spending cut required by current conditions.

Unsustainable Spending



Sustainable Spending



* Because natural resource revenue fluctuates so much.

CONSTITUTION OF THE STATE OF ALASKA

ARTICLE IX, SECTION 15 – ALASKA PERMANENT FUND

(a) Revenue derived by the state

- (1) from the disposition, by the state or the United States, of land, minerals, forestial resources or biological marine resources, and
- (2) from taxes on
 - (A) minerals produced, processed or in reserve,
 - (B) property used in exploration, production, transportation or processing of minerals,
 - (C) income from production, transportation or processing of minerals,
 - (D) forestial resources produced or processed,
 - (E) biological marine resources produced or processed, and
- (3) from claims, against the United States or others, for deprivation of that revenue, or that land or those natural resources

constitutes the Alaska Permanent Fund, which is invested and reinvested for long-term appreciation. Investment income, including realized appreciation, is retained in the fund and reinvested. Investments are made in accordance with standards prescribed by law.

(b) Money in the fund cannot be appropriated. Every fiscal year an amount equal to six percent of the average of the fund's market value at the end of each of the quarters of the three calendar years immediately preceding is permanently withdrawn from the fund and is appropriable.

(c) A corporation that is a separate branch of government manages the fund. Its powers are provided by law and can include the power to delegate investment authority to independent managers. Its acts and records are audited and public, as provided by law. Its expenditures are authorized by appropriation.

(d) The corporation is governed by seven trustees appointed by the governor, subject to confirmation by a majority of the members of the legislature in joint session. Two are heads of principal departments in the executive branch and serve at the pleasure of the governor. Five are appointed from the public and serve for five-year terms that are staggered so that only one expires each year. A vacancy is filled for the remainder of the term in the manner of the original appointment. A trustee can be reappointed, subject to reconfirmation. As and to the extent provided by law, trustees are compensated, reimbursed their expenses, immune from civil liability and removable for cause.

(e) For the purposes of (a), minerals include, without limitation, oil, gas, coal, sand, gravel, stone and water.

(f) This section does not affect other dedications permitted by Section 7 of this article.

ARTICLE XV, SECTION 29 – ALASKA PERMANENT FUND TRANSITION

(a) The percentage prescribed in Article IX, Section 15, as amended in 1996, for determining the amount of money withdrawn annually from the Alaska Permanent Fund, is inapplicable in fiscal years 1998 through 2009. In the first year of that period the applicable percentage is fourteen and one-half. It decreases each fiscal year thereafter geometrically, until the first year after that period, when it attains its permanent value.

(b) The assets of the following are added to the fund on the effective date of this section: the Budget Reserve Fund (Article IX, Section 17), the Earnings Reserve Account (AS 37.13.145), the Railbelt Energy Fund (AS 37.05.520) and the Budget Reserve Fund (AS 37.05.540). For the purpose of determining the average of the fund's market value, required by Article IX, Section 15, as amended in 1996, those assets are treated as if they had been added to the fund three years before the period in (a).

(c) In addition to the revenue and investment income described in Article IX, Section 15, as amended in 1996, the fund consists of the assets carried on its books on the effective date of this section and the assets added by (b).

(d) Those public members of the board of trustees of the Alaska Permanent Fund Corporation in office on the effective date of this section continue for the remainder of their terms as trustees of the corporation that manages the fund.

(e) Article IX, Section 15, as amended in 1996, and this section are effective July 1, 1997.

ARTICLE XV, SECTION 30 – REPEAL

Article IX, Sections 16 & 17, and Article XV, Sections 27 & 28 are repealed. This section is effective July 1, 1997.

Data: Dept. of Revenue (projections: spring, 1995, base case)
 Permanent Fund Corp. (projections: June 30, 1995, base case)
 Transitional withdrawal rate: 14.5% in 1998 to final rate in 2010
 Final withdrawal rate: 6.0%
 Rate of total return: 10.0%
 Reserves: 2,500
 Rate of inflation: 4.0%
 Drop from forecast oil price in 2006: 0%
 Unit: one million dollars

System of Sustainable State Spending Alaska Permanent Fund

Fiscal Year	Begin	Resource Revenue	Withdrawal	Total Return	End	End (1998 \$)	Fiscal Year End		Avg Prior Bal	Wdrl %
							1995	1996		
							1995	17,845		
							1996	19,143		
							1997	19,976		
1998	19,976	1,866	2,753	1,909	20,998	20,998	1998		18,988	14.50
1999	20,998	1,912	2,700	2,021	22,232	21,377	1999		20,039	13.47
2000	22,232	1,932	2,637	2,153	23,679	21,893	2000		21,069	12.52
2001	23,679	1,944	2,594	2,303	25,332	22,520	2001		22,303	11.63
2002	25,332	1,903	2,566	2,467	27,142	23,201	2002		23,748	10.81
2003	27,142	1,886	2,548	2,648	29,128	23,941	2003		25,385	10.04
2004	29,128	1,870	2,537	2,846	31,307	24,743	2004		27,201	9.33
2005	31,307	1,844	2,530	3,062	33,683	25,597	2005		29,193	8.67
2006	33,683	1,775	2,526	3,293	36,225	26,469	2006		31,373	8.05
2007	36,225	1,709	2,524	3,541	38,951	27,366	2007		33,739	7.48
2008	38,951	1,724	2,522	3,815	41,958	28,352	2008		36,287	6.95
2009	41,968	1,666	2,522	4,111	45,223	29,376	2009		39,048	6.46
2010	45,223	1,608	2,523	4,431	48,739	30,442	2010		42,047	6.00
2011	48,739	1,225	2,719	4,725	51,970	31,212	2011		45,310	6.00
2012	51,970	1,160	2,919	5,021	55,233	31,596	2012		48,644	6.00
2013	55,233	1,087	3,119	5,320	58,522	32,495	2013		51,981	6.00
2014	58,522	1,027	3,315	5,623	61,857	33,026	2014		55,242	6.00
2015	61,857	965	3,512	5,931	65,241	33,493	2015		58,537	6.00
2016	65,241	910	3,712	6,244	68,683	33,904	2016		61,874	6.00
2017	68,683	847	3,916	6,561	72,175	34,257	2017		65,260	6.00
2018	72,175	789	4,122	6,884	75,727	34,561	2018		68,700	6.00
2019	75,727	735	4,332	7,213	79,343	34,819	2019		72,195	6.00
2020	79,343	689	4,545	7,549	83,036	35,038	2020		75,748	6.00
2021	83,036	633	4,762	7,891	86,804	35,219	2021		79,369	6.00
2022	86,804	593	4,984	8,242	90,662	35,369	2022		83,061	6.00
2023	90,662	555	5,210	8,601	94,607	35,489	2023		86,834	6.00
2024	94,607	515	5,441	8,968	98,650	35,532	2024		90,691	6.00
2025	98,650	465	5,678	9,344	102,730	35,646	2025		94,640	6.00

(figures see reverse)

Notes

Alaska Permanent Fund. The State has an endowment, which presently consists of the natural resource revenue and investment income that have accumulated in various funds, principally the Alaska Permanent Fund, the Earnings Reserve Account and the Budget Reserve Fund. In the proposed system the endowment is housed in the Alaska Permanent Fund, to which the contents of the other funds ("reserves") are transferred at the beginning of the initial year (fiscal 1998). The transfers are treated as if they had been made three years before that. In the future, all natural resource revenue is added to the fund and all investment income remains in the fund.

Assigned values. The values assigned here to transitional withdrawal rates, final withdrawal rate, total return, etc., should be taken as illustrative only.

Market value. The market value of the fund is the basis for determining the amount that is withdrawn from it for spending.

Natural resource revenue. The natural resource revenue is deposited into the fund when it is received (here each year's receipts are treated as if they are deposited at the beginning of the year). Projections for the years after 2010 (DOR, fall, 1994, base case) commingle minor components of natural resource revenue with revenue that is not natural resource revenue (here they have been separated by extension of pre-2010 trends).

Withdrawal from the fund. The amount withdrawn from the fund in a fiscal year is a function of the withdrawal percentage and the average of the fund's value at the end of each of the twelve calendar quarters (here the three fiscal years) preceding the year of withdrawal. Withdrawals are made as the money is needed for spending during the fiscal year (here withdrawals are treated as if they are made at the beginning of each year).

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

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

Transitional withdrawal rate: 14.5% in 1998 to final rate 2010

Final withdrawal rate 6.0%

Rate of total return 10.0%

Reserves 2,500

Rate of inflation 4.0%

Rate of conventional revenue enhancement:

Drop from forecast oil price in 2006: 0%

Unit: one million dollars

6.0%

System of Sustainable State Spending Budget

Fiscal Year	Withdrawal	Enhanced Conventional Revenue	Enhanced Conventional Revenue (1993 \$)	Income Budget	Income Budget (1993 \$)	Fiscal Year
1998	2,753	300	300	3,053	3,053	1998
1999	2,700	318	306	3,017	2,901	1999
2000	2,637	337	311	2,974	2,750	2000
2001	2,594	357	317	2,951	2,623	2001
2002	2,566	379	324	2,944	2,517	2002
2003	2,548	401	330	2,950	2,424	2003
2004	2,537	425	336	2,962	2,341	2004
2005	2,530	451	343	2,981	2,265	2005
2006	2,526	478	349	3,004	2,195	2006
2007	2,524	507	356	3,030	2,129	2007
2008	2,522	537	363	3,059	2,067	2008
2009	2,522	569	370	3,091	2,008	2009
2010	2,523	603	377	3,126	1,953	2010
2011	2,719	639	384	3,358	2,017	2011
2012	2,919	678	391	3,596	2,077	2012
2013	3,119	719	399	3,837	2,131	2013
2014	3,315	762	407	4,076	2,176	2014
2015	3,512	807	414	4,320	2,218	2015
2016	3,712	856	422	4,568	2,255	2016
2017	3,916	907	431	4,823	2,289	2017
2018	4,122	962	439	5,084	2,320	2018
2019	4,332	1019	447	5,351	2,348	2019
2020	4,545	1080	455	5,625	2,374	2020
2021	4,762	1145	465	5,907	2,397	2021
2022	4,984	1214	474	6,198	2,413	2022
2023	5,210	1287	483	6,497	2,437	2023
2024	5,441	1364	492	6,805	2,455	2024
2025	5,678	1446	501	7,124	2,471	2025

(for notes, see reverse)

Notes

Conventional revenue. Conventional revenue is the revenue derived from all sources outside the fund.

Enhancement of conventional revenue. The matter of increasing conventional revenue from what is projected is not part of the proposed system. Enhancement is included here only to illustrate the effect that it has on the income budget. It is a function of the enhancement percentage and the amount of conventional revenue in the previous year. For the initial year, enhanced conventional revenue is estimated.

Income budget. The income budget consists of the enhanced conventional revenue and the amount withdrawn from the fund. It is the amount available for financing government, including the dividend program.

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

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

Transitional withdrawal rate:	14.5%	in 1998 to final rate in	2010	
Final withdrawal rate:	6.0%	Drop from forecast oil price in 2005	0%	
Rate of total return:	10.0%	Rate of population increase:	1.6%	
Reserves:	2,500	Rate of conventional revenue enhancement:	6.0%	
Rate of inflation:	4.0%	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			Reduced			
Fiscal Year	Fund Withdrawal	Conventional Revenue	Income (=2+3)	Expense (=5-4)	Gap	Conventional Revenue	Income (=2+7)	Gap (=5-8)	Expense Reduction (=8)	Reduction (=5-10)	Gap (=11-8)	
1998	2,753	300	3,053	3,053	0	300	3,053	0	3,053	0	0	
1999	2,700	309	3,009	3,224	215	318	3,017	207	3,017	207	0	
2000	2,637	318	2,956	3,405	449	337	2,974	431	2,974	431	0	
2001	2,594	327	2,921	3,595	674	357	2,951	644	2,951	644	0	
2002	2,566	337	2,903	3,797	894	379	2,944	852	2,944	852	0	
2003	2,548	346	2,894	4,009	1,115	401	2,950	1,060	2,950	1,060	0	
2004	2,537	355	2,892	4,234	1,342	425	2,962	1,271	2,962	1,271	0	
2005	2,530	365	2,895	4,471	1,576	451	2,981	1,490	2,981	1,490	0	
2006	2,526	375	2,901	4,721	1,821	478	3,004	1,717	3,004	1,717	0	
2007	2,524	384	2,908	4,985	2,077	507	3,030	1,955	3,030	1,955	0	
2008	2,522	394	2,916	5,265	2,349	537	3,059	2,206	3,059	2,206	0	
2009	2,522	405	2,927	5,560	2,633	569	3,091	2,469	3,091	2,469	0	
2010	2,523	416	2,939	5,871	2,932	603	3,126	2,745	3,126	2,745	0	
2011	2,719	410	3,128	6,200	3,071	639	3,358	2,842	3,358	2,842	0	
2012	2,919	420	3,339	6,547	3,208	678	3,596	2,950	3,596	2,950	0	
2013	3,119	430	3,549	6,913	3,364	719	3,837	3,076	3,837	3,076	0	
2014	3,315	441	3,756	7,301	3,545	762	4,076	3,224	4,076	3,224	0	
2015	3,512	452	3,965	7,709	3,745	807	4,320	3,390	4,320	3,390	0	
2016	3,712	464	4,176	8,141	3,965	856	4,568	3,573	4,568	3,573	0	
2017	3,916	475	4,391	8,597	4,206	907	4,823	3,774	4,823	3,774	0	
2018	4,122	487	4,609	9,079	4,469	962	5,084	3,995	5,084	3,995	0	
2019	4,332	500	4,831	9,587	4,756	1,019	5,351	4,236	5,351	4,236	0	
2020	4,545	512	5,057	10,124	5,067	1,080	5,625	4,499	5,625	4,499	0	
2021	4,762	525	5,287	10,691	5,404	1,145	5,907	4,783	5,907	4,783	0	
2022	4,984	538	5,522	11,289	5,767	1,214	6,198	5,092	6,198	5,092	0	
2023	5,210	552	5,762	11,922	6,160	1,287	6,497	5,425	6,497	5,425	0	
2024	5,441	566	6,007	12,589	6,582	1,364	6,805	5,784	6,805	5,784	0	
2025	5,678	580	6,258	13,294	7,036	1,446	7,124	6,170	7,124	6,170	0	

115 312

115 312

(For notes see reverse)

Notes

Fiscal Gap. The fiscal gap is the difference between projected expense and projected income. When a year for which a gap is projected is reached, the gap must be closed unless there are reserves to fill it with. If there are no reserves, the gap is closed by enhancing revenue or by reducing expense, or both.

Expense (5). Expense is equal to Income (4) in the initial year. Then it increases at the rate of inflation and the rate of population increase, combined.

Enhanced Conventional Revenue (7). For the initial year, enhanced conventional revenue is estimated. Then it increases at the rate of conventional revenue enhancement.

Reduced Expense (10). Reduced Expense is equal to Income (8).

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 return (Permanent Fund): 9.0%
 Drop from forecast oil price in 2006: 0%

Rate of population increase: 1.6%
 Rate of expense reduction: 3.0%
 Rate of return (reserves): 5.0%
 Unit: one million dollars

Present System of State Spending Fiscal Gap

	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				
Fiscal Year	Natural Resource Revenue	Conventional Revenue	Permanent Fund Income	Income (=2+3+4)	Expense	Gap (=6-5)	Enhanced Conventional Revenue	Income (=2+4+8)	Gap (=6-9)	Reduced Expense	Reduction (=6-11)	Gap (=11-9)	Reserves (yr-end)	
1998	1,622	300	801	2,723	3,053	330	300	2,723	330	3,053	0	330	2,279	
1999	1,654	309	846	2,809	3,224	415	318	2,813	406	3,132	92	315	2,062	
2000	1,566	318	893	2,880	3,405	525	337	2,898	506	3,214	191	316	1,833	
2001	1,580	327	942	2,950	3,595	646	357	2,979	616	3,297	298	318	1,591	
2002	1,547	337	993	2,976	3,797	820	379	3,013	778	3,383	413	365	1,287	
2003	1,627	346	1,045	3,018	4,009	991	401	3,074	936	3,471	538	398	934	
2004	1,611	355	1,100	3,067	4,234	1,167	425	3,137	1,097	3,561	672	425	535	
2005	1,586	365	1,157	3,109	4,471	1,361	451	3,195	1,275	3,654	817	459	80	
2006	1,526	375	1,216	3,116	4,721	1,605	478	3,219	1,502	3,299	1,422	80	0	
2007	1,466	384	1,276	3,127	4,986	1,859	507	3,249	1,737	3,249	1,737	0	0	
2008	1,471	394	1,340	3,205	5,265	2,060	537	3,348	1,917	3,348	1,917	0	0	
2009	1,420	405	1,406	3,231	5,560	2,329	569	3,395	2,165	3,395	2,165	0	0	
2010	1,366	416	1,474	3,259	5,871	2,612	603	3,446	2,425	3,446	2,425	0	0	
2011	1,044	410	1,542	2,996	6,200	3,204	639	3,226	2,974	3,226	2,974	0	0	
2012	988	420	1,612	3,020	6,547	3,527	678	3,278	3,269	3,278	3,269	0	0	
2013	925	430	1,685	3,041	6,913	3,873	719	3,329	3,585	3,329	3,585	0	0	
2014	873	441	1,760	3,074	7,301	4,226	762	3,395	3,906	3,395	3,906	0	0	
2015	821	452	1,838	3,111	7,709	4,598	807	3,466	4,243	3,466	4,243	0	0	
2016	772	464	1,918	3,154	8,141	4,987	856	3,546	4,595	3,546	4,595	0	0	
2017	718	475	2,001	3,195	8,597	5,402	907	3,627	4,970	3,627	4,970	0	0	
2018	669	487	2,087	3,244	9,079	5,835	962	3,713	5,361	3,713	5,361	0	0	
2019	623	500	2,177	3,299	9,587	6,288	1,019	3,813	5,769	3,813	5,769	0	0	
2020	583	512	2,269	3,364	10,124	6,760	1,080	3,932	6,192	3,932	6,192	0	0	
2021	540	525	2,365	3,430	10,691	7,261	1,145	4,050	6,641	4,050	6,641	0	0	
2022	505	538	2,464	3,507	11,289	7,782	1,214	4,183	7,106	4,183	7,106	0	0	
2023	467	552	2,567	3,586	11,922	8,336	1,287	4,321	7,601	4,321	7,601	0	0	
2024	434	565	2,674	3,673	12,589	8,916	1,364	4,472	8,118	4,472	8,118	0	0	
2025	330	580	2,784	3,754	13,294	9,540	1,445	4,620	8,674	4,620	8,674	0	0	

97,473

100,483

(for notes, see reverse)

Notes

Fiscal Gap. The fiscal gap is the difference between projected expense and projected income. When a year for which a gap is projected is reached, the gap must be closed unless there are reserves to fill it with. If there are no reserves, the gap is closed by enhancing revenue or by reducing expense, or both.

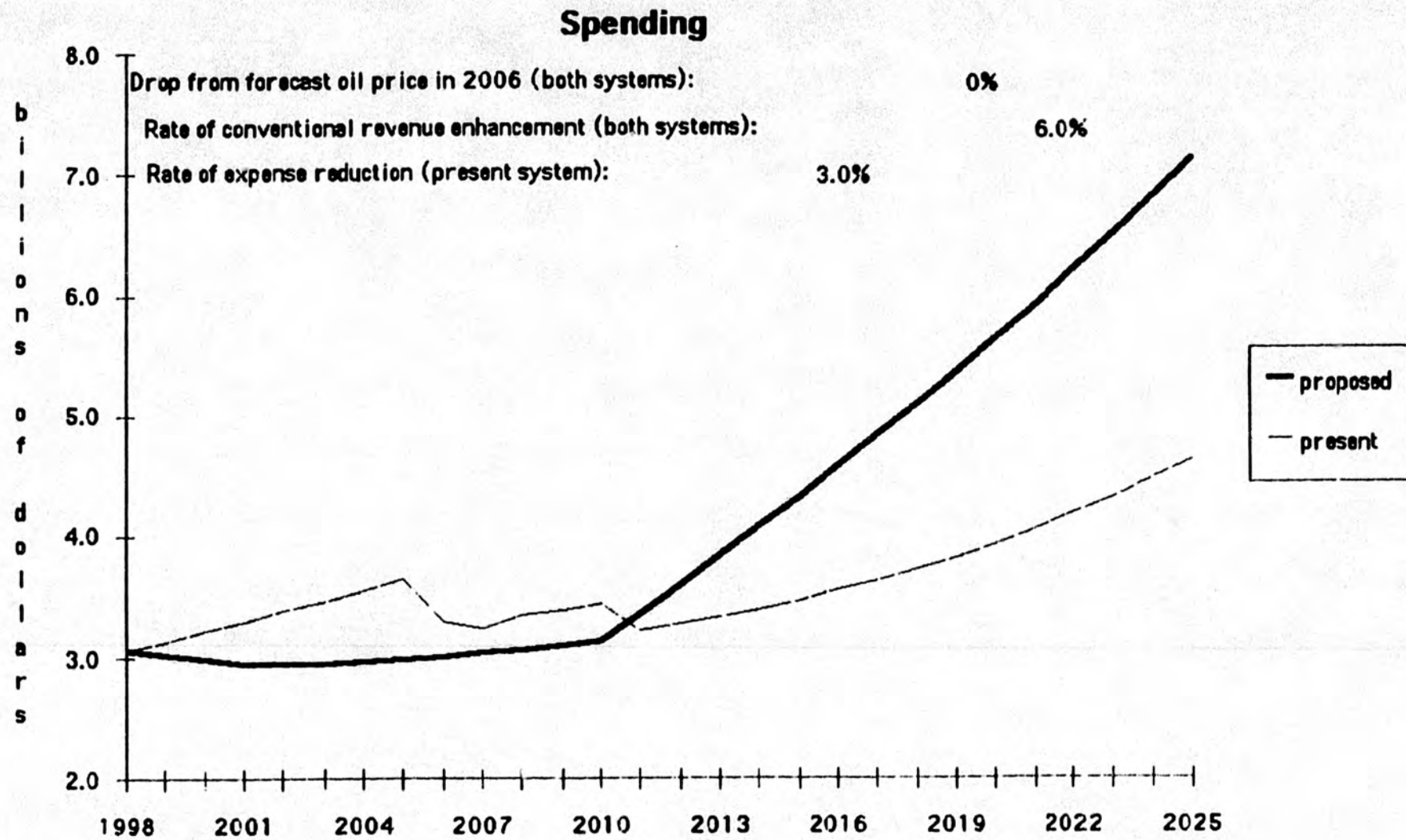
Natural Resource Revenue (2). This does not include the portion (10-15%) that is deposited into the Alaska Permanent Fund.

Expense (6). Expense is estimated for the initial year. Then it increases at the rate of inflation and the rate of population increase, combined.

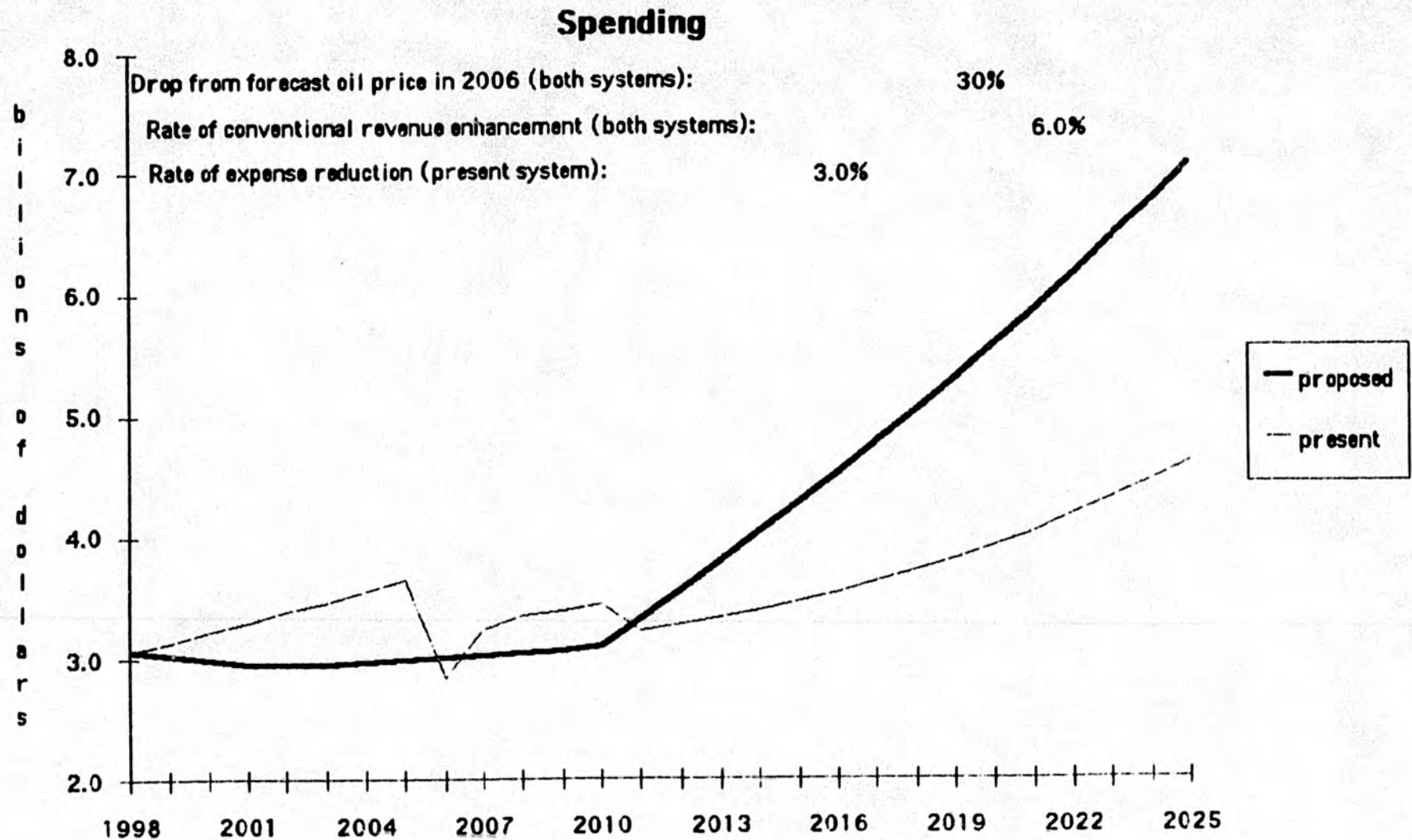
Enhanced Conventional Revenue (8). Conventional revenue is estimated for the initial year. Then it increases at the rate of conventional revenue enhancement.

Reduced Expense (11). As long as reserves are available to fill the gap, Reduced Expense is equal to Expense (6) reduced at the rate of expense reduction. When there are no more reserves, Reduced Expense is equal to Income (9).

Present and Proposed Systems of State Spending



Present and Proposed Systems of State Spending



SCOMM

101:12

REVISION OF
RIEGER COMPOSITE SCENARIO PROJECTION — SEPTEMBER 30

PERMANENT FUND EARNINGS AT 7.94% (AVG)

(Nominal Dollars)

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
AVAILABLE REVENUES (\$ Millions):															
Existing General Fund sources	1,952	1,919	1,997	2,038	2,062	2,083	2,059	2,058	2,052	2,038	1,985	1,936	1,950	1,910	1,870
Lift ANS Export Ban		20	20	20	20	20	20	20	20	20	20	20	20	20	20
New oil production										25	100	100	100	100	100
Permanent Fund Net Earnings	1,213	1,391	1,450	1,514	1,581	1,651	1,722	1,796	1,872	1,951	2,031	2,114	2,200	2,288	2,379
Permanent Fund Inflation-Proofing	-429	-494	-541	-566	-592	-619	-647	-676	-706	-737	-768	-800	-834	-868	-904
Transfer to Permanent Fund Earnings Reserve	-219	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Highway Motor Fuel Tax @ \$.219/gal., indexed)		39	41	43	45	47	50	52	55	57	60	63	66	69	73
Marine Motor Fuel Tax (\$.08/gal., per HB 122, indexed)		5	5	5	6	6	6	7	7	7	8	8	8	9	9
Tobacco Tax (\$1/pkg cigs; 75%/chewing; +25¢ triennially)		43	44	44	56	57	58	71	72	73	87	88	102	104	106
Motor vehicle license fees (double)			29	29	30	30	31	31	32	32	33	33	34	35	35
User fee increases		3	6	9	12	15	15	15	15	15	15	15	15	15	15
Alcohol taxes (increase similar to HB 96)			20	21	21	21	22	22	22	23	23	23	24	24	24
TOTAL REVENUES	2,517	2,926	3,072	3,159	3,241	3,312	3,336	3,396	3,441	3,505	3,594	3,600	3,686	3,706	3,728
Note: PF earnings used for GF programs		350	394	469	509	617	647	683	713	740	766	792	728	756	785
Note: Cumulative Spending Cuts total		40	70	100											
EXPENDITURES (\$ Millions):															
Total GF spending on current programs	2,476	2,436	2,406	2,376	2,471	2,570	2,673	2,780	2,891	3,007	3,127	3,252	3,382	3,517	3,658
Permanent Fund Dividends	565	575	550	525	525	473	502	520	542	565	589	613	638	664	691
TOTAL EXPENDITURES	3,041	3,011	2,956	2,901	2,996	3,043	3,174	3,300	3,433	3,572	3,716	3,865	4,020	4,181	4,348
PROJECTED ANNUAL FISCAL GAP	-524	-85	116	258	245	269	161	96	8	-67	-122	-265	-334	-475	-621
DRAW FROM CBR	524	85	-116	-258	-245	-269	-161	-96	-8	67	122	265	334	475	621
Constitutional Budget Reserve beginning balance	2,006	1,107	1,592	1,957	2,487	2,888	3,337	3,707	4,035	4,294	4,496	4,655	4,681	4,639	4,454
Interest	125	69	69	122	155	180	209	232	252	268	281	291	293	290	278
Settlements	500	500	150	150											
Drawn for GF spending	524	85	-116	-258	-245	-269	-161	-96	-8	67	122	265	334	475	621
CBR Transfer to Permanent Fund Principal	1000														
Constitutional Budget Reserve ending balance	1,107	1,592	1,957	2,487	2,888	3,337	3,707	4,035	4,294	4,496	4,655	4,681	4,639	4,454	4,112
PF Earnings Reserve beginning balance	703	904	904	904	904	904	904	904	904	904	904	904	904	904	904
Net from PF Earnings not used for GF	219	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PF Earnings reserve transfer to PF Principal	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PF Earnings Reserve ending balance	904	904	904	904	904	904	904	904	904	904	904	904	904	904	904
Alaska Permanent Fund beginning balance	14,139	16,285	17,006	17,790	18,615	19,470	20,353	21,262	22,197	23,161	24,153	25,170	26,214	27,300	28,414
Dedicated state revenues - DOR Spring mid-case	217	227	244	259	263	264	261	259	258	256	249	243	253	246	239
FY end principal balance before inflation-proofing & deposits	14,356	16,512	17,250	18,049	18,878	19,734	20,614	21,521	22,455	23,417	24,402	25,413	26,467	27,546	28,653
Deposits to Principal from CBR	1,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deposits to Principal PFER	500	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Inflation-Proofing	429	494	541	566	592	619	647	676	706	737	768	800	834	868	904
FY ending balance Inflation Proofed	16,285	17,006	17,790	18,615	19,470	20,353	21,262	22,197	23,161	24,153	25,170	26,214	27,300	28,414	29,557
Escrow Accounts and Settlements	142	153	165	178	192	208	224	242	261	282	305	329	355	384	414
Net income (Calculated)	1,190	1,391	1,450	1,514	1,581	1,651	1,722	1,796	1,872	1,951	2,031	2,114	2,200	2,288	2,379
Real Return	761	897	904	949	990	1,032	1,075	1,120	1,166	1,214	1,263	1,314	1,366	1,420	1,476
Permanent Fund Dividends	582	575	550	525	525	473	502	520	542	565	589	613	638	664	691
Income transferred to (from) General Fund	-40	350	304	469	509	617	647	683	713	740	766	792	728	756	785
Alaska Permanent Fund ending balance	16,285	17,006	17,790	18,615	19,470	20,353	21,262	22,197	23,161	24,153	25,170	26,214	27,300	28,414	29,557

Fiscal Year	96	97	98	99	0	1	2	3	4	5	6	7	8	9	10
SB 51 EARNINGS		1,391	1,450	1,514	1,581	1,651	1,722	1,796	1,872	1,951	2,031	2,114	2,200	2,288	2,379
MID CASE DOR INFLATION	1.0299	1.0299	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318
PER CAPITA CALCULATION		1.0463784	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088
AVERAGE POPULATION GROWTH - DOL	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016
INFLATION*1/2 POPULATION	1.038	1.038	1.040	1.040	1.040	1.040	1.040	1.040	1.040	1.040	1.040	1.040	1.040	1.040	1.040
	<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>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>
PER CAPITA DIVIDENDS (NOMINAL \$)															
POPULATION OF APPLICANTS (THOUSANDS)	525	533	542	551	559	568	577	587	596	606	615	625	635	645	656
ADMIN COST	31	32	33	34	35	36	37	38	40	41	42	43	45	46	47
STATUS QUO PROJECTION															
DISTRIBUTION AMOUNT (MILLIONS)	565	608	624	663	721	767	815	863	913	965	1019	1075	1133	1194	1257
PER CAPITA PROJECTION	\$1,017	\$1,080	\$1,091	\$1,142	\$1,226	\$1,286	\$1,347	\$1,406	\$1,465	\$1,526	\$1,588	\$1,651	\$1,713	\$1,779	\$1,846
COMPOSITE SCENARIO PROJECTION															
DISTRIBUTION AMOUNT (MILLIONS)	565	575	550	525	525	473	502	520	542	565	589	613	638	664	691
PER CAPITA PROJECTION	\$1,017	\$1,018	\$954	\$892	\$876	\$769	\$805	\$822	\$843	\$866	\$889	\$912	\$934	\$958	\$982
ANNUAL DOLLAR CUT IN PER CAPITA DIVIDEND FROM STATUS QUO	\$0	\$62	\$137	\$251	\$350	\$517	\$543	\$584	\$622	\$660	\$699	\$739	\$779	\$821	\$864
% CUT	0%	6%	13%	22%	29%	40%	40%	42%	42%	43%	44%	45%	45%	46%	47%
PER CAPITA SPENDING (NOMINAL \$)															
POPULATION	615.9	625.8	635.8	645.9	656.3	666.8	677.4	688.3	699.3	710.5	721.9	733.4	745.1	757.1	769.2
PER CAPITA GF SPENDING	\$4,020	\$3,893	\$3,785	\$3,679	\$3,765	\$3,854	\$3,945	\$4,039	\$4,134	\$4,232	\$4,332	\$4,434	\$4,539	\$4,646	\$4,756
PER CAPITA GF + PFDS	\$4,938	\$4,812	\$4,650	\$4,491	\$4,565	\$4,564	\$4,686	\$4,794	\$4,910	\$5,027	\$5,147	\$5,270	\$5,395	\$5,523	\$5,653

*FY 96 = \$110.1 Rev. Adj. + \$70 AHFC + \$17 AIDEA. FY 97 - 2005 assumes \$40 revenue adjustments + \$50 AHFC dividend each year.

**FY 97-2005 agency operations projected to increase with inflation and 1/2 population growth. Formula programs growth is at overall trend rate.

Education projected to grow at historical 2.5% rate of enrollment increase plus inflation.

***Includes \$51.1 for estimated annual unmet M&O needs and \$22.1/yr. for a 15 yr. program to address an estimated \$331 deferred maintenance backlog

****FY 96 & 97 include \$350/yr. BP settlement; FY 97 - 2000 assumes an additional \$150/yr. in settlements.

REAL RATE OF RETURN AVERAGE

	Nominal R _i	Inflation	Real
FY 96-97	7.78%	2.99%	4.79%
FY98-10	7.97%	3.18%	4.79%

RIEGER COMPOSITE SCENARIO PROJECTION — SEPTEMBER 30

PERMANENT FUND EARNINGS AT 4.79% (real)

(FY 96 Dollars)

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
AVAILABLE REVENUES (\$ Millions):															
Existing General Fund sources	1,952	1,863	1,880	1,859	1,822	1,784	1,709	1,656	1,600	1,540	1,454	1,374	1,342	1,274	1,209
Lift ANS Export Ban		19	19	18	18	17	17	16	16	15	15	14	14	13	13
New oil production										19	73	71	69	67	65
Permanent Fund Net Earnings	1,213	1,351	1,365	1,381	1,398	1,414	1,430	1,445	1,460	1,474	1,488	1,501	1,514	1,526	1,538
Permanent Fund Inflation-Proofing	-429	-479	-509	-516	-523	-530	-537	-544	-550	-557	-563	-568	-574	-579	-584
Transfer to Permanent Fund Earnings Reserve	-219	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Highway Motor Fuel Tax @ \$.219/gal., indexed)		38	39	39	40	41	41	42	43	43	44	45	45	46	47
Marine Motor Fuel Tax (\$.08/gal., per HB 122, indexed)		5	5	5	5	5	5	5	5	6	6	6	6	6	6
Tobacco Tax (\$1/pkg cigs; 75%/chewing; +25¢ triennially)		42	41	42	51	51	50	59	58	57	66	65	73	72	70
Motor vehicle license fees (double)			28	28	27	27	26	26	26	25	25	25	24	24	23
User fee increases		3	6	8	11	13	12	12	12	11	11	11	10	10	10
Alcohol taxes (increase similar to HB 96)			19	19	18	18	18	18	17	17	17	17	16	16	16
TOTAL REVENUES	2,517	2,841	2,892	2,883	2,868	2,840	2,772	2,735	2,686	2,652	2,636	2,559	2,539	2,475	2,412
Note: PF earnings used for GF programs	0	340	371	428	450	529	537	550	556	559	561	562	501	504	507
Note: Cumulative Spending Cuts total		39	66	91	0	0	0								
EXPENDITURES (\$ Millions):															
Total GF spending on current programs	2,476	2,365	2,264	2,167	2,184	2,202	2,219	2,237	2,255	2,273	2,291	2,309	2,327	2,346	2,364
Permanent Fund Dividends	565	558	518	479	464	405	416	419	423	427	431	435	439	443	446
TOTAL EXPENDITURES	3,041	2,924	2,782	2,646	2,648	2,607	2,636	2,655	2,678	2,700	2,722	2,744	2,766	2,788	2,811
PROJECTED ANNUAL FISCAL GAP	-524	-82	110	237	219	233	136	80	8	-48	-86	-185	-227	-314	-398
DRAW FROM CBR	524	82	-109	-235											
Constitutional Budget Reserve beginning balance	2,006	1075	1498	1785	2199	2474	2771	2983	3147	3246	3293	3305	3221	3094	2879
Interest	125	67	94	112	137	155	173	186	197	203	206	207	201	183	180
Settlements	500	485	141	137	0	0	0	0	0	0	0	0	0	0	0
Drawn for GF spending	524	82	-109	-235	-217	-230	-134	-77	-6	51	89	188	230	317	401
CBR Transfer to Permanent Fund Principal	1000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Constitutional Budget Reserve ending balance	1,107	1,545	1,842	2,269	2553	2859	3078	3247	3349	3398	3410	3323	3192	2971	2658
PF Earnings Reserve beginning balance	703	878	851	824	799	774	751	727	705	683	662	642	622	603	584
Net from PF Earnings not used for GF	219	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PF Earnings reserve transfer to PF Principal	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PF Earnings Reserve ending balance	904	878	851	824	799	774	751	727	705	683	662	642	622	603	584
Alaska Permanent Fund beginning balance	14,139	15,812	16,003	16,226	16,455	16,680	16,899	17,109	17,311	17,506	17,694	17,870	18,038	18,206	18,365
Dedicated state revenues - DOR Spring mid-case	217	220	230	236	232	226	217	208	201	193	182	173	174	164	154
FY end principal balance before inflation-proofing & deposits	14,356	16,033	16,233	16,462	16,687	16,906	17,116	17,318	17,512	17,700	17,876	18,043	18,212	18,370	18,520
Deposits to Principal from CBR	1,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deposits to Principal PFER	500	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Inflation-Proofing	429	479	509	516	523	530	537	544	550	557	563	568	574	579	584
FY ending balance Inflation Proofed	16,285	16,512	16,742	16,978	17,210	17,436	17,653	17,862	18,063	18,256	18,439	18,611	18,785	18,949	19,104
Escrow Accounts and Settlements	142	148	155	163	170	178	186	195	204	213	223	234	245	256	268
Net income (Calculated)	1,190	1,351	1,365	1,381	1,398	1,414	1,430	1,445	1,460	1,474	1,488	1,501	1,514	1,526	1,538
Real Return	761	871	856	865	875	884	893	901	910	918	925	933	940	947	954
Permanent Fund Dividends	582	558	518	479	464	405	416	419	423	427	431	435	439	443	446
Income transferred to (from) General Fund	-40	340	371	428	450	529	537	550	556	559	561	562	501	504	507
Alaska Permanent Fund ending balance	16,285	16,512	16,742	16,978	17,210	17,436	17,653	17,862	18,063	18,256	18,439	18,611	18,785	18,949	19,104

Fiscal Year	96	97	98	99	0	1	2	3	4	5	6	7	8	9	10
INFLATION MID CASE DOR PROJECTION	1.0299	1.0299	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318
CONVERT NOMINAL TO FY 96 \$	1.0000	1.0299	1.0626508	1.0964431	1.13131	1.1672857	1.2044053	1.2427054	1.2822235	1.3229982	1.3650695	1.4084787	1.4532684	1.4994823	1.5471658
	<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>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>
PER CAPITA DIVIDENDS (REAL \$)															
POPULATION OF APPLICANTS (THOUSANDS)	525	533	542	551	559	568	577	587	596	606	615	625	635	645	656
ADMIN COST	31	31	31	31	31	31	31	31	31	31	31	31	31	31	30
STATUS QUO PROJECTION															
DISTRIBUTION AMOUNT (MILLIONS)	565	590	587	605	637	657	677	694	712	729	746	763	780	796	812
PER CAPITA PROJECTION	\$1,017	\$1,049	\$1,026	\$1,042	\$1,084	\$1,102	\$1,119	\$1,132	\$1,142	\$1,153	\$1,163	\$1,172	\$1,179	\$1,186	\$1,193
COMPOSITE SCENARIO PROJECTION															
DISTRIBUTION AMOUNT (MILLIONS)	565	558	518	479	464	405	416	419	423	427	431	435	439	443	446
PER CAPITA PROJECTION	\$1,017	\$988	\$898	\$813	\$774	\$659	\$668	\$661	\$657	\$654	\$651	\$647	\$643	\$639	\$634
ANNUAL DOLLAR CUT IN PER CAPITA DIVIDEND FROM STATUS QUO % CUT	0	\$60	\$128	\$229	\$310	\$443	\$451	\$470	\$485	\$499	\$512	\$525	\$536	\$548	\$558
PER CAPITA SPENDING (REAL \$)															
POPULATION	615.9	625.8	635.8	645.9	656.3	666.8	677.4	688.3	699.3	710.5	721.9	733.4	745.1	757.1	769.2
PER CAPITA GF SPENDING	\$4,020	\$3,780	\$3,561	\$3,355	\$3,328	\$3,302	\$3,276	\$3,250	\$3,224	\$3,199	\$3,173	\$3,148	\$3,123	\$3,098	\$3,074
PER CAPITA GF + PFDS	\$4,938	\$4,672	\$4,376	\$4,096	\$4,035	\$3,910	\$3,891	\$3,858	\$3,829	\$3,800	\$3,771	\$3,742	\$3,712	\$3,683	\$3,654

ENDOWMENT SCENARIO PROJECTION — SEPTEMBER 28

PERMANENT FUND EARNINGS AT 7.94% (AVG)

(Nominal Dollars)

	FY 98	FY 97	FY 96	FY 95	FY 94	FY 93	FY 92	FY 91	FY 90	FY 89	FY 88	FY 87	FY 86	FY 85	FY 84
Endowment payout at 4.0%															
AVAILABLE REVENUES (\$ Millions):															
Existing General Fund sources	1,952	1,919	1,907	2,038	2,062	2,083	2,059	2,058	2,052	2,038	1,985	1,936	1,950	1,910	1,870
Lift ANS Export Ban		20	20	20	20	20	20	20	20	25	100	100	100	100	100
New oil production or new oil taxes															
Permanent Fund Net Earnings	1,213	1,365	759	801	849	897	946	997	1,055	1,115	1,175	1,237	1,297	1,360	1,420
Permanent Fund Endowment Earnings															
Permanent Fund Inflation-Proofing	-429	-479													
Transfer to Permanent Fund Earnings Reserve	-219	-312													
Highway Motor Fuel Tax @ \$ 21¢/gal., indexed		39	41	43	45	47	50	52	55	57	60	63	66	69	73
Marine Motor Fuel Tax (\$ 0.08/gal., per HB 122, indexed)		5	5	5	6	6	6	7	7	7	8	8	8	9	9
Tobacco Tax (\$1/pkg cigs; 75%/chewing; +25% triennially)		43	44	44	56	57	58	71	72	73	87	88	102	104	106
Motor vehicle license fees (double)		29	29	30	30	30	31	31	32	32	33	33	34	35	35
User fee increases		3	6	9	12	15	15	15	15	15	15	15	15	15	15
Alcohol taxes (increase similar to HB 96 + index)			20	21	21	21	22	22	22	23	23	23	24	24	24
Income tax @ \$200 M 1995, adjusted for population growth							69	277	290	304	319	334	350	367	384
TOTAL REVENUES	2,517	2,603	2,921	3,011	3,101	3,177	3,276	3,550	3,620	3,710	3,825	3,858	3,967	4,012	4,056
Note: Cumulative Spending Cuts total		50	100	130	160										
EXPENDITURES (\$ Millions):															
Total GF spending on current programs	2,476	2,426	2,376	2,346	2,316	2,409	2,505	2,605	2,710	2,818	2,931	3,048	3,170	3,297	3,428
Increased maintenance & deferred maintenance spending		15	30	45	60	62	64	66	68	70	72	75	77	80	82
Transfer of Federal programs to Alaska		25	50	50	50	50	52	53	55	57	58	60	62	64	66
Permanent Fund Dividends (1/2 PF real earnings, min. \$1000/capi)	565	574	583	593	602	612	621	631	642	652	662	673	684	694	710
TOTAL EXPENDITURES	3,041	3,040	3,039	3,034	3,028	3,132	3,242	3,356	3,474	3,596	3,724	3,856	3,963	4,135	4,287
PROJECTED ANNUAL FISCAL GAP	-524	-437	-118	-23	72	45	34	194	146	113	101	2	-25	-122	-230
Draw from (deposit into) Constitutional Budget Reserve	524	437													
Draw from (deposit into) Permanent Fund Earnings Reserve			118	23	-72	-45	-34	-194	-146	-113	-101	-2	25	122	230
Constitutional Budget Reserve beginning balance	2,008	1,107	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest	125	69	0	0	0	0	0	0	0	0	0	0	0	0	0
Settlements	500	500													
Drawn for GF spending (drawn from GF surplus)	524	437	0	0	0	0	0	0	0	0	0	0	0	0	0
CBR Transfer to Permanent Fund Principal	1,000	1,236													
Constitutional Budget Reserve ending balance	1,107	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PF Earnings Reserve beginning balance	703	922	1,234	1,266	1,394	1,468	1,511	1,545	1,738	1,885	1,985	1,936	1,938	1,910	1,788
Net from PF Earnings not used for GF	219	312	0	0	0	0	0	0	0	0	0	0	0	0	0
Settlements		150	150												
Drawn for GF spending (drawn from GF surplus)		-118	-23	72	45	34	194	146	113	101	2	-25	-122	-230	
PF Earnings reserve transfer to PF Principal		0	0	0	0	0	0	0	0	12	151	0	2	0	
PF Earnings Reserve ending balance	922	1,234	1,266	1,394	1,468	1,511	1,545	1,738	1,885	1,985	1,936	1,938	1,910	1,788	1,558
Alaska Permanent Fund beginning balance	14,139	15,785	17,730	18,750	19,828	20,959	22,140	23,369	24,646	25,983	27,390	28,991	30,497	32,078	33,714
Dedicated state revenues - DOR Spring mid-case	217	227	244	259	263	264	261	259	258	256	249	243	253	246	239
FY end principal balance before inflation-proofing & deposits	14,356	16,012	17,974	19,009	20,091	21,223	22,401	23,628	24,904	26,239	27,639	29,234	30,750	32,324	33,953
Deposits to Principal from CBR	1,000	1,239	0	0	0	0	0	0	0	0	0	0	0	0	0
Deposits to Principal from PFER	0	0	0	0	0	0	0	0	0	12	151	0	2	0	0
Inflation-Proofing	429	479													
Net income after endowment distribution			776	819	868	917	967	1,019	1,079	1,139	1,300	1,264	1,326	1,390	1,452
FY ending balance Inflation Proofed	15,785	17,730	18,750	19,828	20,959	22,140	23,369	24,646	25,983	27,390	28,991	30,497	32,078	33,714	35,405
Escrow Accounts and Settlements	142	153	165	178	192	208	224	242	261	282	305	329	355	384	414
Net income (Calculated)	1,191	1,365	1,534	1,620	1,717	1,814	1,913	2,015	2,134	2,254	2,375	2,501	2,623	2,749	2,872
Permanent Fund Dividends	582	591	583	593	602	612	621	631	642	652	662	673	684	694	710
Alaska Permanent Fund ending balance	15,785	17,730	18,750	19,828	20,959	22,140	23,369	24,646	25,983	27,390	28,991	30,497	32,078	33,714	35,405

	Fiscal Year	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
SB 51 EARNINGS		1,365	1,534	1,534	1,620	1,717	1,814	1,913	2,015	2,134	2,254	2,375	2,501	2,623	2,749	2,872
MID CASE DOR INFLATION	1 0299	1 0299	1 0318	1 0318	1 0318	1 0318	1 0318	1 0318	1 0318	1 0318	1 0318	1 0318	1 0318	1 0318	1 0318	1 0318
PER CAPITA CALCULATION		1 0483784	1 0483088	1 0483088	1 0483088	1 0483088	1 0483088	1 0483088	1 0483088	1 0483088	1 0483088	1 0483088	1 0483088	1 0483088	1 0483088	1 0483088
AVERAGE POPULATION GROWTH - DOL	1 016	1 016	1 016	1 016	1 016	1 016	1 016	1 016	1 016	1 016	1 016	1 016	1 016	1 016	1 016	1 016
INFLATION*1/2 POPULATION	1 038	1 038	1 040	1 040	1 040	1 040	1 040	1 040	1 040	1 040	1 040	1 040	1 040	1 040	1 040	1 040
	<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>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	
PER CAPITA DIVIDENDS (NOMINAL \$)		525	533	542	551	559	568	577	587	596	606	615	625	635	645	656
POPULATION OF APPLICANTS (THOUSANDS)		31	32	33	34	35	36	37	38	40	41	42	43	45	46	47
ADMIN COST																
STATUS QUO PROJECTION																
DISTRIBUTION AMOUNT (MILLIONS)	585	608	624	663	721	767	815	863	913	965	1019	1075	1133	1194	1257	
PER CAPITA PROJECTION	\$1,017	\$1,080	\$1,091	\$1,142	\$1,226	\$1,288	\$1,347	\$1,406	\$1,465	\$1,528	\$1,588	\$1,651	\$1,713	\$1,779	\$1,846	
ENDOWMENT SCENARIO PROJECTION																
DISTRIBUTION AMOUNT (MILLIONS)	585	574	583	593	602	612	621	631	642	652	662	673	684	694	710	
PER CAPITA PROJECTION	\$1,017	\$1,016	\$1,015	\$1,014	\$1,014	\$1,013	\$1,012	\$1,011	\$1,009	\$1,008	\$1,008	\$1,007	\$1,005	\$1,005	\$1,011	
ANNUAL DOLLAR CUT IN PER CAPITA DIVIDEND FROM STATUS QUO	\$0	\$44	\$75	\$128	\$213	\$273	\$335	\$396	\$455	\$517	\$580	\$643	\$708	\$774	\$834	
% CUT	0%	6%	7%	11%	17%	21%	25%	28%	31%	34%	37%	39%	41%	44%	45%	
PER CAPITA SPENDING (NOMINAL \$)																
POPULATION	615.9	625.8	635.8	645.9	656.3	666.8	677.4	688.3	699.3	710.5	721.9	733.4	745.1	757.1	769.2	
PER CAPITA GF SPENDING	\$4,920	\$3,941	\$3,863	\$3,779	\$3,697	\$3,780	\$3,868	\$3,958	\$4,050	\$4,145	\$4,241	\$4,340	\$4,441	\$4,544	\$4,650	
PER CAPITA GF + PFDS	\$4,938	\$4,858	\$4,781	\$4,697	\$4,614	\$4,698	\$4,786	\$4,876	\$4,968	\$5,062	\$5,159	\$5,257	\$5,358	\$5,462	\$5,573	

REAL RATE OF RETURN AVERAGE

	Nominal R	Inflation	Real
FY 96-97	7.78%	2.99%	4.79%
FY 98-10	7.97%	3.18%	4.79%

ENDOWMENT SCENARIO PROJECTION — SEPTEMBER 28

PERMANENT FUND EARNINGS AT 4.75% (real)

(FY 96 Dollars)

Endowment payout at

	FY 95	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
4.0%															
AVAILABLE REVENUES (\$ Millions):															
Existing General Fund sources	1,952	1,863	1,880	1,859	1,822	1,784	1,709	1,656	1,600	1,540	1,454	1,374	1,342	1,274	1,209
Lift ANS Export Ban		19	19	18	18	17	17	16	16	15	15	14	14	13	13
New oil production or new oil taxes															
Permanent Fund Net Earnings	1,213	1,326	0	0	0	0	0	0	0	0	0	0	0	0	0
Permanent Fund Endowment Earnings	0	0	714	730	750	768	785	802	823	843	861	878	893	907	918
Permanent Fund Inflation-Proofing	-429	-465	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfer to Permanent Fund Earnings Reserve	-219	-303	0	0	0	0	0	0	0	0	0	0	0	0	0
Highway Motor Fuel Tax @ \$219/gal., indexed		38	39	39	40	41	41	42	43	43	44	45	45	46	47
Marine Motor Fuel Tax (\$08/gal., per HB 122, indexed)		5	5	5	5	5	5	5	5	6	6	6	6	6	6
Tobacco Tax (\$1/pkg cigs; 75%/chewing; +25% triennially)		42	41	42	51	51	50	50	58	57	66	65	73	72	70
Motor vehicle license fees (double)			28	28	27	27	26	26	26	25	25	25	24	24	23
User fee increases		3	6	8	11	13	12	12	12	11	11	11	10	10	10
Alcohol taxes (increase similar to HB 96 + index)			19	19	18	18	18	18	17	17	17	17	16	16	16
Income tax						0	58	223	227	230	234	237	241	245	248
TOTAL REVENUES	2,517	2,527	2,750	2,748	2,743	2,724	2,722	2,859	2,826	2,806	2,805	2,742	2,733	2,679	2,625
Note: PF earnings used for GF programs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Note: Cumulative Spending Cuts total		40	94	119	141	0	0								
EXPENDITURES (\$ Millions):															
Total GF spending on current programs	2,476	2,356	2,236	2,140	2,047	2,064	2,080	2,096	2,113	2,130	2,147	2,164	2,181	2,198	2,216
Increased maintenance & deferred maintenance spending	0	15	28	41	53	53	53	53	53	53	53	53	53	53	53
Transfer of Federal programs to Alaska	0	24	47	46	44	43	43	43	43	43	43	43	43	43	43
Permanent Fund Dividends	565	557	549	540	532	524	516	508	500	493	485	478	470	463	459
TOTAL EXPENDITURES	3,041	2,952	2,860	2,767	2,677	2,683	2,692	2,700	2,709	2,718	2,728	2,737	2,747	2,757	2,771
PROJECTED ANNUAL FISCAL GAP	-524	-424	-110	-19	67	41	30	159	117	88	77	4	-14	-79	-148
Draw from (deposit into) Constitutional Budget Reserve	524	424	0	0	0	0	0	0	0	0	0	0	0	0	0
Draw from (deposit into) Permanent Fund Earnings Reserve	0	0	111	21	-64	-38	-28	-156	-114	-85	-74	-1	17	82	149
Constitutional Budget Reserve beginning balance	2,008	1078	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest	125	87	0	0	0	0	0	0	0	0	0	0	0	0	0
Settlements	500	485	0	0	0	0	0	0	0	0	0	0	0	0	0
Drawn for GF spending	524	424	0	0	0	0	0	0	0	0	0	0	0	0	0
CBR Transfer to Permanent Fund Principal	1000	1203	0	0	0	0	0	0	0	0	0	0	0	0	0
Constitutional Budget Reserve ending balance	1,107	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PF Earnings Reserve beginning balance	703	895	1,162	1,188	1,232	1,256	1,254	1,243	1,356	1,425	1,454	1,374	1,333	1,274	1,156
Net from PF Earnings not used for GF	219	303	0	0	0	0	0	0	0	0	0	0	0	0	0
Settlements	0	0	141	137	0	0	0	0	0	0	0	0	0	0	0
Drawn for GF spending (drawn from GF surplus)	0	0	-111	-21	64	38	28	156	114	85	74	1	-17	-82	-149
PF Earnings reserve transfer to PF Principal	0	0	0	0	0	0	0	0	0	9	110	0	1	0	0
PF Earnings Reserve ending balance	922	1,199	1,192	1,271	1,296	1,294	1,282	1,399	1,470	1,501	1,418	1,378	1,314	1,192	1,007
Alaska Permanent Fund beginning balance	14,139	16,327	16,685	17,100	17,526	17,955	18,383	18,805	19,222	19,639	20,065	20,583	20,985	21,393	21,791
Dedicated state revenues - DOR Spring mid-case	217	220	230	236	232	226	217	208	201	193	182	173	174	164	154
FY end principal balance before inflation-proofing & deposits	14,356	15,547	16,914	17,337	17,759	18,182	18,600	19,013	19,423	19,833	20,248	20,755	21,159	21,557	21,945
Deposits to Principal from CBR	1,000	1,203	0	0	0	0	0	0	0	0	0	0	0	0	0
Deposits to Principal PFER	0	0	0	0	0	0	0	0	0	9	110	0	1	0	0
Inflation-Proofing	429	465	0	0	0	0	0	0	0	0	0	0	0	0	0
Net income after endowment distribution			730	747	768	786	803	820	841	861	879	897	912	927	938
FY ending balance Inflation Proofed	15,785	17,215	17,644	18,084	18,526	18,967	19,403	19,833	20,264	20,703	21,237	21,653	22,073	22,484	22,884
Escrow Accounts and Settlements	142	148	155	163	170	178	186	195	204	213	223	234	245	256	268
Net income (Calculated)	1,191	1,326	1,444	1,477	1,518	1,554	1,589	1,622	1,664	1,704	1,740	1,775	1,805	1,833	1,856
Permanent Fund Dividends	582	574	549	540	532	524	516	508	500	493	485	478	470	463	459
Alaska Permanent Fund ending balance	15,785	17,215	17,644	18,084	18,526	18,967	19,403	19,833	20,264	20,703	21,237	21,653	22,073	22,484	22,884

Fiscal Year	96	97	98	99	0	1	2	3	4	5	6	7	8	9	10
INFLATION MID CASE DOR PROJECTION	1.0269	1.0269	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318
CONVERT NOMINAL TO FY 96 \$	1.0000	1.0209	1.062651	1.096443	1.13131	1.167286	1.204405	1.242705	1.282223	1.322998	1.36507	1.408479	1.453268	1.499482	1.547166
	<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>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>
PER CAPITA DIVIDENDS (REAL \$)	525	533	542	551	559	568	577	587	596	606	615	625	635	645	656
POPULATION OF APPLICANTS (THOUSANDS)	31	31	31	31	31	31	31	31	31	31	31	31	31	31	30
ADMIN COST															
STATUS QUO PROJECTION															
DISTRIBUTION AMOUNT (MILLIONS)	565	590	587	605	637	657	677	694	712	729	746	763	780	796	812
PER CAPITA PROJECTION	\$1,017	\$1,049	\$1,026	\$1,042	\$1,084	\$1,102	\$1,119	\$1,132	\$1,142	\$1,153	\$1,163	\$1,172	\$1,179	\$1,186	\$1,193
ENDOWMENT SCENARIO PROJECTION															
DISTRIBUTION AMOUNT (MILLIONS)	565	557	549	540	532	524	516	508	500	493	485	478	470	463	456
PER CAPITA PROJECTION	\$1,017	\$987	\$965	\$925	\$896	\$868	\$840	\$814	\$787	\$762	\$738	\$715	\$692	\$670	\$654
ANNUAL DOLLAR CUT IN PER CAPITA DIVIDEND FROM STATUS QUO	0	\$62	\$71	\$117	\$168	\$234	\$278	\$318	\$355	\$391	\$425	\$457	\$487	\$516	\$539
% CUT															
PER CAPITA SPENDING (REAL \$)															
POPULATION	615.9	625.8	635.8	645.9	656.3	666.8	677.4	688.3	699.3	710.5	721.9	733.4	745.1	757.1	769.2
PER CAPITA GF SPENDING	\$4,020	\$3,827	\$3,635	\$3,447	\$3,268	\$3,239	\$3,212	\$3,185	\$3,159	\$3,133	\$3,107	\$3,081	\$3,056	\$3,031	\$3,006
PER CAPITA GF + PFDS	\$4,938	\$4,717	\$4,499	\$4,283	\$4,079	\$4,024	\$3,973	\$3,923	\$3,874	\$3,826	\$3,779	\$3,733	\$3,687	\$3,642	\$3,602

COMPOSITE SCENARIO PROJECTION 4

PERMANENT FUND EARNINGS AT 7.94% (AVG)

(Nominal Dollars)

	FY 95	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
AVAILABLE REVENUES (\$ Millions):															
EXISTING GENERAL FUND SOURCES	1,952	1,919	1,997	2,038	2,062	2,083	2,059	2,058	2,052	2,038	1,985	1,936	1,950	1,910	1,870
LIFT ANS EXPORT BAN		20	20	20	20	20	20	20	20	20	20	20	20	20	20
PERMANENT FUND NET EARNINGS	1,213	1,206	1,270	1,351	1,300	1,573	1,687	1,793	1,873	1,410	1,659	1,756	1,844	1,932	1,999
PF EARNINGS TO GF		100	150	162	225	255	274	295	345	737	768	800	833	867	902
HIGHWAY MOTOR FUEL TAX @ \$.219/GAL INDEXED)		20	41	43	45	47	50	52	55	57	60	63	66	69	73
MARINE MOTOR FUEL (\$.08/GAL PER HB 122 INDEXED)		5	5	5	6	6	6	7	7	7	8	8	8	9	9
TOBACCO (\$1/PKG CIGS; 75%/CHEW; INDEXED)		43	45	47	50	52	54	57	60	63	66	69	72	76	79
MOTOR VEHICLE LICENSE FEES (DOUBLE)			29	29	30	30	31	31	32	32	33	33	34	35	35
USER FEE INCREASE ASSUMPTION		3	6	9	12	15	15	15	15	15	15	15	15	15	15
ALCOHOL TAXES (INCREASE PER HB 96)			10	21	22	23	24	26	27	28	29	31	32	34	36
INCOME/SALES TAX						38	140	220	280	300	320	360	400	450	500
TOTAL REVENUES	3,165	3,315	3,574	3,727	3,771	4,143	4,360	4,574	4,765	4,738	4,963	5,091	5,275	5,417	5,538
EXPENDITURES (\$ Millions):															
TOTAL GF SPENDING	2,476	2,436	2,406	2,376	2,471	2,570	2,673	2,780	2,892	3,007	3,128	3,253	3,384	3,519	3,660
PF INFLATION PROOFING	429	464	516	540	566	674	708	742	776	812	911	956	1,000	1,044	898
DIVIDENDS	565	527	491	479	466	507	550	597	646	689	727	763	798	831	898
TRANSFER TO EARNINGS RESERVE	219	215	263	332	268	392	429	455	451	-61	21	36	45	57	204
TOTAL EXPENDITURES	3,689	3,642	3,676	3,727	3,771	4,143	4,360	4,574	4,765	4,448	4,787	5,009	5,227	5,451	5,659
PROJECTED ANNUAL FISCAL GAP	-524	-327	-102	0	0	0	0	0	0	290	176	82	48	-34	-121
CONSTITUTIONAL BUDGET RESERVE															
BALANCE	2,107	2,409	2,598	2,904	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,445
CBR DEPOSIT TO PF PRINCIPAL <i>\$500.0</i>	0	0	0	0	1,576	137	94	94	94	384	270	175	142	59	-28
PF EARNINGS RESERVE BALANCE <i>CHECK THIS</i>	905	1,120	1,383	1,715	1,000	1,392	1,820	2,275	2,726	1,000	1,021	1,057	1,103	1,160	1,363
ERA DEPOSIT TO PF PRINCIPAL					982					1,665					363
PERMANENT FUND PRINCIPAL	<i>15,285</i>	15,976	16,736	17,535	20,922	21,997	23,060	24,155	25,283	28,400	29,830	31,204	32,599	33,949	35,422

Assumptions:

\$40 CUT IN FY 97; \$30 IN FY 98 & 99; thereafter increase @ base case rate = Inflation 1/2 pop. growth.

Phase in various taxes from FY 97 to 01. Income tax phased in over 5 yrs.

Modified SB 51 enacted in FY 97 w/ excess earnings to ERA. PFDS @ 65% of earnings in FY97; 60% in 98; 55% in 99; and 50% in 00 and thereafter.

Deposit excess reserves into principal beginning in FY 00. CBR balances over 1,500 deposited annually; ERA deposits every 5 yrs.

Office of Management and Budget

9/28/95

1:24 PM

	<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>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>
PER CAPITA DIVIDENDS (NOMINAL \$)															
POPULATION OF APPLICANTS (THOUSANDS)	525	533	542	551	559	568	577	587	596	606	615	625	635	645	656
ADMIN COST	31	32	33	34	35	36	37	38	40	41	42	43	45	46	47
STATUS QUO PROJECTION															
DISTRIBUTION AMOUNT (MILLIONS)	565	608	624	663	721	767	815	863	913	965	1019	1075	1133	1194	1257
PER CAPITA PROJECTION	\$1,017	\$1,080	\$1,091	\$1,142	\$1,226	\$1,286	\$1,347	\$1,406	\$1,465	\$1,526	\$1,588	\$1,651	\$1,713	\$1,779	\$1,846
COMPOSITE SCENARIO PROJECTION															
DISTRIBUTION AMOUNT (MILLIONS)	565	527	491	479	466	507	550	597	646	689	727	763	798	831	898
PER CAPITA PROJECTION	\$1,017	\$928	\$846	\$808	\$771	\$829	\$889	\$953	\$1,017	\$1,070	\$1,113	\$1,152	\$1,185	\$1,216	\$1,298
ANNUAL DOLLAR CUT IN PER CAPITA DIVIDEND FROM STATI	\$0	\$152	\$245	\$334	\$456	\$457	\$458	\$453	\$448	\$456	\$475	\$499	\$528	\$563	\$548
% CUT	0%	14%	22%	29%	37%	36%	34%	32%	31%	30%	30%	30%	31%	32%	30%
PER CAPITA SPENDING (NOMINAL \$)															
POPULATION	615.9	625.8	635.8	645.9	656.3	666.8	677.4	688.3	699.3	710.5	721.9	733.4	745.1	757.1	769.2
PER CAPITA GF SPENDING	\$4,020	\$3,893	\$3,785	\$3,679	\$3,766	\$3,855	\$3,946	\$4,039	\$4,135	\$4,233	\$4,333	\$4,436	\$4,541	\$4,648	\$4,758
PER CAPITA GF + PFDS	\$4,938	\$4,735	\$4,557	\$4,420	\$4,476	\$4,616	\$4,759	\$4,907	\$5,059	\$5,203	\$5,340	\$5,477	\$5,612	\$5,746	\$5,926

COMPOSITE SCENARIO PROJECTION 4

PERMANENT FUND EARNINGS AT 4.79% (real)

(FY 96 Dollars)

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
AVAILABLE REVENUES (\$ Millions):															
EXISTING GENERAL FUND SOURCES	1,952	1,863	1,880	1,859	1,822	1,784	1,709	1,656	1,600	1,540	1,454	1,374	1,342	1,274	1,209
LIFT AND EXPORT BAN		19	19	18	18	17	17	16	16	15	15	14	14	13	13
PERMANENT FUND NET EARNINGS	1,213	1,171	1,195	1,232	1,149	1,347	1,401	1,443	1,461	1,089	1,216	1,247	1,269	1,288	1,292
PF EARNINGS TO GF	0	97	141	148	199	218	227	237	269	557	563	568	573	578	583
HIGHWAY MOTOR FUEL TAX @ \$.219/GAL INDEXED)		19	39	39	40	41	41	42	43	43	44	45	45	46	47
MARINE MOTOR FUEL (\$.08/GAL PER HB 122 INDEXED)		5	5	5	5	5	5	5	5	6	6	6	6	6	6
TOBACCO (\$1/PKG CIGS; 75%/CHEW INDEXED)		42	42	44	45	46	47	47	48	49	50	50	51	52	53
MOTOR VEHICLE LICENSE FEES (DOUBLE)			28	28	27	27	26	26	26	25	25	25	24	24	23
USER FEE INCREASE ASSUMPTION		3	6	8	11	13	12	12	12	11	11	11	10	10	10
ALCOHOL TAXES (INCREASE PER HB 96)			10	19	20	20	20	21	21	21	22	22	22	23	23
INCOME/SALES TAX						33	116	177	218	227	234	256	275	300	323
TOTAL REVENUES	3,165	3,219	3,364	3,401	3,336	3,551	3,623	3,683	3,718	3,583	3,638	3,617	3,632	3,615	3,582
EXPENDITURES (\$ Millions):															
TOTAL GF SPENDING	2,476	2,365	2,264	2,167	2,184	2,202	2,220	2,237	2,255	2,273	2,291	2,310	2,328	2,347	2,366
PF INFLATION PROOFING	429	450	485	493	500	577	588	597	605	614	667	679	688	697	580
DIVIDENDS	565	512	462	437	412	435	457	480	504	521	533	542	549	554	580
TRANSFER TO EARNINGS RESERVE	219	209	247	303	237	336	356	366	351	-46	16	26	31	38	132
TOTAL EXPENDITURES	3,689	3,536	3,459	3,399	3,333	3,549	3,620	3,680	3,716	3,362	3,507	3,556	3,597	3,635	3,658
PROJECTED ANNUAL FISCAL GAP	-524	-317	-95	2	2	2	2	3	2	221	131	60	35	-21	-76
CONSTITUTIONAL BUDGET RESERVE BALANCE	2,107	2,339	2,445	2,648	1,348	1,566	1,628	1,681	1,730	1,646	1,778	1,815	1,842	1,867	1,875
CBR DEPOSIT TO PF PRINCIPAL	0	0	0	0	1,393	118	78	76	73	290	198	124	97	40	-18
PF EARNINGS RESERVE BALANCE	905	1,088	1,301	1,564	884	1,192	1,511	1,831	2,126	756	748	751	759	773	881
ERA DEPOSIT TO PF PRINCIPAL	0	0	0	0	868	0	0	0	0	1,258	0	0	0	0	235
PERMANENT FUND PRINCIPAL	15,285	15,512	15,749	15,993	18,494	18,845	19,146	19,437	19,718	21,466	21,852	22,155	22,432	22,641	22,894

Inf = 3.18%

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
PER CAPITA DIVIDENDS (REAL \$)															
POPULATION OF APPLICANTS (THOUSANDS)	525	533	542	551	559	568	577	587	596	606	615	625	635	645	656
ADMIN COST	31	31	31	31	31	31	31	31	31	31	31	31	31	31	30
STATUS QUO PROJECTION															
DISTRIBUTION AMOUNT (MILLIONS)	565	590	587	605	637	657	677	694	712	729	746	763	780	796	812
PER CAPITA PROJECTION	\$1,017	\$1,049	\$1,026	\$1,042	\$1,084	\$1,102	\$1,119	\$1,132	\$1,142	\$1,153	\$1,163	\$1,172	\$1,179	\$1,186	\$1,193
COMPOSITE SCENARIO PROJECTION															
DISTRIBUTION AMOUNT (MILLIONS)	565	512	462	437	412	435	457	480	504	521	533	542	549	554	580
PER CAPITA PROJECTION	\$1,017	\$901	\$796	\$737	\$681	\$710	\$738	\$767	\$793	\$809	\$815	\$818	\$816	\$811	\$839
ANNUAL DOLLAR CUT IN PER CAPITA DIVIDEND FROM STATL % CUT	0	\$148	\$230	\$305	\$403	\$391	\$380	\$365	\$349	\$345	\$348	\$354	\$363	\$375	\$354
PER CAPITA SPENDING (REAL \$)															
POPULATION	615.9	625.8	635.8	645.9	656.3	666.8	677.4	688.3	699.3	710.5	721.9	733.4	745.1	757.1	769.2
PER CAPITA GF SPENDING	\$4,020	\$3,780	\$3,561	\$3,355	\$3,329	\$3,302	\$3,276	\$3,251	\$3,225	\$3,200	\$3,174	\$3,149	\$3,125	\$3,100	\$3,076
PER CAPITA GF + PFDS	\$4,938	\$4,597	\$4,289	\$4,031	\$3,956	\$3,954	\$3,951	\$3,948	\$3,946	\$3,932	\$3,912	\$3,888	\$3,861	\$3,832	\$3,830

declines to 01

COMPARISON OF SCENARIOS

Endowment Scenario

Composite Scenario

Action required to implement	constitutional amend. for payout; could change spending limit to \$2.5b in FY98	statute like SB51
Budget reduction from 96 to 99		
PFD total reduction in Year 3		
PFD amount in Year 3		
Tax/fee increases in Year 3		
First year impacts		
cuts		
tax/fee increases		
dividend		
Second year impacts		
cuts		
tax/fee increases		
dividend		
Perm Fund principal end FY99		
end FY00		
end FY05		
end FY10		

Risk of eroding principal	could happen if payout exceeds real earnings over time	none other than bad investments
Reserves necessary	PF Earnings reserve equal to "traditional" revenues for next year. In effect forward funds these by FY98.	PF Earnings reserve of about \$1 b to cover 5 year payout needs plus CBRF oil volatility of about \$1.5b
mechanisms for use		
Income/sales tax needed	\$ __ m in FY __	\$ _____ m in FY __
Sensitivity to volatility	lhas volatility from oil revenues, not PF earnings	doesn't change volatility; uses reser to cushion
low oil revenues	uses PFER as needed	uses CBRF as needed
low PF earnings	steady payout regardless of market (or change within narrow range)	averaged over 5 years
high oil revenues	no effect; control with spending limit	no effect; control with spending limi
high PF earnings	blunts spikes	blunts spikes within 5 year timefrar
federal reductions		
increased population		
economic downturn		
Impacts		
who pays largest % income		
max. econ. impact one year		
effect on local government		

FAIRBANKS
Daily News - Miner

"Independent in All Things... Neutral in None"
Established in 1903

CHARLES L. GRAY
Publisher Emeritus

PAUL J. MASSEY
Publisher

KELLY BOSTIAN
Managing Editor

SAM BISHOP
Editorial Page Editor

Filling the gap

As each individual Alaskan ponders whether to spend or save the coming Permanent Fund dividend check, we should also collectively ponder the same question for the fund's income in total.

The state of Alaska's financial picture has become so poor that it is time to seriously talk about when the fund's income should be tapped.

The governor's Long-Range Financial Planning Commission devoted an entire section to the Permanent Fund in its draft report released last month. The commission noted that almost every witness appearing before it had some comment on the fund's role.

No one is seriously proposing to spend the principal of the fund, which the most recent estimates place at about \$18 billion. While that is a vast amount of money, it alone could only fund state government for a half-dozen years. However, spending some of the interest earnings on all that money is a real possibility.

Some cuts in state government are still necessary before we start spending those earnings, but no one should fool themselves into thinking that such cuts will take care of the whole problem. In addition, if the cuts are not done judiciously, we will quickly end up with a government that is actually serving us less than before all the oil money started flowing. In fact, that has already happened in some parts of state government. Consider these two facts from the commission's report:

■ For each Alaskan resident, there are fewer state employees today than in 1979, the first full year of oil revenues. In 1979, there were 352 state workers for every 10,000 Alaskans; in fiscal 1995, there were 332.

■ Since 1979, most state agencies have grown at a rate below what would be expected if they were simply keeping up with inflation and population growth. The only areas in which the state has exceeded the "expected" growth are in grants to individuals, grants to groups, schools, corrections, the legislature, commerce and law.

It can't be denied that Alaska still spends a lot—more than twice as much per capita on services as the average state. But consider this: before the oil money, we spent more than three times the national average. That's in part because, in Alaska, the state pays for many services—schools, jails, criminal prosecution and road maintenance—that elsewhere are handled by local governments.

Of course, the problem with taking comfort in comparing ourselves to the average state is that the average state is probably spending too much, too. So our lawmakers still must remain diligent in looking for savings.

But we should not and cannot squeeze enough cuts out of state government to fill the gap left by our falling oil revenues. Other income will be necessary. The earnings of the Permanent Fund should not be considered off limits.

J
t

V
Jac
ger
he
loni
Bla
1
Col
Jr.
ran
dat
rig
hir
bou
cou
the
alw
of t
for
clea
emo
sam
we
line
righ
mea
It
talk
entl
Anc
mec
as
jeak
a p
spe
well
Jac
Rac

Securing a Stable Fiscal Future for Alaska

The Long Range Financial Planning Commission's Recommended Plan

The goals: *To close the fiscal gap by the year 2000.*
 To establish clear, viable choices for the following five years.
 To reform our system of spending.
 To build up the Permanent Fund for future generations.

The plan shares the financial burden three ways:

- spending cuts;
- revenue increases; and
- use of Permanent Fund earnings.

The first four years. Here are key elements of the plan between now and the year 2000.

Spending cuts and reform

- Cut \$100 million over the next three years — this is 5% per year in inflation-adjusted dollars.
- Reduce per capita spending from \$ ____ to \$ ____ in FY 2000, (from \$4,020 to \$3,355 in today's dollars).
- Reduce the total dividend payout from \$536 million to \$500 million, reducing the individual dividend to approximately \$____.
- Do outcome based, performance budgeting.

Revenues and reserves

- Impose no new types of taxes.
- Increase tobacco and alcohol taxes to bring in over \$60 million a year by 2000.
- Phase in motor fuel tax increases from the 1961 level of 8¢ to the national median of 22¢.
- Increase user fees at least \$3 million per year.
- Set Permanent Fund Earnings Reserves at \$1 billion to cover inflation-proofing and dividends in times of low Fund earnings.
- Maintain \$1 billion in the Constitutional Budget Reserve Fund to stabilize the state's budget in years of low oil revenues so we can avoid repeats of the 1986 economic tailspin.

Permanent Fund Earnings and dividends

- Immediately deposit \$_00 million from the Constitutional Budget Reserve/Earnings Reserve into the Permanent Fund to boost its earning power in the future.
- Protect the Permanent Fund every year by inflation-proofing it first.

- Base dividends on a percentage of earnings, ___% of after-inflation earning in the first year, declining to 50% in 2000.
- Gradually begin using earnings of the Fund to partially replace declining oil revenues.

2000 and beyond. The commission recommends preparing now for the next century.

The commission looked at the likely effects of the plan over a fifteen year period. The actions recommended for the first four years will position the state well for the next eleven.

Reassessment in the year 1999. Once the budget is balanced in FY99, the commission recommends that a follow-up review be done to adjust the overall plan as needed for the succeeding five to ten years. By 1999, things that are now uncertain — such as ANWR, the gas line and federal budget changes — will be known, so decisions will be less dependent on speculation.

Several financial options are available for the future once the fiscal gap is closed. If additional actions are needed to prevent another fiscal gap, we can consider further budget cuts, new revenues such as income taxes, or changes to dividends and the use of Permanent Fund earnings.

Consideration of an endowment plan. The commission was impressed by many of the long-term benefits for Alaska of an endowment plan such as the "Cremo plan". Its principal drawbacks come in the first five years, when unwisely large budget cuts and tax increases would be required to get the endowment started. However, the commission believes the state could benefit from a gradual transition to an endowment. Several of the steps in the plan recommended for FY97-99 would help build up the Permanent Fund more rapidly so that an endowment would be more easily possible in the future.

If the state receives a financial boost from ANWR lease sales, the gas line, unusually high oil prices or the like, it would be highly advisable to deposit the windfall revenue in the Permanent Fund as soon as possible to help put an endowment plan more within reach.

Revenue Raising Principles and Recommendations

The Commission recognizes that taxes impose costs on both individuals and businesses. Taxes take money out of the state's economy resulting in overall job losses. At the same time the Commission concluded the imposition of increased taxation was a necessary and prudent approach that must be pursued if the state is to reduce the fiscal gap over the next several years in a rational manner.

In reviewing the various taxes which are imposed throughout the nation and which may be applicable to Alaska, the Commission employed several principles and considerations in developing its recommendations:

Amount of revenue raised

With a gap of over \$500 million annually only a few types of taxes realistically contribute significant amounts of money. For example, although some have suggested that the state balance its books with a lottery instead of an income tax, the amount raised by these taxes varies by hundreds of millions of dollars. The taxes having the greatest potential for raising revenues were found to be state income taxes, state sales taxes, and state property taxes.

However, that is not to say that increases in some taxes which raise smaller amounts of money should not play a role in the larger financial plan. In addition to simple dollar amounts, the Commission looked favorably on some taxes that had ancillary social and economic benefits or which more equitably paid for associated public costs. These taxes include tobacco, alcohol, motor fuel and fishery taxes.

Implementation Timing

Because of the potentially adverse financial impacts on individuals and businesses, the Commission attempted to mitigate economic impacts of increased taxes by delaying implementation or phasing in taxes wherever possible. However, the limitations of other fiscal options and the growing fiscal gap necessitated many tax increases taking effect within the next 10 years.

The Commission also considered the political and psychological impact of imposing a number of new taxes on Alaska citizens and businesses. It was felt that the taxes recommended should be enacted over several years to avoid "tax shock" and to maximize the political ability for the legislature to act.

Reliability and Predictability of Revenues

One of the major problems with the current reliance on oil revenues is the volatility of state revenues from one year to the next depending on prices and production levels. It

is clear to the Commission that Alaska's tax base must be broadened to non-oil sources to ensure greater reliability and predictability of revenues. As production of Alaska's oil resources declines the Commission believes that a greater share of revenues should come from more traditional sources of taxation. In most other states year-to-year revenues rarely vary by more than a few percentage points due to their more stable sources of revenue from income and sales taxes.

A broader tax base which relies to a greater extent on taxes paid by individuals is also believed to build a closer connection between state government and its citizens. When people feel they are contributing directly to the operations of government, they tend to take a keener interest in its actions and expenditures.

The Outside World

The Commission studied taxation patterns in other states in formulating its recommendations. While most other states relied on sales, income, excise and users fees for a majority of state revenues, Alaska relied over 80% on taxes and royalties on oil resources. In fact, 45 states have a state sales tax, 43 states have an income tax. Only Alaska has neither. In terms of larger taxes most states utilized property taxes primarily for local governments and schools.

Currently the tax burden on a family living in Anchorage is among the lowest in the nation. An income tax which would raise \$300 million would place Alaska below the national average for tax per \$1000 of personal income. With an income tax which raises \$300 million an Anchorage family of four with a \$100,000 income would pay \$4,873 annually in all taxes compared to \$7,519 in Fargo, North Dakota, \$9,313 in Billings, Montana, and \$10,378 in Portland, Oregon.

User or excise tax rates were compared to other states. In general, Alaska's taxes were at or under the national average. In particular, Alaska's motor fuel tax at eight cents/gallon is the lowest in the nation.

Equity/Fairness

There are different measures of equity and fairness, and sometimes these are not the same. A tax that everyone pays the same amount may be equal, but not considered fair. For example, an employment tax whereby every employed person pays the first \$100 of their paycheck in tax hits a teenager working a summer job harder than an oil company executive. In general, the Commission tried to avoid larger regressive tax measures where the impacts were felt disproportionately by poorer citizens.

It was found that virtually none of the household income of Alaska's poorest 20% of citizens would be used to raise a \$300 million income tax compared to between three

and four percent of the wealthiest 20% of Alaskans. Conversely, a 5% state sales tax which would raise \$300 million would expend 4% of the household income of Alaska's poorest families but only 1.7% of our wealthiest households.

Another question of equity which was considered by the Commission, was does the amount of revenues coming from use of a product or resource compensate for the costs incurred to the public? For example, it is believed that the social and economic costs to the public as well as government due to the tobacco and alcohol use are not adequately covered by the level of taxation associated with these products. Similarly, state expenditures for highway and airport construction and maintenance exceed the taxes for use of these facilities. Industries such as timber and mining, while contributing to local employment and local property taxes, pay relatively small amounts of revenue to the state treasury despite the costs to the state for such attendant obligations as education due the industry. Some industries like fishing involve substantial management and regulatory costs by the state which are not entirely covered by the current rates of taxation.

Other questions of equity surround the use of state-owned resources. Are we getting sufficient compensation for commonly held resources such as fish or minerals on state lands and waters? This question goes beyond the level of direct expenditures by the state.

Efficiency

Different revenue measures involve different burdens of collection and enforcement. The Commission recommends that taxes and structures be designed to ensure that administrative costs are a reasonably low percentage of net revenue. Additionally, the burden on private citizens and local governments must be taken into account.

Economic Effects

Different taxes that raise the same amount of revenue do not necessarily have the same economic effects due to contributions from non-residents, the federal tax code and effects on international competitiveness. For example, a 5% state sales tax raising \$300 million would remove \$373 million and 4,500 jobs from the state economy whereas a \$300 million income tax would remove \$288 million and 3,700 jobs.

Taxes on natural resources such as oil, minerals, timber and fish can result in higher costs of production and reduced competitiveness in world markets. Higher costs can inhibit economic developments at the margin. On the other hand, other types of taxation such as an income tax or sales tax can capture some of the benefits of increased economic development and jobs without directly adding to product costs.

Effect on Local Governments

The Commission looked into current and prospective ways that local governments in Alaska as well as Outside raised revenues. It felt that new or increased state taxation should not unduly impact local governments' ability to meet increasing obligations. Consequently, it was believed that sales tax and property taxes, with the exception of oil and gas property tax, should remain in the province of local governments.

Tax recommendations

Income Tax. The largest new tax recommended by the Commission is the reimposition of a personal income tax. It is felt that it is superior to other large tax options because of its progressive nature, its reduced economic impact due to capture of non-resident wages and federal tax off-set and its ability to capture the benefits of economic development without unduly impacting product competitiveness.

It is recommended that an income tax be phased in beginning in fiscal year ____ and reach a revenue level of \$____ by 2005.

Motor Fuel Tax. It is recommended that the current motor fuel tax of eight cents/gallon be raised in two stages beginning in FY 97 to the national average. This would raise approximately \$40 million annually. This level of taxation will approximate the current amount expended for highway maintenance.

Marine Fuel Tax. The current marine fuel tax of five cents/gallon should be raised to eight/ten? cents in FY 97 to cover state expenses associated with harbor construction and maintenance. Annual revenues of \$5-8 million would be raised.

Tobacco Tax. The current tax of 29 cents/pack should be increased by \$1.00/pack in FY 97. Other tobacco products would correspondingly raised. While this would currently be the highest in the nation, Washington State recently raised its tax to 83 cents/pack?? and Canada has tax of \$2/pack??. At this tax demand can be expected to fall, particularly among young people. Reduced demand clearly has beneficial health and economic impacts. However, the tax would still raise \$43 million annually.

Fishery Taxes. Some increases in the current level of taxation appear warranted based on the level of state management and regulation in addition to receiving a fair return on a common property. There are several methods of raising revenues including reducing exemptions from the fishery business (raw fish) tax, increasing the raw fish tax, increasing the fishery resource landing tax, increasing fishing boat licenses, increasing limited entry permit fees, enacting a severance tax on fish and others. Additional work is needed to assess the mechanism is the fairest, which is most easily implemented and which has the least impact on industry competitiveness.

Alcohol Taxes. It is recommended that the current alcohol tax be raised by approximately 10 cents per drink beginning in FY 98. This would bring in an additional \$21 million annually and help off-set the public costs due to alcohol use. There could also be expected some reduced demand with consequent beneficial health and economic impacts.

State Property Tax. While the Commission does not recommend a new state property tax, it found that the current state revenues from the oil and gas properties tax was declining sharply since its inception due to the increasing usurption by local governments. It is recommended that the local share of taxes on new future oil and gas properties be limited to no more than half.

User Fees. The State currently charges fees of several millions of dollars for a variety of state services and activities. However, many of these are not adjusted to current economic conditions and many other services warranting fees are not charged. The Commission believes that annual revenues averaging \$3 million annually could be raised through imposition and increasing of user fees.

(The following have not been adequately discussed)

Gaming Taxes. We currently receive about \$2.2 million annually from charitable gaming proceeds. A 5% tax would increase this amount by \$12 million annually. Many believe that the level of profits from this activity and the costs of regulation warrant an increase in state revenues. There are several options for collecting such a tax with a tax at the distribution end appearing to be the most efficient.

Corporate income tax. The state corporate income tax currently brings in just under \$200 million ?? annually, a majority from oil companies. The state tax code has not been revised in many years and there are many exemptions currently in the code which warrant review. For example, there currently exists a liberal provision permitting operating losses to be carried back to past tax years for refunds. Currently Subchapter S corporations are exempted from Alaska's corporate income taxes. An increasing number of companies operating in Alaska are becoming Subchapter S corporations. Inclusion of Subchapter S corporations would yield \$5 million revenues. Current law by blanket adoption allows all federal tax credits against the state tax, regardless of legislative intent or appropriateness in Alaska.

The Commission believes that the corporate income tax code should be reviewed and possible changes made that would increase revenues in future years.

Other excise taxes. There have been proposals to tax products or services associated

with uses of public resources not currently taxed such as sporting good items associated with non-hunting activities, or non-hunting commercial activities on public lands. Similar to hunting license fees, revenues could be used to manage state lands and provide facilities for non-hunting uses.

Taxes Not Recommended

State Sales Tax. A sales tax was not recommended because of its larger economic impacts and regressive nature when compared to a similarly sized income tax. In addition, due to the use of a sales tax currently by a number of local governments, it was felt that this revenue measure is best left to discretion of localities.

Employment Tax. Similarly, an flat employment tax at a meaningful level (e.g. \$100/person) was felt to be unduly regressive. A smaller tax similar to the one levied by the state up until the early 70's (\$10/person) did not compare favorably to other tax measures that could raise similar amounts of money.

A state lottery. A lottery might raise \$10-20 million annually. While some favor such an activity, it does involve significant operations costs and has added social impacts associated with gaming. In addition it may adversely affect current charitable gaming beneficiaries.

State property tax. With the exception of the current state tax on oil and gas property, the Commission believes that property taxes should remain primarily within the tax domain of local governments and school districts.

Aviation Fuel Tax. Fuel taxes were raised in 1994 from 2.5 cents to 4 cents/gallon. Because of the unique nature of the international airports vis a vis smaller airports throughout the state, the possible affect on international flights and the availability of other taxing mechanisms including fuel flowage fees, landing fees and airport land use fees, an increase in the aviation fuel tax is not recommended at this time. However, revenue options to provide for the construction and maintenance of the state's airports and landing strips should be pursued.

Resource taxes. Additional taxes on natural resources such as oil and gas and minerals were not recommended at this time due to the uncertain impact on the competitiveness of the product in the world market. There are several exemptions and levels of taxation associated with different resources which should be periodically examined to ensure their appropriateness and their ability to return fair compensation for state resources. However, some determinations may find that current tax rates should be reduced in some instances to ensure development and economic benefits.

DRAFT

Pourchot

Some resources such as timber may involve fees rather than specific taxes which should be periodically examined in light of state costs and competitiveness.

LRFPC Final Report — D R A F T

Pieces of the Budget Puzzle

versus

Parts of the Gap

Explain the main elements of state spending and why some are presented separately from the general funds. Clarify that virtually all are currently appropriated by the legislature and reported in audited financial statements. Nancy's chart grouping funds by type and giving balances and 96 appropriations could be an appendix.

Funds which affect the fiscal gap

- General funds, including program receipts
- Permanent Fund earnings
- Created by appropriation for specific purpose or as a "holding fund" for accounting purposes
- Special revenue funds where use is in constitution or statute

Funds which do not affect the fiscal gap

- Loan fund administrative costs (in "front section of budget")
- Loan amounts
- University receipts
- Internal service funds
- Transfers between agencies for contractual obligations, including interagency receipts

Funds which cannot be appropriated to other purposes by the legislature

- Federal funds
- Retirement funds
- Health insurance funds
- Trust funds

Other state assets

- AIDEA, Railroad and other independent corporations
- State buildings, roads and other facilities
- State land

Commission recommends changes in how appropriations to and from these funds are evaluated in the budget process and how the funds are displayed in the budget and financial statements.

Identify some of the problems which need to be addressed:

- Reductions in expenditures don't necessarily help close the fiscal gap -- e.g. Badami pipeline permitting.
- We don't control all spending or revenues, e.g. federal funds and the strings attached to them
- Increases in fully fee-supported activities and the replacement of general funds with fees will increase the total general fund spending level yet have a neutral or positive impact on closing the fiscal gap. Need to be clear about when "increases" are more fiscally responsible than merely lowering the total dollar level.

Commission recommends major changes to improve the substantive review and method of accounting for all state spending. These will require more than one year to implement.

Changes for FY97

Show general funds, Permanent Fund, federal funds, interagency receipts and corporate receipts in the spending plan which compares FY96 and FY97 revenues and expenditures. (Previously limited to general funds.) Display this in a way that clearly identifies which of the above affect the fiscal gap and which do not.

Separately identify funds where revenues must equal expenditures. Examples: statutory provisions (such as for occupational licensing), restrictions on federal funds and services provided through contract. Not a license to increase fees — must still exercise budget discipline and cost-cutting

Since AHFC is now subject to the Executive Budget Act, review its operating expenditures in as much detail as departments. Present overview information on other state corporations during the budget process.

Pass statute requiring periodic review of all the non-general fund spending entities.

Changes for FY98

Review the necessity for funds which were established as "holding accounts" and delete all that do not serve a clear, useful function.

Begin a three year schedule for substantive policy review of all loan funds, special revenue funds and those established for specific purposes. Evaluate their use against all other state budget needs in determining whether to continue them. If revolving loan funds are to be phased out, consider selling the outstanding loans to eliminate administrative costs. Close out all inactive loan funds.

*outcome based
budgeting*

Reserves

In the recommended fiscal plan, reserves are part of the overall "safe landing" strategy. They will allow a four year implementation of the fiscal measures necessary to close the current fiscal gap. This intermediate use of reserves can reduce the negative economic impacts of trying to solve the fiscal gap in a single year. It is not a viable long-term reserves purpose.

There are at least five major roles which reserve funds should play in Alaska's fiscal future:

- *As a buffer for the ups and downs of financial markets.* Enabling the implementation of a five year average "real earnings" payout of Permanent Fund earnings to the general fund for dividends and other state spending. The reserve would be a buffer during years of lower than average Fund earnings.
- *As a hedge against commodity prices and emergencies.* Mitigating the the volatility of annual oil prices, production and total revenues and allowing prompt and effective response to major natural disasters which are not anticipated in the budget. (If sufficient reserves are maintained for the second and third purposes, a separate reserve for this emergency purpose would not be necessary.)
- *As a tool for meeting cash flow requirements.* During the fall of each year, cash flow requirements for capital and other spending can be as much as several hundred million dollars above the available revenues which tend to come in more smoothly throughout the year.
- *As capitalization for future earnings.* Deposits of funds not needed for ongoing reserves can be deposited into the Permanent Fund to boost the Fund's earning capacity for the future.
- *As a "surge tank".* In the past, reserves have also been intended as a means of controlling state spending, particularly from "windfalls" such as large oil settlements. However, the Constitutional Budget Reserve established largely for this purpose suffers from several problems unanticipated by its drafters, voters and the legislature. These include uncertainty about when use of the fund requires a three quarters vote and confusion about sources for replenishing the fund.

Reserves for Permanent Fund inflation-proofing and payout

The Commission recommends that the Permanent Fund Earnings Reserve Fund (ERF) be retained to support the five year average payout plan for Fund earnings which is recommended in the fiscal plan. The balance in the ERF would need to be about \$1.6 billion to ensure adequate inflation-proofing and level payout amounts if there are four years of lower-than-average Fund earnings. The Commission believes it is reasonable to maintain a lesser amount of \$1 billion in the Earnings Reserve to force adoption of fiscally responsible measures (budget cuts and/or or increased taxes) if Fund earnings remain below average for more than two years.

The Permanent Fund Earnings Reserve is invested as part of the Fund itself. It has never been used for annual spending or filling the budget gap. Even though it can be appropriated by a simple majority vote of the legislature, in the 17 years since it was established, this reserve account has been tapped only for deposits to the principal of the Permanent Fund. These additions to the Fund total \$ 4.5 billion, the most recent deposit being \$500 million in July 1995. Therefore, the commission believes that the

Earnings Reserve does not need additional protection through statutory or constitutional limits. Its association with the Permanent Fund has been protection enough.

There should be a statutory definition of the appropriate uses of the reserve. The statute should specify provisions for replenishment of the reserves and indexing for the future. It should require that any excess over what should be maintained in the account should be deposited in the Permanent Fund after the close of the fiscal year.

Reserves for Oil Revenue Volatility

There are (at least) three basic approaches which we should discuss: 1) leaving the CBR as it is and living with its warts; 2) fixing the CBR with a constitutional amendment; or 3) starting from scratch.

Rough bullet points for fixing the CBR:

Exclude the Permanent Fund Earnings Reserve from calculation of the revenues available for purposes of determining whether a three quarters vote is necessary.

Clean up the repayment provision to automatically tap only the year-end balances in the unrestricted general fund. Additional amounts for repayment to be by appropriation.

Allow for deposits to the Permanent Fund from the CBR which do not have to be repaid to the CBR later on.

Might also want to clean up the constitutional spending limit if going to the voters on the CBR.

Rough draft for starting from scratch:

The volatility of oil revenue is the biggest uncertainty in the state's fiscal picture. In addition to coping with "normal" swings of prices and production, Alaska should be prepared to cushion the blow of unusually low prices/production (such as the 1936 oil price crash or the overall low year of 1994). After the crash of oil prices in 1986, there were no reserves to cushion the need for dramatic cuts in state spending. The state's massive short-notice budget cuts exacerbated the negative impact on a state economy already hard hit by reduced oil-related employment and spending.

Volatility can hurt us on the high side as well. We should not let ourselves to be lured again into unsustainable spending when we have high prices (such as during the Persian Gulf War) or large one-time payments (oil settlements or potential lease sales such as ANWR). The Constitutional Budget Reserve Fund prevented us from spending our oil royalty and tax settlements all at once, although only after considerable legal wrangling. However, it has resulted in additional uncertainty in the budget process and expensive law suits.

The commission recommends that a new, more clearly defined reserve fund replace the current Constitutional Budget Reserve. The primary purpose of the "Revenue Stabilization Fund" (RSF) should be to minimize the impacts of year-to-year fluctuations in Alaska's oil and gas revenues and to protect against a major, sustained drop in prices or production. Revenue Commissioner Condon suggests reserves sufficient for two years of \$10 per barrel oil prices — \$1.6 billion, as outlined in his memo in the appendix. The commission recommends that the Revenue Stabilization Fund be established with \$1.5 billion from the current CBR and should rise with the Anchorage consumer price index for inflation.

Access to the fund for any purpose should require a two thirds vote of both houses of the legislature, with a three quarters requirement for override if the governor vetoes the appropriation. The fund should be established by statute, although it could be placed in the constitution when the current reserve fund is repealed by the voters.

The RSF should be available to balance the budget only if total annual revenues (exclusive of any reserves or loan funds) were projected to vary more than 10 % from an estimate of the current year's revenues made by the Department of Revenue on March 1. All year-end balances in the unrestricted general fund would automatically be deposited in the fund. Any revenue in excess of what was budgeted would therefore replenish the reserves.

To avoid build-up of the enormous reserve balances which have made the CBR a means of avoiding budget discipline, any year-end reserve balance in excess of \$1.5 billion in FY96 dollars would be automatically deposited into the Permanent Fund unless two thirds of both houses voted against the deposit. Appropriation of unrestricted general funds could not exceed the current year level until the RSF again reached \$1.5 billion.

The Revenue Stability Fund certainly could fall victim to battles of interpretation, as did the CBR. However, the commission believes that there will be several powerful incentives for the executive and legislative branches not to use the RSF to prop up an unsustainable spending level in the future: adoption of this fiscal plan which will put the state on a firm fiscal footing; the costly, negative experience with the CBR; and public demand for greater budget discipline in the future.

outcome based on
budgeting how we spend
Spending Cuts

The commission recommends that approximately one third of the fiscal gap be closed through budget cuts.

The state's operating budget has been cut more than 25% in the past five years on an inflation-adjusted basis. By holding the line for five years, agencies have absorbed ____ % inflation and the additional service needs from 11 % population growth. State spending per capita is approximately the same in FY96 as it was in FY79, the last year before oil revenues surged.¹ While significant progress has been made to curtail budget increases in recent years, this belt-tightening must continue for two reasons.² The first is to spread the economic impact of closing the fiscal gap — "sharing the pain". The second reason is to assure the public that state government is spending Alaska's public funds responsibly.

The commission recommends that general fund spending be reduced ____% in inflation-adjusted dollars over the next five years. This could be done either by holding the budget at the FY96 level for five years or by making a cut of \$ ____ in FY97 and keeping the budget flat for the following three years. *(Here's an out if we don't agree on which way to do the cuts.)*

The commission debated extensively whether to recommend specific budget cuts. Several scenarios for closing the gap entirely with cuts (a task required of us) were presented in the August Preliminary Report. However, we decided that our most important responsibility is to recommend an overall financial plan for the state, rather than suggest which programs should be curtailed/dropped or how much could be saved through various efficiency measures. This detailed budget responsibility rests with the executive and legislative branches of government.

Budget cuts should be done within a framework of clearly articulated spending principles. The difficulty of making tough budget decisions should not be underestimated, particularly since the needs and wants of Alaskans are so diverse. Consideration must be given to the impacts of cuts on individuals, businesses, communities and the overall state economy. The commission urges the governor and legislature to use the following principles in evaluating all budget-cutting proposals:

Phase out non-needs-based programs or put them on a needs-basis.

The state should substantially reduce or eliminate "payout" type programs which are not needs-based. In a similar vein, fees for state services benefiting individuals rather than all citizens should be on an ability-to-pay basis. "Need" does not have to be defined as "bare bones". In determining which programs to consider for elimination, it may help to look at whether something existed in the budget before the flow of oil revenues. The needs-based principle should be applied whether the recipient is an individual, organization or industry unless the program is fully self-supporting.

One exception to this is the Permanent Fund dividend which should be based on Fund performance, rather than individual need. The dividend is every Alaskan's share of our valuable public resource. There is great value in maintaining the relationship of the dividend to the performance of the Fund, although the ratio of dividends to other uses of Permanent Fund earnings should be adjusted, as recommended elsewhere in the fiscal plan.

¹ Although some state expenditures are no longer reflected in the state "general fund" totals (such as the Marine Highway and Power Cost Equalization programs), these changes do not significantly alter the overall comparisons.

² It is interesting to note that state spending has not been controlled by the constitutional spending limit which would have allowed the FY96 budget to be approximately \$4.9 billion.

Aggressively pursue efficiencies.

Efficiencies from consolidation of administrative functions should be required from state agencies as well as those who receive state pass-through funds or grants. Consolidation of organizations (including state agencies, small school districts, grantees), streamlining of processes such as permitting, consideration of privatization and in-sourcing (state agencies bidding against the private sector), and improvements to technology should all be actively pursued. The state must invest in modern, automated systems for accounting, budgeting, purchasing and similar functions to reduce costs in basic business activities. The commission believes there may well be \$50-75 million in efficiencies that can be achieved over the next five years to offset inflationary increases. An equitable regional balance of service delivery should be preserved as these efficiencies are implemented.

Capture future savings from changes to salaries and benefits.

The commission recognizes the importance of maintaining a quality, competent and efficient workforce that is competitive in the labor market. Reforms of public employee compensation system will save future costs to the state, local governments and school districts. Areas of potential savings include health benefits, a modified retirement package for new hires, geographic pay differentials, merit/education steps and lanes, and a retirement incentive program to reduce the number of high-cost employees.

Find the most appropriate service delivery option; eliminate unfunded mandates.

Many services currently provided by the state may be more effectively delivered by others, such as local governments, non-profits or private sector organizations. The quality of service, cost and appropriate location for responsibility and control should all be factors in choosing the best delivery system. (See local government section for more detail.) Under-funded requirements on local governments such as the senior/veterans property tax and renter rebate should be turned into a local option. The state should also consider getting out of activities and facilities where state government is in direct competition with the private sector.

Look for smart investments.

There is tremendous growth in the demand for some of the state's most expensive services, especially in the criminal justice and health care systems. It will be impossible for the state to keep pace with the need for these services if major changes are not made. It is far more financially and socially responsible to invest in prevention rather than pay for expensive "cures". Likewise, spending for maintenance and routine replacement must be increased so we do not again find ourselves with deteriorating state assets and a deferred maintenance backlog in the hundreds of millions of dollars. Leveraging of federal funds is important to consider, but the state should not spend its matching dollars unless the program or capital project is truly needed and effective, and the operations and maintenance can be afforded. "Free" money isn't really free.

Industry support functions should be fully self-sufficient.

Permitting, compliance monitoring and other state oversight functions should be self-supporting through fees. If the activity is generated from a publicly owned resource, there should be a positive cash flow to the state general fund, as there is now with oil resources. Marketing activities should also be entirely supported by the industries benefiting. If policy-makers decide that state subsidies to a developing industry are appropriate, there should be a "sunset" plan to ensure that the state's development-related activities either become industry-supported within a reasonable time frame or are eliminated because they are not cost effective.

Evaluate whether state support of programs is still appropriate

As oil revenues soared in the 80's, Alaska found many creative ways to spend them. Many of these programs are unmatched anywhere in the country. Some are unrelated to need and have, in some cases, fostered a dependency that actually increases demand on other state services. Some are more dependent on state funding than in other states. These programs should be carefully examined and considered for elimination, shift to fee-support or transfer to non-profits or the private sector.

Phase cuts (and revenue increases) when appropriate.

Changes are often easier to handle when there is time to prepare. People and groups who will receive significantly lower benefits or less service from the state, or who will pay considerably higher fees, may need time to make financial adjustments. Attention should be paid to cross-over effects (e.g. eliminating a jobs program which is likely to increase the welfare caseload) and potential regional economic dislocation. Consideration should be given to phasing in major changes to minimize financial hardship or market dislocation. However, since phasing can significantly reduce the early year savings, it should be no more gradual than necessary. It should be used only to avoid special hardships, not hard choices.

Local State Government Relationship

The commission was asked to consider the division of responsibility for providing services and raising revenues between the state and local governments and to evaluate the effect of the long range financial plan on local governments. In addition to considering alignment of responsibilities between the state and local governments (cities, municipalities or boroughs), the commission recommends that local service areas, non-profit organizations and the private sector be considered as possible providers of service.

Maybe show chart from prelim report showing average state-local tax burden for Alaskans versus other places?

The following are bullet points which will be written up more elegantly after tonight's meeting!

Some services currently provided by the state may be more efficiently or effectively provided by or through local governments, with local residents deciding which services to pay for and how they should be delivered.

First step in determining what transfers of responsibility are appropriate should be an analysis of all the services which are provided in some cases by the state and in other cases by local governments. Currently underway by the Office of Management and Budget. Should also analyze the cost benefit of organizing local governments in the unorganized borough and of the current trend of local governments to dissolve in favor of other local entities. Constitutional goal of having boroughs form to provide services.

Target for transfers:

- areas where state and local services overlap (e.g. emergency services dispatch in the same geographic area) or where local governments are already doing similar work (as in building inspections). ~~Should examine which can provide the service more cost-effectively.~~
- services provided by the state in areas which have local powers, e.g. maintenance of roads and harbors, police protection, prosecution of misdemeanors.
- services provided by local governments where statewide consistency is critical. *- e.g. health care*

In many cases it may be appropriate for transfers of responsibility to be accompanied by transfer of funds collected by the state. (May be administratively easier and cheaper for state to collect certain taxes and pass money on) However, simply passing on a dollar amount equal to what the state spends now does not help close the fiscal gap. In some cases, additional revenues might be shared so the level of service can be improved, such as increased motor fuels tax to maintain roads better. In other cases, the provider could charge fees for the services. *Mention idea of having legislature begin acting as assembly for unorganized borough?* *See 1/20/80*

Local governments are legitimately concerned about continuity of funding which is part of any transfer of responsibilities to them. While one legislature cannot bind another, methods such as formula sharing of taxes (similar to the fisheries business tax) can provide some reassurance that the burden of any reduction in the amount of total revenue will not be placed solely on local governments.

Funding levels for municipal assistance and revenue sharing should be based on the amount of services provided locally and take into consideration any proposed transfers of responsibility. Aside from shifts

in responsibility, funding levels for these programs should be predictable within a fairly narrow range to allow for sensible budgeting at the local level.

All communities and residents should participate equitably in the funding and support of basic government services according to their ability to pay. Tax capacity as well as tax history should be considered in determining whether local governments have the ability to take on added financial responsibility for service delivery. There is wide disparity now in the degree to which communities tax themselves or rely on the state to provide basic services that are traditionally (and nationally) considered to be a local responsibility.

Not state's responsibility to fill in where citizens don't want to provide services for themselves.

Remove unfunded mandates such as the senior/veterans property tax exemption and renters rebate. Let locals decide whether to offer the tax break and how much to exempt per home.

Consolidation of administrative costs in local governments and school districts encouraged. May want to retain certain responsibilities at local level and simply consolidate business functions, but it's inefficient to have so many school districts and small city governments. Means fewer dollars in the classroom and on the street.

Need to look at full picture of capital requests in communities and evaluate which are basic responsibilities of the state. Also look at what the federal government will be constructing. If communities want to provide more than the basic project, they should decide and fund the "extras" locally. There should be incentives to communities for good facility maintenance and disincentives for communities to ignore problems and then come to state for "crisis" aid.

Sales and property taxes are the principal sources of local funding. State taxation methods should not eat into those important local revenues.

The oil and gas property tax is shared between local and state governments. However, local government debt is subtracted off the top before the tax is shared. This has reduced the state's actual share to 19 % (only \$53 million out of the total \$291 million estimated for FY96). The commission recommends that any oil and gas property which is added to the tax rolls after July 1, 1996 be subject to a 50-50 split with no prior deduction for local or state debt.

Process for pursuing local-state relationship issues

As the Alaska Municipal League has pointed out, "Because both the state and local governments provide public services to . . . and have taxing powers over the same people, it is not possible to create an effective long range financial plan for Alaska without the active involvement of both local and state governments."

Recommend ad hoc task forces of state and local representatives (and where appropriate, non-profits) to address each major category of service delivery where transfer is being considered. Local representatives should be involved throughout the process of evaluating alternatives, not just when draft recommendations are ready for broader review.

What do we want to say about education funding?

Budget Process Improvements

The public, executive branch and legislature will be better served if changes are made to improve the budget process and published materials. In addition to major improvements outlined below, the commission has provided the Governor's Office of Management and Budget and to Legislative Finance with many smaller suggestions.

Show all state finances in a multi-year plan

The budget should be presented in the context of an annually updated 3 year financial plan and 10 year projection. It should include all funds described in the "Pieces of the Puzzle" section of this report — federal funds, Permanent Fund earnings, loans, specific purpose funds, etc. — and show budgets for the state corporations (AIDEA, Science and Technology Foundation, Alaska Railroad, etc.) and departments. Reappropriations should also be considered as part of the overall budget.

All expenditures should receive the same high degree of scrutiny from the executive and legislative branches, regardless of funding source. A comprehensive budget will facilitate better decisions about the use of state resources and ensure that year-to-year comparisons do not under or overstate budget reductions if programs are moved between areas of the budget.

The state's financial plan should include an assessment of the state's economic outlook, anticipated changes in federal funding, and projections of state revenues and expenditures. It should bring attention to problems that are on the horizon or that may require more than one budget cycle to address.

Make the budget more understandable and relate expenditures to outcomes

The budget must be more understandable by the public and provide a more rational basis for executive and legislative decision-making. It should relate service needs and outcomes (performance measures) to the dollars spent. Sources of revenue for each expenditure should be clearly identified and the budget should show whether changes affect the fiscal gap or not. *2004 legis work put together by David 30.*

Implement a six year capital plan

The state must have a realistic six year capital plan. The capital budget process needs greater scrutiny of capital "needs" and a better allocation between state and local responsibilities for construction, maintenance and operations. The idea of a two year appropriation cycle for the capital budget should be pursued. General obligation and revenue bonds should be considered as possible funding sources. Ongoing maintenance and routine replacement costs should be shown in the six year plan and incorporated into the annual operating budgets to prevent deferred maintenance backlogs which deteriorate the state's assets and require higher expenditures in later years. *Should be used to help maint be kept faster*

Improve the timeliness and clarity of financial information.

The state's computer budgeting system needs to be modernized and coordinated with the accounting system. Many aspects of state spending are on separate reporting systems, making it difficult to get comprehensive financial and management information on a timely basis. Revenues and expenditures should be reported in a consistent manner so accurate annual comparisons can be made. Funds which unnecessarily complicate reporting should be eliminated. *on 2011 budget up soon.*

Report to the public on progress in implementing the financial plan

Each budget should include a report on the progress toward closing the fiscal gap and developing a sustainable future. The Office of Management and Budget should monitor revenues and spending

during the year to ensure that the state is on target with the financial plan and that necessary adjustments are made as soon as possible.

Other budget process recommendations

- Ensure that investment opportunities which will produce out-year cost savings, such as prevention programs and technology improvements, are not lost in the effort to reduce the current year budget.
- Pay particular attention to areas of the budget in which expenditure growth exceeds the population and inflation index.
- The method of budgeting user fees should be changed. Under the current system, increases in user fees are treated as budget increases even when they reduce the fiscal gap.
- Require accurate estimates of current and long-term financial impacts of proposed programs and legislation.
- Do not partially fund regular annual expenditures with the expectation that the remaining funds will be provided later as supplemental appropriations except in extraordinary circumstances.
- Consolidate state facility management and leasing; allocate costs to departments to encourage more efficient use of space and better energy conservation.
- Provide incentives for cost-cutting and innovative solutions to service delivery problems. Examples would be allowing department to carry forward some operating budget savings for investment the following year (e.g. for technology improvements), and having fewer detailed appropriations per department to allow management flexibility for funding needed improvements in one area with savings in another.

Forward Funding

The commission was asked to evaluate forward funding, also called cash-based budgeting. The idea is that fiscal problems resulting from oil price fluctuations and uncertain revenues could be avoided if the budget were based on funds already received, rather than revenues projected for the coming year.

While forward funding reduces revenue uncertainty, it does not improve stability.

Our analysis is that even if both the Constitutional Budget Reserve and Permanent Fund Earnings Reserve Account were used, there is not enough to establish forward funding and finance the necessary transition period for closing the fiscal gap.

A more detailed discussion of forward funding is in the appendix.

APPENDIX MATERIAL

Forward Funding / Cash-Based Budgeting

Forward funding has been proposed and debated in Alaska state government for the better part of fifteen years. The concept — also known as cash-based budgeting — has been advocated as a way to add stability and certainty to the state budget process. As the term cash-based budgeting suggests, under this system some (e.g., education) or all of the state budget would be based on cash on hand, rather than on projected revenues during the coming year.

Prior proposals to adopt cash-based budgeting have not been able to overcome concerns about whether the gain in budgeting certainty is worth the opportunity cost of the revenue or reserves that must be diverted to achieve that certainty. There is also a question of whether budgeting certainty and fiscal stability can be equally or better achieved through the use of reserve funds, spending limits, and other fiscal mechanisms.

Key Policy Issues

- Cash-based budgeting is particularly attractive for Alaska because of the exceptional dependence of our state revenues on the price of a single commodity — oil. While the revenues of other states are subject to some volatility — primarily from changes in economic conditions — and numerous states have faced large revenue shortfalls in recent years, no other state has consistently experienced the range of revenue fluctuations which Alaska has since Prudhoe Bay came on line in 1977.
- Adopting cash-based budgeting would not stabilize annual revenues. However, it would enable policy makers to know, with a high degree of certainty, just how much money will be on hand for the coming year's budget. It would still be necessary to project the revenue to be received between the time the Legislature was meeting and the end of the current fiscal year. Such remaining-months projections, however, have generally been within 3% of the amount actually received through June 30.
- Under cash-based budgeting, a sharp drop in oil prices would still result in a sharp decline in state revenues, but no revenue shortfall would occur in the current year budget. The shortfall would need to be addressed in the next year's budget, but mid-year spending cuts would not be necessary, giving the Governor and Legislature more time to address the problem.
- The state has a window of opportunity to implement cash-based budgeting, in that the combined cash reserves in the Constitutional Budget Reserve and the Permanent Fund Earnings Reserve Account total over \$3 billion — more than enough to adopt cash-based budgeting.
- The advantages of cash-based budgeting are clear. The major factor which argues against the approach is the high cost to implement it — approximately \$2.5 billion would have to be designated and held in reserve to implement the approach. It can be argued that this \$2.5 billion would not have to be "spent" to adopt cash-based budgeting; instead, it would be held in a reserve fund similar to the Constitutional Budget Reserve. However, the money would still be

unavailable for other purposes, such as cushioning the state's fiscal gap or inflation-proofing the Permanent Fund.

- Although cash-based budgeting could provide budget stability and certainty for the next year's budget by postponing the effect of revenue shortfalls, it could limit the state's ability to offset these shortfalls and to cushion the fiscal gap, because most of the state's liquid reserves would have to be used to implement cash-based budgeting. In this respect, cash-based budgeting could increase, rather than reduce, the impacts of the fiscal gap, and accelerate the need for spending cuts, new taxes, and other measures.

Tim Amalee

Securing a Stable Fiscal Future for Alaska

The Long Range Financial Planning Commission's Recommended Plan

The goals: *To close the fiscal gap by the year 2000.*
 To establish clear, viable choices for the following five years.
 To reform our system of spending.
 To build up the Permanent Fund for future generations.

The plan shares the financial burden three ways:

- spending cuts;
- revenue increases; and
- use of Permanent Fund earnings.

The first four years. Here are key elements of the plan between now and the year 2000.

Spending cuts and reform

- Cut \$100 million over the next three years — this is 5% per year in inflation-adjusted dollars.
- Reduce per capita spending from \$ ____ to \$ ____ in FY 2000, (from \$4,020 to \$3,355 in today's dollars).
- Reduce the total dividend payout from \$536 million to \$500 million, reducing the individual dividend to approximately \$____.
- Do outcome based, performance budgeting.

Revenues and reserves

- Impose no new types of taxes.
- Increase tobacco and alcohol taxes to bring in over \$60 million a year by 2000.
- Phase in motor fuel tax increases from the 1961 level of 8¢ to the national median of 22¢.
- Increase user fees at least \$3 million per year.
- Set Permanent Fund Earnings Reserves at \$1 billion to cover inflation-proofing and dividends in times of low Fund earnings.
- Maintain \$1 billion in the Constitutional Budget Reserve Fund to stabilize the state's budget in years of low oil revenues so we can avoid repeats of the 1986 economic tailspin.

Permanent Fund Earnings and dividends

- Immediately deposit \$____ million from the Constitutional Budget Reserve/Earnings Reserve into the Permanent Fund to boost its earning power in the future.
- Protect the Permanent Fund every year by inflation-proofing it first.

- Base dividends on a percentage of earnings, ___% of after-inflation earning in the first year, declining to 50% in 2000.
- Gradually begin using earnings of the Fund to partially replace declining oil revenues.

2000 and beyond. The commission recommends preparing now for the next century.

The commission looked at the likely effects of the plan over a fifteen year period. The actions recommended for the first four years will position the state well for the next eleven.

Reassessment in the year 1999. Once the budget is balanced in FY99, the commission recommends that a follow-up review be done to adjust the overall plan as needed for the succeeding five to ten years. By 1999, things that are now uncertain — such as ANWR, the gas line and federal budget changes — will be known, so decisions will be less dependent on speculation.

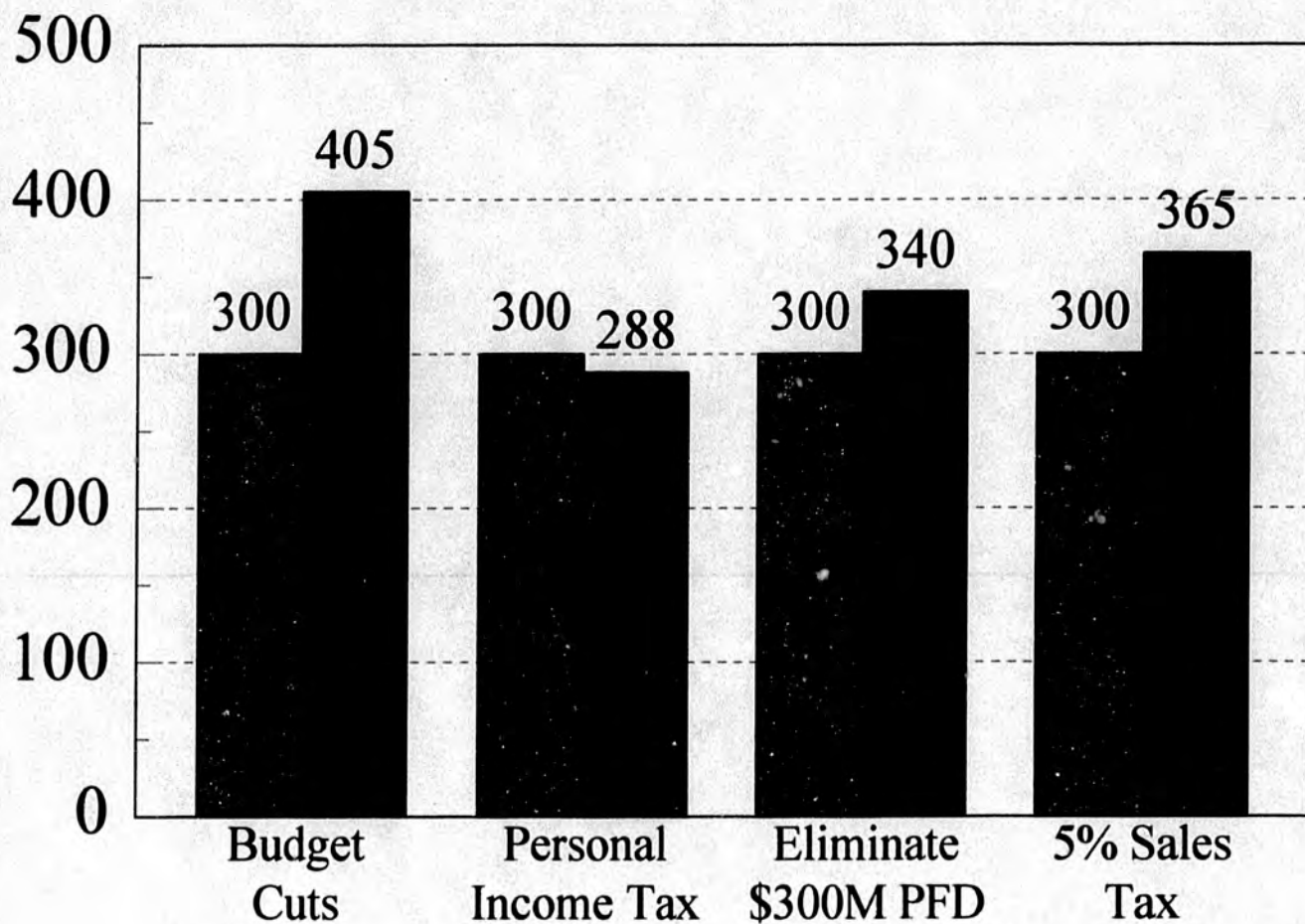
Several financial options are available for the future once the fiscal gap is closed. If additional actions are needed to prevent another fiscal gap, we can consider further budget cuts, new revenues such as income taxes, or changes to dividends and the use of Permanent Fund earnings.

Consideration of an endowment plan. The commission was impressed by many of the long-term benefits for Alaska of an endowment plan such as the "Cremo plan". Its principal drawbacks come in the first five years, when unwisely large budget cuts and tax increases would be required to get the endowment started. However, the commission believes the state could benefit from a gradual transition to an endowment. Several of the steps in the plan recommended for FY97-99 would help build up the Permanent Fund more rapidly so that an endowment would be more easily possible in the future.

If the state receives a financial boost from ANWR lease sales, the gas line, unusually high oil prices or the like, it would be highly advisable to deposit the windfall revenue in the Permanent Fund as soon as possible to help put an endowment plan more within reach.

Economic Effects of Various Gap Closing Measures

Dollars Removed from the Economy
million \$

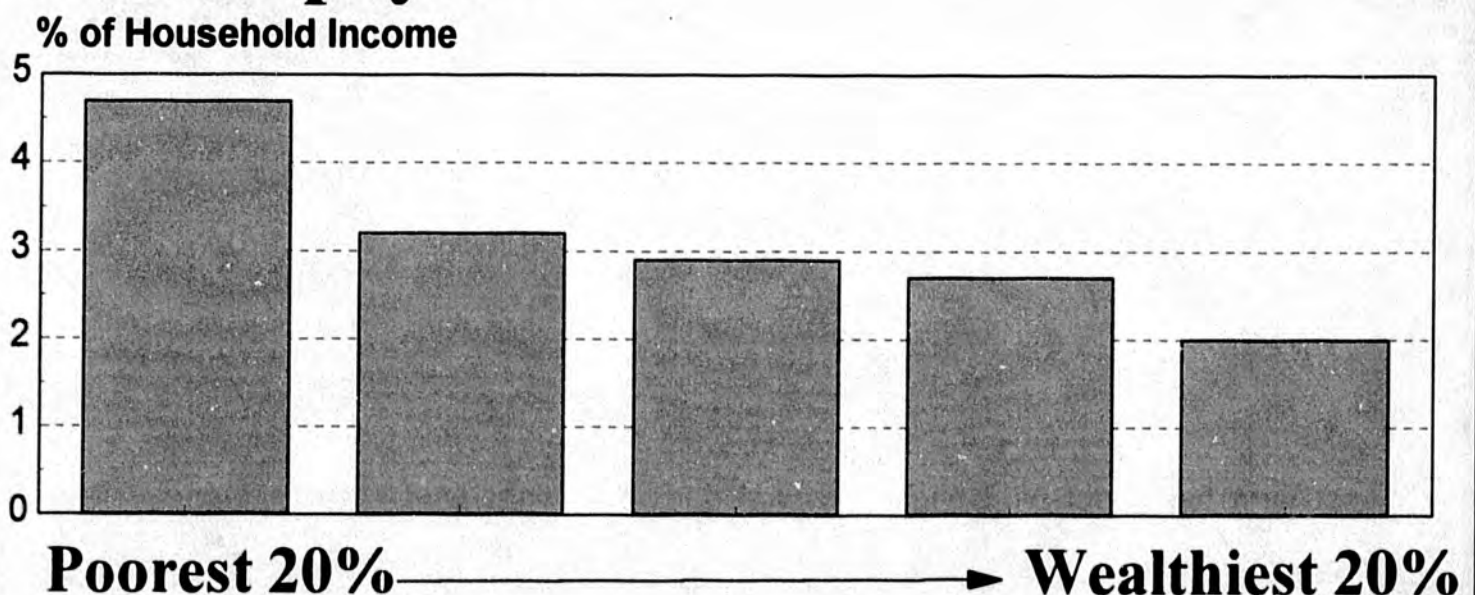


- Revenue Raised or Expenditure Reduction
- Total Economic Loss Including the Multiplier Effect

Source: ISER Fiscal Policy Papers Number 5 & 8, October 1990 & December 1993; Department of Labor

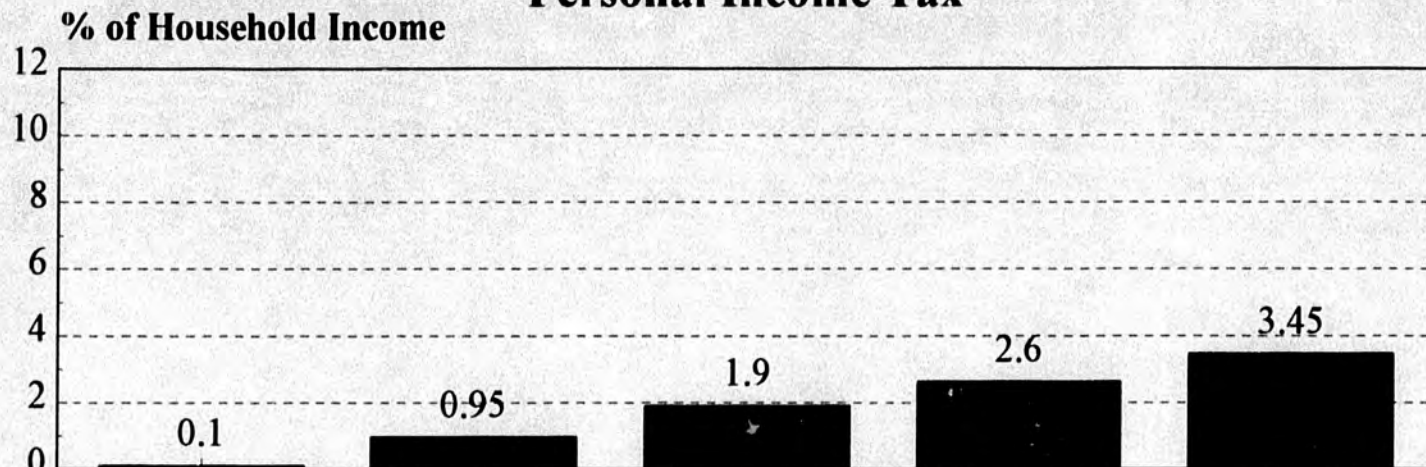
Sales Tax Economics

- ▶ **For a 5% sales tax raising \$300 million:**
 - \$24 million comes from non-residents
 - \$276 million in direct spending is removed from the Alaska economy
- ▶ **\$97 million in secondary spending is removed from the Alaska economy**
- ▶ **Total spending reductions of \$373 million results in the loss of 4,500 jobs**
- ▶ **Who pays?**

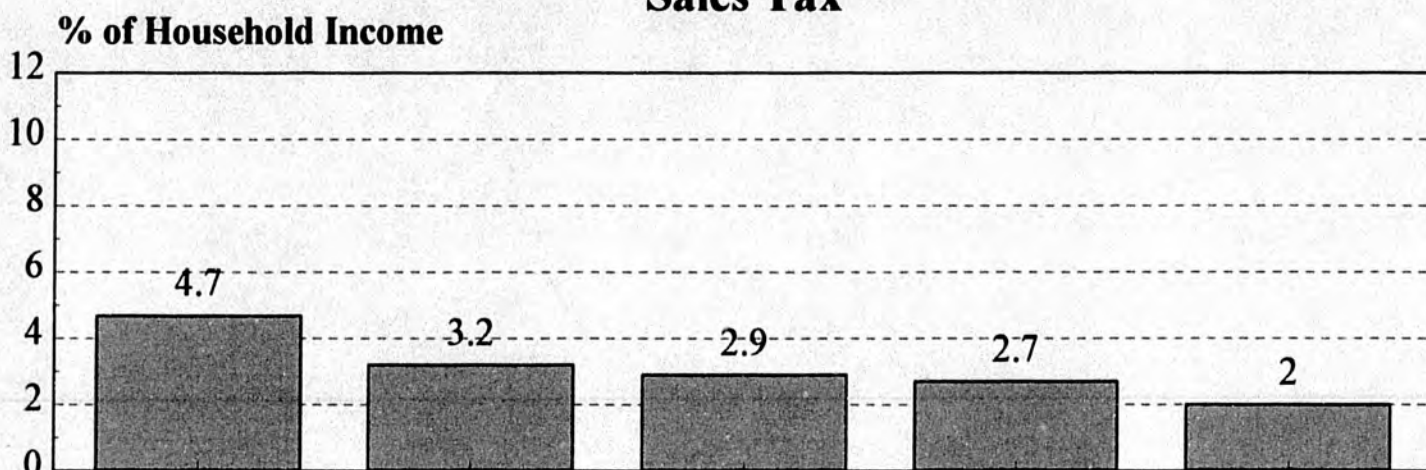


Economic Effects: Who Pays?

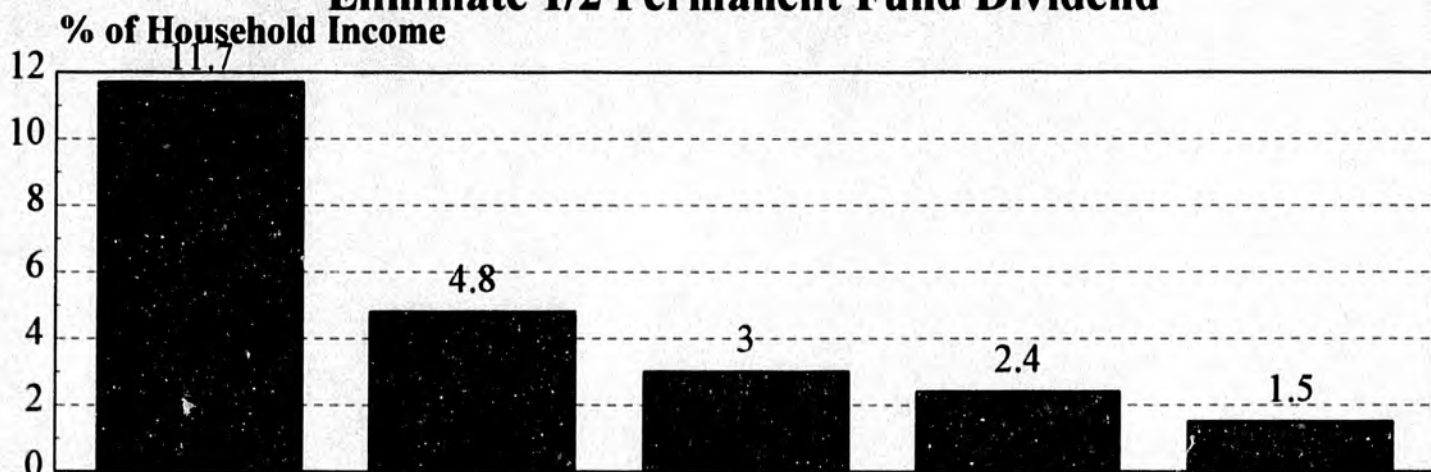
Personal Income Tax



Sales Tax



Eliminate 1/2 Permanent Fund Dividend



Poorest 20% —————> Wealthiest 20%

Source: ISER Fiscal Policy Paper Number 8, December 1993; Department of Labor (NOTE: numbers are approximate)

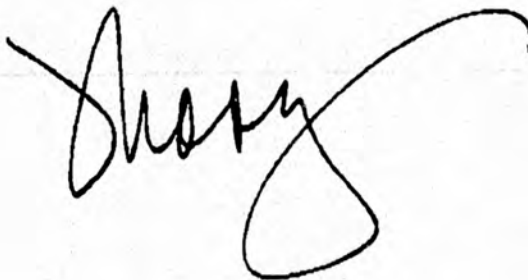
facsimile
TRANSMITTAL

to: Melissa Aber Fouse
fax #: 907-258-9869
re: Position papers
date: September 26, 1995
pages: 6, including cover sheet.

The document or other information following this cover sheet is intended solely for the use of the addressee. This document may be privileged, confidential and protected from disclosure by law. Dissemination, distribution, or copying of the document following this cover sheet is strictly prohibited, unless done by the person to whom it is addressed or his employee or agent. If this transmission is received in error, please notify the sender at once.

MESSAGE:

Melissa and Bob: Transmitted are 5 position papers that I would like to have distributed for discussion at our Thurs. or Fri. meeting. Thanks.



From the desk of...

Mary A. Nordale
Of Counsel
Birch, Horton, Bittner & Cherot
100 Cushman Street, Suite 311
Fairbanks, Alaska 99701

907-452-1666
Fax: 907-456-5055

**IF YOU DO NOT RECEIVE ALL PAGES OR ENCOUNTER ANY PROBLEMS,
PLEASE CONTACT SENDER AT (907) 452-1666 or, in Alaska only, (800) 478-1666.**

UNORGANIZED BOROUGH

POSITION: The legislature must act as the assembly for the unorganized borough to insure that the residents of the unorganized borough receive appropriate levels of service.

Article X, Section 6, provides as follows:

Section 6. Unorganized Boroughs. The legislature shall provide for the performance of services it deems necessary or advisable in unorganized boroughs, allowing for maximum local participation and responsibility. It may exercise any power or function in an unorganized borough which the assembly may exercise in an organized borough.

In the unorganized borough local government, to the extent that it functions, is delivered by city councils or other types of government within villages. No true areawide government exists, even though in many areas, villages have attempted to work together to provide services on an areawide basis. Such efforts should be recognized and encouraged. The legislature, acting as the assembly for the unorganized borough, can take the necessary action to inaugurate areawide services or improve their delivery.

SERVICE DISTRICTS IN THE UNORGANIZED BOROUGH

POSITION: The legislature should establish service districts within the unorganized borough to carry out the mandatory powers of education, taxation and planning and zoning, and in addition should establish for service areas such other powers as may be deemed necessary and appropriate within each service district.

The Municipal Code, AS 29.03.010, provides that all areas lying outside organized boroughs constitute one unorganized borough. AS 29.03.020 provides that the legislature may establish service areas within the unorganized borough. The Local Boundary Commission completed a study about two years ago that recommended the establishment of organized boroughs throughout the unorganized borough and delineated recommended boundaries.

The legislature should establish services areas within the unorganized borough corresponding to the recommended borough boundaries. The legislature can establish service districts with specified powers (road, garbage collection, fire, etc.) in accordance with the powers granted to organized boroughs and can withhold powers from service districts if a service district cannot undertake the exercise of the power at the present time.

At the present time Rural Education Attendance Areas provide the only areawide service within the unorganized borough. The services provided are overseen by the state Department of Education, rather than a local assembly. The education services should be provided in conjunction with the other powers mandated to organized boroughs and with other powers granted to service areas. If the legislature acts as the assembly for the unorganized borough, it will have greater oversight over the quality of education services offered within the unorganized borough.

SALES TAX IN THE UNORGANIZED BOROUGH

POSITION: The legislature, acting as the assembly for the unorganized borough, should enact an areawide sales tax to support in part the provision of services within the unorganized borough.

The Municipal Code provides that organized boroughs and cities outside organized boroughs may impose sales and property taxes to support local government. At the present time, no revenue stream exists in the unorganized borough to support the delivery of services within the unorganized borough. As long as no revenue stream exists, development of local government and the provision of services within the unorganized borough will not be encouraged and the residents of the unorganized borough will continue to have little control over the level and quality of services delivered on an areawide basis. In most parts of the unorganized borough, private, nonprofit corporations are delivering areawide services, proving that areawide services are feasible and necessary.

PROPERTY TAX IN THE UNORGANIZED BOROUGH

POSITION: The net revenue from the state property tax on oil and gas properties should be allocated to the unorganized borough to support local, areawide government within the unorganized borough.

The Department of Community and Regional Affairs informed the Commission that levying a property tax in the rural and bush areas of the state would be costly and not likely to generate much revenue. Although property of value exists within the unorganized borough, a property tax would be expensive to implement on a local basis and could prove to be substantially inequitable as many people within the unorganized borough have elected to have their properties held under restrictive deeds, thus placing the full burden of a property tax on those people who are not eligible for such relief.

When enacted, the state property tax was intended to generate revenues to support the state as a whole. Subsequently, organized boroughs were able to levy their local property taxes against the oil and gas properties located within their respective jurisdictions. Other boroughs have been organized to take advantage of economic development that has provided property tax revenues.

Within the unorganized borough, except areas in Southeast Alaska, most areas have no economic development that can support local government services. The allocation of the net revenue from the state's property tax on oil and gas properties could substitute for the missing economic base in the unorganized borough.

MAXIMUM LOCAL SELF-GOVERNMENT

POSITION: The legislature should transfer to all organized boroughs and service areas within the unorganized borough the following powers: police protection, including highway patrol; class 3 road maintenance; and such other services that can be more effectively and appropriately delivered at the local level.

Article X of the constitution requires that the legislature provide for maximum local self-government. At the present time, there is a mix of authority for the performance of services within the organized boroughs and within cities within the unorganized borough. Many services must be performed at a level and to a degree that may not be appropriate simply because the state agency charged with the responsibility for the service must adhere to state, rather than local, standards. Because of the wide variation in climate, topography and level of demand, services that can be devised to meet only local needs should be made the responsibility of local government. Services that must be performed on a uniform standard should also be transferred, subject to such standards.

In order to enable organized boroughs and service areas within the unorganized borough to perform transferred powers and services, the legislature must provide for sharing of revenues and revenue sources.

The commission further recommends that the legislature form a Local Government Council to review all state services that can be rendered by local government; review funding sources and needs and cooperate with both the organized boroughs and representatives within the unorganized borough to develop the statutory structure for transfer of responsibility and for funding. The commission further recommends that the council include members of the public who are not elected officials.



217 Second Street, Suite 200 ■ Juneau, Alaska 99801 ■ Tel (907) 586-1325, Fax (907) 463-5480

To: Brian Rogers, Chair
Long Range Financial Planning Commission

From: *Kevin* Ritchie, Executive Director

Date: September 19, 1995

Re: Your request for draft legislation making the senior/disabled veteran property tax exemption an option for municipalities

Attached are two pieces of draft legislation:

- First, one not introduced this session, but previously adopted in a similar form by one house, that makes the exemption entirely optional for each municipality. The draft bill basically moves the exemption from the mandatory to the municipal option section of the statute on property tax.
- Second, legislation introduced last session that reduces the mandatory exemption from \$150,000 to \$75,000. This is not a huge savings to municipalities since the average exemption is about \$90,000 under the program, but it provides a more realistic cap. This bill would relate to Commission discussion about a cap equal to the highest or average senior exemption nationwide.

I also attached an example of a Local Government Partnership Council from North Carolina. I believe that it is well within the role of the Commission to recommend reasonable implementation strategies to work out the details of the Commission's principles and plan. For example, the Commission's general concept of governmental roles in the provision of police services must be discussed and planned in detail before implementation.

cc. AML Board of Directors

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE IVAN

Introduced:

Referred:

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to municipal property tax exemptions for certain residences; and
2 providing for an effective date."

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

4 * Section 1. AS 29.45.030(h) is amended to read:

5 (h) Nothing [EXCEPT AS PROVIDED IN (g) OF THIS SECTION,
6 NOTHING] in (j) [(e) - (j)] of this section affects similar exemptions from property
7 taxes granted by a municipality on September 10, 1972, or prevents a municipality
8 from granting similar exemptions by ordinance as provided in AS 29.45.050.

9 * Sec. 2. AS 29.45.030(k) is amended to read:

10 (k) The department shall adopt regulations to implement the provisions of [(g)
11 AND] (j) of this section.

12 * Sec. 3. AS 29.45 is amended by adding a new section to read:

13 Sec. 29.45.052. OPTIONAL EXEMPTION FOR CERTAIN PRIMARY
14 RESIDENCES. (a) The real property owned and occupied as the primary residence

1 and permanent place of abode by a resident of the state who is (1) 65 years of age or
2 older, (2) a disabled veteran, or (3) at least 60 years old and who is the widow or
3 widower of a person who qualified for an exemption under (1) or (2) of this
4 subsection, may by ordinance be exempted from taxation on all or part of the assessed
5 value of the real property. The ordinance may base the exemption on hardship. Only
6 one exemption may be granted for the same property. If two or more persons are
7 eligible for an exemption for the same property, the exemption may not be granted
8 unless the parties decide between or among themselves who is to receive the benefit
9 of the exemption. Real property may not be exempted under this subsection if the
10 local assessor determines, after notice and hearing to the parties, that the property was
11 conveyed to the applicant primarily for the purpose of obtaining the exemption. The
12 determination of the assessor may be appealed to the superior court under procedures
13 set out in AS 44.62.560 - 44.62.570.

14 (b) In this section,

15 (1) "disabled veteran" means a disabled person

16 (A) separated from the military service of the United States
17 under a condition that is not dishonorable who is a resident of the state, whose
18 disability was incurred or aggravated in the line of duty in the military service
19 of the United States, and whose disability has been rated as 50 percent or more
20 by the branch of service in which that person served or by the Veterans'
21 Administration; or

22 (B) who served in the Alaska Territorial Guard, who is a
23 resident of the state, whose disability was incurred or aggravated in the line of
24 duty while serving in the Alaska Territorial Guard, and whose disability has
25 been rated as 50 percent or more;

26 (2) "real property" includes mobile homes, whether classified as real
27 or personal property for municipal tax purposes.

28 * Sec. 4. AS 29.45.030(a)(6), 29.45.030(e), 29.45.030(f), 29.45.030(g), 29.45.030(i), and
29 29.45.050(i) are repealed.

30 * Sec. 5. This Act takes effect January 1, 1996.

9-LS0685G
Cook
3/16/95

CS FOR HOUSE BILL NO. 185()
IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE IVAN

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to exemptions from municipal property taxes for certain
2 principal residences; relating to the determination of full and true value of taxable
3 property in a municipality; and providing for an effective date."

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

5 * Section 1. AS 14.17.140(a) is amended to read:

6 (a) To determine the amount of local effort under AS 14.17.025 and to aid the
7 department and the legislature in planning, the Department of Community and
8 Regional Affairs, in consultation with the assessor for each district, shall determine the
9 full value of the taxable real and personal property in each city or borough district.
10 If there is no local assessor or current local assessment for a district, then the
11 Department of Community and Regional Affairs shall make the determination of full
12 value from information available. In making the determination, the Department of
13 Community and Regional Affairs shall be guided by AS 29.45.110. However, the
14 value of property exempted under AS 29.45.050(i) up to \$150,000 may not be

1 included in the determination. The determination of full value shall be made by
2 October 1 and sent by certified mail, return receipt requested, on or before that date
3 to the president of the school board in each district. Duplicate copies shall be sent to
4 the commissioner. The governing body of a borough or city that is a school district
5 may obtain judicial review of the determination. The superior court may modify the
6 determination of the Department of Community and Regional Affairs only upon a
7 finding of abuse of discretion or upon a finding that there is no substantial evidence
8 to support the determination.

9 * Sec. 2. AS 29.45.030(e) is amended to read:

10 (e) The real property owned and occupied as the primary residence and
11 permanent place of abode by a (1) resident 65 years of age or older; (2) disabled
12 veteran; [OR] (3) resident at least 60 years old who is the widow or widower of a
13 person who qualified for an exemption under (1) [OR (2)] of this subsection; or (4)
14 resident at least 60 years old who is the widow or widower of a person who
15 qualified for an exemption under (2) of this subsection, is exempt from taxation.
16 The exemption for an individual who qualifies under (1) or (3) of this subsection
17 is limited to the first \$75,000 of the assessed value of the real property. The
18 exemption for an individual who qualifies under (2) or (4) of this subsection is
19 limited to [ON] the first \$150,000 of the assessed value of the real property. A
20 municipality may, in case of hardship and in accordance with regulations of the
21 department, provide for exemption [BEYOND THE FIRST \$150,000] of assessed
22 value beyond the limits set in this subsection [IN ACCORDANCE WITH
23 REGULATIONS OF THE DEPARTMENT]. Only one exemption may be granted for
24 the same property and, if two or more persons are eligible for an exemption for the
25 same property, the parties shall decide between or among themselves who is to receive
26 the benefit of the exemption. Real property may not be exempted under this
27 subsection if the assessor determines, after notice and hearing to the parties, that the
28 property was conveyed to the applicant primarily for the purpose of obtaining the
29 exemption. The determination of the assessor may be appealed under AS 44.62.560 -
30 44.62.570.

31 * Sec. 3. AS 29.45.050(i) is amended to read:

1 (i) A municipality may by ordinance [APPROVED BY THE VOTERS]
2 exempt from taxation the assessed value of real property that exceeds the limits set
3 under AS 29.45.030(e) if the [\$150,000 OF REAL] property is owned by an
4 individual who qualifies for an exemption under AS 29.45.030(e) [AND
5 OCCUPIED AS A PERMANENT PLACE OF ABODE BY A RESIDENT WHO IS

6 (1) 65 YEARS OF AGE OR OLDER;

7 (2) A DISABLED VETERAN, INCLUDING A PERSON WHO WAS
8 DISABLED IN THE LINE OF DUTY WHILE SERVING IN THE ALASKA
9 TERRITORIAL GUARD; OR

10 (3) AT LEAST 60 YEARS OLD AND A WIDOW OR WIDOWER
11 OF A PERSON WHO QUALIFIED FOR AN EXEMPTION UNDER (1) OR (2) OF
12 THIS SUBSECTION].

13 * Sec. 4. This Act takes effect January 1, 1996.

State of North Carolina



JAMES B. HUNT, JR.
GOVERNOR

EXECUTIVE ORDER 21 LOCAL GOVERNMENT PARTNERSHIP COUNCIL

WHEREAS, units of local government are political subdivisions of the State of North Carolina and the State is obligated to provide support to these units; and

WHEREAS, the Governor recognizes the need to improve and strengthen the relationship between state, county, and municipal governments; and

WHEREAS, the Governor desires to identify and implement strategies that will enable the administration, the General Assembly and local governments to work together for the benefit of the entire State; and

WHEREAS, the Governor recognizes the current problems facing local governments and pledges to work in cooperation with local officials to find appropriate solutions; and

WHEREAS, the Governor appreciates the vital role that local governments can and should play in the future growth and development of the entire state; and

WHEREAS, the Governor encourages local officials to join hands with state government officials and the state legislature to provide a brighter future for all North Carolinians;

NOW, THEREFORE, by the power vested in me as Governor by the laws and Constitution of the State of North Carolina, IT IS ORDERED:

Section 1. Establishment and Members.

There is hereby established the North Carolina Local Government Partnership Council ("Council") consisting of eighteen members. The Council shall be composed as follows:

- (a) three members representing county governments selected by the Governor from a listing of qualified persons submitted by the North Carolina Association of County Commissioners;

NC OFF OF THE GOVERNOR Fax:919-733-2120

Sep 5 '95

15:44

P.00/03

- (b) three members representing municipal governments selected by the Governor from a listing of qualified persons submitted by the North Carolina League of Municipalities;
- (c) four at-large members appointed by the Governor;
- (d) two members of the North Carolina Senate appointed by the President Pro Tempore of the Senate;
- (e) two members of the North Carolina House of Representatives appointed by the Speaker of the House;
- (f) the Secretary of the Department of Environment, Health and Natural Resources or his designee;
- (g) the Secretary of the Department of Transportation or his designee;
- (h) the Secretary of the Department of Human Resources or his designee; and
- (i) the Lieutenant Governor, or his designee.

The Executive Director of the North Carolina Association of County Commissioners and the Executive Director of the North Carolina League of Municipalities are invited to serve and the Governor's Director of Intergovernmental Relations shall serve as ex-officio members of the Council.

Section 2. Chair and Terms.

The Lieutenant Governor shall serve as Chair of the Council. The Vice Chair of the Council shall be a municipal or county official selected by the Governor. Annually, after the first Vice-Chair is selected, the office shall rotate between officials representing municipalities and counties. Appointees shall serve two-year terms, with no appointed members serving more than two complete, consecutive terms on the Council. Members designated by their office shall serve terms for the duration of that office.

The Council shall meet at least three times per year and may hold special meetings at the call of the Chair or of the Governor.

Section 3. Purpose.

The purpose of the Council shall be to advise the Governor, his Cabinet, other state agencies, local governments, and the general public about programs, policies, and practices affecting local governments in North Carolina. To accomplish this purpose, the Council may:

- (a) identify opportunities for state-local cooperation;
- (b) review proposed programs and policies;
- (c) offer recommendations;
- (d) advocate on behalf of local governments;
- (e) assist the Governor's Office of Intergovernmental Relations in matters related to state-local relations;
- (f) undertake any studies or actions requested of the Council by the Governor;
- (g) recommend to the Governor actions affecting state-local relations which will benefit local governments throughout the state;