

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2387 SCOMM 101 LONG RANGE FINANCIAL PLANNING COMMISSION, 1995

THE STATE LONG RANGE FINANCIAL PLANNING COMMISSION REPORT

STATE FINANCIAL PLANNING COMMISSION	(Today's Dollars)									
	FY	1996	1997	1998	1999	2000	2001	2002	2003	2004
REVENUES (\$ Millions):										
Fund Source		1,952	1,882	1,869	1,641	1,607	1,575	1,509	1,464	1,414
Net Fund Earnings (Net of inflation proofing & ERA deposits)		565	500	630	648	677	700	727	759	785
		-	-	-	-	-	-	-	-	-
TAXES AND FEES (\$ Millions)										
Motor Fuel Tax (@ \$.219/gal., indexed)		-	38	39	39	40	41	41	42	43
Motor Fuel Tax (\$.08/gal., indexed)		-	5	5	5	5	5	5	5	5
Tax (\$1/pkg cigs; 75%/chewing; +25% triennially)		-	42	41	40	50	49	48	57	56
Vehicle license fees (double)		-	-	27	27	26	26	26	25	25
Increases		-	3	6	8	11	13	12	12	12
And other resource tax increases		-	-	28	28	28	28	28	28	28
Tax increases		-	-	19	19	19	19	19	19	19
Increases (increase triennially)		-	18	19	19	22	22	22	21	25
		-	-	-	-	-	-	58	224	227
		-	-	-	-	-	-	-	-	-
REVENUE		2,517	2,480	2,483	2,475	2,485	2,478	2,495	2,658	2,639
		-	-	-	-	-	-	-	-	-
EXPENDITURES (\$ Millions):										
Spending on current programs		2,476	2,366	2,264	2,167	2,118	2,135	2,152	2,169	2,186
Debt		565	500	438	378	367	356	345	334	324
		-	-	-	-	-	-	-	-	-
EXPENDITURES		3,041	2,866	2,702	2,546	2,485	2,490	2,496	2,503	2,510
		-	-	-	-	-	-	-	-	-
ANNUAL FISCAL GAP (\$ Millions)										
		524	(386)	(219)	(71)	1	(13)	(1)	753	129
		-	-	-	-	-	-	-	-	-
ADDITIONAL BUDGET RESERVE ENDING BALANCE (\$ Millions)		1,500	1,458	1,412	1,368	1,328	1,285	1,245	1,207	1,170
		-	-	-	-	-	-	-	-	-
NET FUND EARNINGS RESERVE ENDING BALANCE		922	1,184	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-
NET FUND MARKET VALUE (\$ Millions)		17,766	17,625	19,391	20,131	20,804	21,459	22,110	22,897	23,657
		-	-	-	-	-	-	-	-	-
PERMANENT FUND DIVIDEND		990	852	727	611	582	553	526	501	475
		-	-	-	-	-	-	-	-	-
NET SPENDING		4,938	4,579	4,250	3,941	3,786	3,735	3,685	3,636	3,589

State Long Range Financial Planning Commission Men

Brian Rogers
Fairbanks
Chairman

Judy Brady
Anchorage
Vice-Chair

Lee Gorsuch
Anchorage

n. Georgianna Lincoln
Rampart

Robert Loescher
Juneau

Bruce Ludwig
Juneau

Annalee McConnell
Juneau

Hugh Motley
Cooper Landing

Rep. Mike Navarre
Kenai

Mary Nordale
Fairbanks

Mike O'Connor
Anchorage

Rep. Sean Parnell
Anchorage

Pat Pourchot
Anchorage

Sen. Steve Rieger
Anchorage

Marie Westfall
Ketchikan

THE STATE LONG RANGE FINANCIAL PLANNING COMMISSION REPORT

State Long Range Financial Planning Commission Report

DISSENTING OPINIONS

By State Sen. Steve Rieger

The Long Range Financial Planning Commission has identified a series of measures which would balance revenues and expenditures over the next ten or more years. However, the final Commission Report goes beyond that task, and recommends additional taxes beyond those which are part of closing the fiscal gap, and which instead serve to place additional money into the corpus of the Permanent Fund. These additional measures are excessive.

The major reason for concern about the fiscal gap was the prospect that, if action was not taken, there would be a crisis reached which would trigger a sudden drop in state spending and threaten the economy and people's jobs, or a major (in the nine figures) new tax such as an income tax or statewide sales tax, or both. These outcomes are all avoided in the Minority Report's plan. However, a major new tax is included in the Commission report.

The Composite Scenario

A set of meaningful but non-precipitous budget cuts, a series of smaller taxes and fees, and use of a portion of the Permanent Fund's earnings after inflation-proofing, closes the gap entirely for about a decade. Under a "Composite Scenario" developed during the Commission's delib-

erations, (and using the Commission's assumptions), by the year 2010 these measures would also result in a Permanent Fund balance of almost \$30 billion and additional cash reserves of over \$5 billion. In today's dollars these numbers would be over \$19 billion and \$3 billion respectively. The Composite Scenario represents a reasonable course for Alaska.

Where the Commission Report and the Minority Report part company most dramatically is the extent to which they pursue the goal of making the Permanent Fund an "endowment" for future government spending. To pursue this thought, the Commission Report recommends diverting an additional \$250 million of today's royalties away from the general fund and into the Permanent Fund, thereby cutting the present state revenue stream by approximately \$250 million per year and actually increasing the fiscal gap; by dumping most present or forecast cash reserves into the Permanent Fund; reducing the dividend payout more than in the "Composite Scenario" referred to above; imposing an additional \$40 million to \$50 million per year in small taxes over those used in the Composite Scenario; and by imposing a major new personal income tax generating \$385 million per year by the year 2010. Those measures, including the smaller reserves, result in a Permanent Fund

which is a little over \$40 billion in the year 2010, or the equivalent of \$26 billion in today's dollars.

In the Minority Report's view, these additional measures are not worth the sole accomplishment of a Permanent Fund which is 1/3 larger in size. They do not succeed in creating an endowment for state spending, and impose taxes where they are not needed. The Permanent Fund can be a very substantial source of stability and cash for the future. However, in either the plan advanced by the Commission or in the Composite Scenario does it come even close to being the sole source of funding for state government.

The fiscal gap can be closed satisfactorily for the next decade with a much more modest set of measures. These measures would be similar to those shown in the Composite Scenario referred to above. A full version of this Minority Report and the Composite Scenario spreadsheet are available by calling 258-8188—we will mail it to you.

State Sen. Steve Rieger, R-Anchorage, was a member of the State Long Range Financial Planning Commission.

By State Rep. Sam Parnell and Hugh Hickey

The Commission's Plan Failed to Recognize and Address Alaska's Fundamental Problem: Unstable, Unpredictable Revenues

- Alaska depends upon volatile natural resource revenues for state spending.
- Alaska spends those resources, under the current system, at an unsustainable rate.
- A sustainable level of government spending cannot be defined until Alaska has a stable source of revenue.
- The Commission spent the majority of its time grappling with how to close the present fiscal gap rather than focusing on how to stabilize Alaska's revenue stream.
- Alaska's revenue stream must be stabilized and made sustainable for a healthy future: long range planning is impossible without a predictable revenue stream.

The Commission's Plan Is Unacceptable to the General Public

- The plan assumes the current level of government spending is acceptable and sustainable.

- The public does not accept this premise and will not accept the plan's recommendations for new taxes, cuts in permanent fund dividends, and expending permanent fund earnings to increase state government unless more meaningful reductions are made.
- The Commission's plan recommends creating a partial endowment using the permanent fund to increase spending.
- The Commission's partial endowment fails to stabilize revenues and fails to define a sustainable level of spending.
- The Commission's plan relies on "faith in the Legislature" rather than building fiscal restraint into the legislative budget process.

The Benefits of a True Endowment System

- The true endowment establishes a stable and sustainable level of revenues for state funding.
- The true endowment constitutionally forces fiscal restraint upon the Legislature and Governor.
- The true endowment strengthens and protects the permanent fund.
- The true endowment constitutionally protects future windfalls (ANWR taxes and royalties, for example) by

depositing them in their entirety to the corpus of the permanent fund.

Principles to Use for Closing the Present Fiscal Gap

- Once resource revenues have been stabilized through a system, a long range financial plan can be developed.
- A fiscal plan should prioritize meaningful budget reductions before taxes.
- State agencies should be consolidated to operate more efficiently.
- Voters, not the Legislature, must approve an income tax.

State Rep. Sam Parnell, R-Anchorage, was a member of the State Long Range Financial Planning Commission.

By Senator Georgianne Lincoln

A Different Opinion

While I believe the Long Range Financial Planning Commission did an admirable job identifying the options for closing Alaska's ever-widening fiscal gap, I have concerns that lead to this opinion. I did vote to advance the final document to the Governor and the Legislature, as did the majority of the Long Range Financial Planning Commission. However, I do not believe any commission member considered this to be an endorsement of everything within the report. It must be pointed out the commission was given a huge task to accomplish within a very short time and with an extremely small budget.

I applaud the commission for giving the public the opportunity to participate in its work, with serious attention paid to the comments throughout our deliberations. One subject which received, in my opinion, strong public support has not been incorporated into the commission's recommendations and that is reevaluation of the state income tax now. During my years in the legislature, I have wrestled with the wisdom of such an action. Since 1990, Alaska has grown by ap-

proximately 100,000 residents with as much as 25 percent of our work force being non-resident; non-residents contribute little to our economy but take much from it. The current plan recommends immediate introduction of a number of smaller taxes based on use with the state income tax implemented after the year 2000. I believe a state income tax, which taxes everyone (resident and non-resident) equitably, would result in a reduction to the state's fiscal gap, but would not result in such a huge, immediate reduction in state government programs as proposed by the commission. Recommended cuts to these programs would devastate those who can least afford them—our youth, our seniors, and the disadvantaged. Again, it was my sense in hearing and talking to citizens across the state that folks are willing to reinstate the state income tax now and not later as the commission report recommends.

We do not know specifically what Washington D. C. will do within the next year in terms of revisions and/or reductions to programs such as welfare reform, Medicaid, and the transfer of federal responsibility for services such as transportation and education to the State. We do

know many of these decisions will have a major negative fiscal impact on our Alaska citizens.

Further, I believe economic opportunity is another key to closing the fiscal gap. Jobs, jobs, jobs! This plan does not go far enough in providing incentives for entrepreneurship or enhancing economic opportunity throughout our state. In failing to do so, the plan does not propose solutions to diversify the economy, create jobs, and end the vicious cycle of welfare. We must analyze, in the proper perspective, the impacts of closing the fiscal gap in a rational manner. Without question, the state must cut spending to close the fiscal gap. Although I support many of the commission's current recommendations, I caution those responsible for implementing a final plan to ensure cuts are spread equitably and economic and job development reaches the smallest of communities throughout our great state.

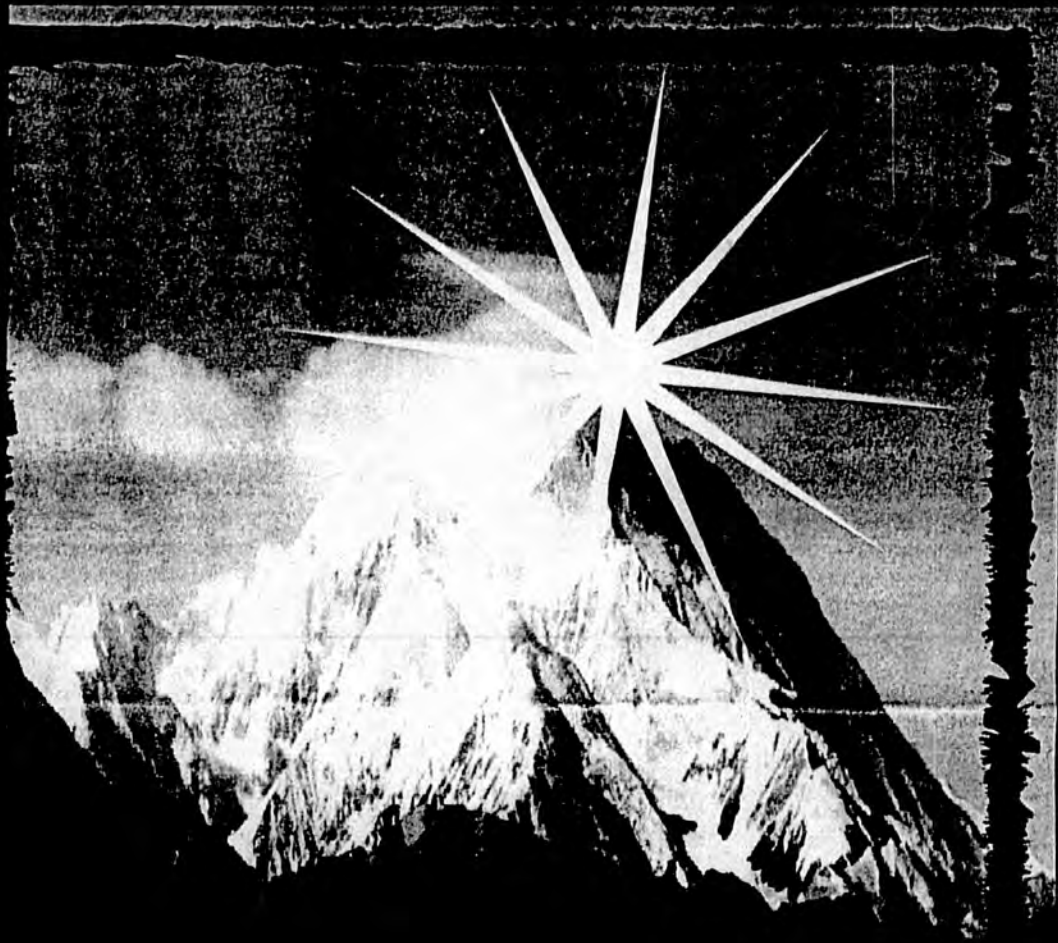
State Sen. Georgianne Lincoln, D-Hampden, was a member of the State Long Range Financial Planning Commission.

SCOMM

101:21

An Endowment For Alaska's Future

**The State Long Range
Financial Planning
Commission Report**



State Long Range Financial Planning Commission Report

EXECUTIVE SUMMARY

Alaska's fiscal gap is real and growing

The State is spending \$524 million more than it will take in during the current fiscal year. That gap will grow to \$1.3 billion per year in today's dollars by 2005 if we make no changes to the State's spending and revenue policies.

The Long Range Financial Planning Commission was appointed jointly by the Legislature and Governor in March 1995 to recommend ways to close the gap and put Alaska on firm financial ground. This report details our plan and our recommendations.

What does the plan do? It:

- Makes the Permanent Fund the cornerstone of Alaska's fiscal future.
- Closes the fiscal gap by the year 2000.
- Ensures growth of the Permanent Fund to offset declining oil and gas revenues.
- Stabilizes and diversifies revenues.
- Controls State general fund spending.
- Maintains a reserve to dampen the effect of oil price swings.
- Decreases our dependence on volatile oil revenues.

This is a plan for ourselves and our grandchildren. It requires all Alaskans to share in the solution. No action to close the fiscal gap is the greatest threat to Alaska's financial future.

The Commission was asked to recommend a plan for three, five and ten years. To be sure that plans for these time frames did not create a reoccurring fiscal gap after that, the Commission also looked at the likely effects of its plan over a fifteen year period.

The first three years

The key elements of the three-year plan are to:

Cut spending

- Cut current State general fund spending by \$100 million — \$40 million in 1996, \$30 million in 1997, and \$30 million in 1998 — a reduction of \$300 million in today's dollars.
- Reduce per capita State general fund spending from

\$4,020 to \$3,692 in four years — a reduction to \$3,255 in today's dollars.

Increase Revenues

- Increase tobacco taxes by \$1 per pack (\$43 million).
- Increase alcohol taxes by 10 cents per drink (\$20 million).
- Increase motor fuel tax from the 1961 level of 8 cents/gallon to 22 cents/gallon and increase marine fuel tax by 3 cents/gallon (\$44 million).
- Increase user fees by at least \$3 million per year, double motor vehicle license fees, and eliminating motor vehicle license fee exemptions (\$32 million).
- Establish a new tax to generate at least \$20 million from tourists and increase taxes on fisheries and other resources by \$30 million.

Use the Permanent Fund as an endowment

- Establish the Permanent Fund as an endowment to partially replace declining oil revenues.
- The endowment will pay up to 4 percent of the Fund's five-year average market value to the general fund for dividends and State services.
- Constitutionally protect Permanent Fund principal by building long-term inflation-proofing into the endowment plan.
- The endowment payout and increased Permanent Fund contribution require voter approval of a constitutional amendment in 1996.

Boost the earning power of the Permanent Fund

- Build Permanent Fund principal by
 - (a) making additional special deposits to fund principal;
 - (b) increasing the minimum annual deposit to the Permanent Fund;
 - and (c) retaining additional earnings in the Permanent Fund.
- Deposit \$600 million from the Constitutional Budget Reserve into the Permanent Fund this year.
- Close out the Permanent Fund Earnings Reserve once the endowment is in place, by depositing it into the Permanent Fund (approximately \$1.2 billion)
- Increase to 50 percent the minimum contribution to the Permanent Fund from certain oil, gas and mineral lease revenues.

- Retain earnings in excess of the 4 percent annual payout in the fund. Since the projected rate of return to the fund is 4.79 percent after inflation, the Fund should retain earnings above inflation-proofing of at least 0.75 percent annually.

Cap the Permanent Fund Dividend pool

- Reduce the total amount spent for the dividend program from \$565 million this year by \$50 million a year for each of the next three years.
- Individual dividends will be about \$900 next year, \$800 in 1997, and \$700 in 1998.

Clarify the purpose of the State's reserves

- Maintain the CBR at \$1.5 billion to cushion oil revenue volatility. Clarify its use and repayment in a constitutional amendment.

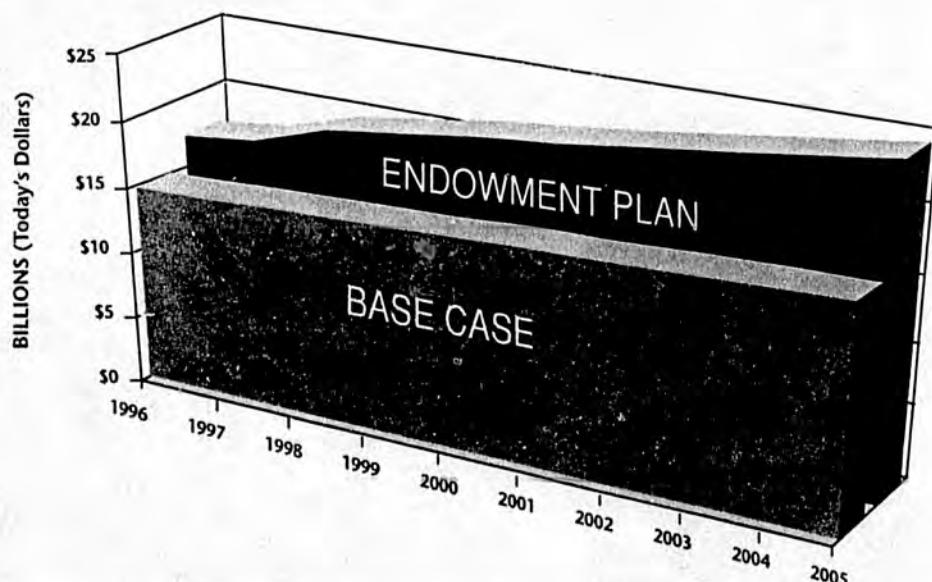
Reform the budget process

- Scrutinize all State spending, not just State general funds.
- Report annually to the public on progress toward closing the fiscal gap.
- Focus on whether programs are needed, cost-effective and achieve their intended results.

The five- and 10-year plan

In 1999, Alaska comes to a fork in the road. By that time the budget is balanced under the Commission's plan. To prevent the fiscal gap from reappearing, we can cut the budget further, institute a personal income tax, increase other taxes, and/or further reduce dividends. The Commission recommends that a follow-up review be done in late 1998 and early 1999 to adjust the overall plan as needed for the succeeding five to ten years. By that time the budget is balanced and we will know more about ANWR, the gas line and federal budget changes. As a result, decisions for first decade of the next century will be less dependent on speculation. Under our plan, after budget cuts, tax increases, the Permanent Fund endowment and dividend reductions have been made, this Commission recommends the State adopt a personal income tax in 2000 to begin in 2002, once the deficit reappears.

Permanent Fund Principal:
Comparison of Base Case To Endowment Plan



State Long Range Financial Planning Commission Report

FINAL REPORT

Alaska's fiscal gap is real, and it's growing

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

This year, the State will spend \$524 million more from the State general fund than it will take in — this is the fiscal gap. That gap will grow to \$768 million in three years, to \$879 million in 5 years, and \$1,253 billion in 10 years (in today's dollars) if we make no changes to the State's spending and revenue policies. Our interim report contains more details about the growing fiscal gap and options available to close the gap.

The Long Range Financial Planning Commission was appointed jointly by the Legislature and Governor in March 1995 to recommend how to close the gap and put Alaska on firm financial ground. In the past six months, as directed by the resolution creating the Commission, the Commission has:

- Reviewed and evaluated State fiscal policy and strategy recommendations and assumptions from reports and publications from similar efforts in the past made by the executive branch, the legislative branch, the University of Alaska, nonprofit organizations, and private individuals and organizations,
- Identified and evaluated all current State income sources and assets, including recurring revenue, reserves, physical resources, and investments,
- Identified systemic changes to stabilize the State's revenue stream,
- Identified major reductions in State expenditures,
- Identified new sources of revenue,
- Projected a sustainable long-range financial plan based on a stable revenue stream,
- Evaluated constitutional, statutory, and regulatory language relating to the budget process,
- Reviewed and evaluated forward funding of the State budget,
- Considered the division of responsibility for providing services and raising revenue between the State and local governments and evaluated the effect of the long-range financial plan on local governments,
- Submitted a preliminary report to the Governor and the Legislature, and
- Disseminated information and solicited public comment.

The Commission's deliberations were aided by substantial work and informative presentations by State agency personnel, the Alaska Permanent Fund Corporation staff, Alaska Municipal League and Conference of Mayors, and private citizens who brought additional perspectives to the table.

The Commission's work focused on elements of State spending which affect the fiscal gap. These include:

- General funds, including program receipts
- Permanent fund earnings
- Funds created by appropriations for specific purposes or as "holding accounts"
- Special revenue funds set out in the constitution or statute.

Certain other funds, while included in the overall budget of the state, are not commonly reported in budget presentations, and do not materially affect the fiscal gap.

These include:

- Federal funds
- Loan amounts and loan administrative costs
- University receipts
- Internal service funds
- Transfers between agencies for contractual obligations, including interagency receipts.

The Commission believes the State budget process should include examination of all spending, regardless of whether the funds affect the fiscal gap. To meet the Commission's charge of closing the fiscal gap, though, we focus on the general fund and Permanent Fund.

The Commission has developed a financial plan for the State of Alaska. It brings Alaska's spending into line with recurring revenues. It balances the needs of current Alaskans with the needs of future generations. It requires that all Alaskans share in the solution.

What the plan does:

Makes the Permanent Fund the cornerstone of Alaska's fiscal future

The plan calls for a constitutional amendment establishing the Permanent Fund as an endowment: fund with an annual payout to the general fund based on a rolling five year average. The Permanent Fund will continue to grow with additional deposits, and retain some of its earnings in the next few years so that its income replaces declining oil revenues in the future.

Closes the fiscal gap by the year 2000

The combination of spending cuts, revenue increases, and uses of Permanent Fund income closes the fiscal gap in four years. With imposition of a State personal income tax in about 2002, the budget balances for another five years.

Ensures growth of the Permanent Fund to offset declining oil and gas revenues

The constitutional dedication of mineral lease revenues, royalties and bonuses to the Permanent Fund increases to 50 percent. The annual payout rate from Permanent Fund earnings is capped at a rate of up to four percent of the five-year average market value of the fund, which will allow additional retained earnings to build up the fund. Earnings in excess of the four percent payout rate will, over the long term, fully inflation-proof the fund, and preserve its earning power. Since the projected earnings rate is 4.79 percent above inflation, continued good performance by the fund will result in additional retained earnings of 0.79 percent.

Stabilizes and diversifies revenues

A reliable payout from Permanent Fund earnings will stabilize Alaska's income during periods of oil price volatility and substitute for declining oil revenues. New consumption taxes and business taxes will provide a portion of the State's revenues. These revenues will grow as the State's population grows, providing some links between State revenues and its service needs. The State personal income tax, once imposed in about 2002, will be related to State population growth, and will bring in revenues from non-resident workers.

Controls State general fund spending

The "bottom line" for general fund spending will shrink by five percent per year in today's dollars for the next four years. Depositing of reserve fund balances and a higher level of oil revenues into the Permanent Fund limits the money available to fuel State spending growth.

Maintain a reserve to dampen the effect of oil price swings

The Constitutional Budget Reserve will be available to cushion oil price decreases, and be used to absorb revenues from oil price increases. The second state reserve, the Permanent Fund Earnings Reserve, will be closed and deposited into the Permanent Fund. The Commission recommends maintaining a level of \$1.5 billion in the Constitutional Budget Reserve fund. That amount is approximately one year's oil revenues. Amounts in excess of the \$1.5 billion level should be deposited in the Permanent Fund. The CBR will be replenished by its own interest income, and we further recommend any excess revenues from temporary oil price increases be deposited in the CBR.

Decreases our dependence on volatile oil revenues

The combination of Permanent Fund income, increased and new taxes and user fees, and the reimposed State income tax, will offset oil revenues as the primary source of funding for State government operations.

The plan closes the fiscal gap with the following steps:

- Cuts spending,
- Increases revenues, and
- Establishes the Permanent Fund as an endowment,
- Caps the Permanent Fund dividend pool.

The first three years

The key elements of the three-year plan are to:

Cut spending

The State cannot continue to spend at the same level it does today. Notwithstanding needs and demands for increased spending and the impending federal transfer of programs to the State, the Commission believes Alaska cannot close the fiscal gap without cutting State spending.

The plan calls for State general fund spending to be reduced by \$100 million in three years — \$40 million in FY97, \$30 million in FY98, and \$30 million in FY99 — a reduction of \$300 million in today's dollars.

This decline of State spending reduces per capita State general fund spending from \$4,020 to \$3,692 in four years — a reduction to \$3,255 in today's dollars.

The Commission believes this level of reduction in State spending will be painful, but is a necessary step toward closing the fiscal gap. Recent legislatures have managed to hold spending level, which has resulted in real reductions to some State programs.

Within these budget targets, the Commission believes the State should give attention to deficits in the State's infrastructure spending, most particularly for maintenance on publicly-owned facilities, roads and highways.

The Legislature and the Administration may wish to con-

The Plan Recommended By This Commission

- Creates a new philosophy for state revenues
 - Permanent Fund income begins to replace oil revenues
- Enhances our ability to save for future generations
- Imposes some spending discipline on the State
- Defines a role of the Permanent Fund in Alaska's future
- Clears up some of the confusion over cash reserves
- Suggests embarking upon some structural changes in State government
- Involves the public in the decision making process

State Long Range Financial Planning Commission Report

FINAL REPORT

Continued From Previous Page

sider voter-approved general obligation bond debt as a way to finance capital projects.

General recommendations for budget reductions include:

Public salaries and benefits

- Enact a retirement incentive program to reduce personal services expenditures.
- Enact a new Tier III retirement system to reduce retirement benefits for new State and local government employees.
- Revise geographic pay differentials for non-covered State employees.
- Study geographic cost differentials in Alaska for use during collective bargaining negotiations with covered State employees (and for use in other State formula programs).
- Compare salaries and benefits of public employees to appropriate public and private markets in Alaska and the Pacific Northwest. Use that comparison to move Alaska's public pay system for State employees, local government employees, and school districts to market.
- Examine the publicly funded health plans for State, local government, school district, and University employees as well as those who receive Medicaid. Look for opportunities to save substantial costs through pooling or other mechanisms.

Administrative realignment

- Reengineer the delivery of State services to eliminate excessive administration.
- Consolidate state departments and agencies, and realign administrative services.
- Look for opportunities to privatize State programs or to contract out State services. Allow "insourcing" so groups of State employees can offer their own solutions to reduce costs in programs that may otherwise be contracted out.

Target high-cost programs

- If the current litigation against the Alaska Longevity Bonus is successful (ending the current phase-out), eliminate the program.
- Change the Public School Foundation Formula to reduce the growth in education spending. The required local effort should be reexamined, as well as provisions that allow school districts to obtain greater funding for special category students regardless of the programs offered to those students.
- Enact a welfare reform package to reduce dependency on welfare programs and put current welfare recipients to work.
- Revise fee schedules for services such as Pioneers' Homes to reflect cost and ability to pay.
- Examine areas of State spending with disproportionately high costs when compared with other States and determine whether there are legitimate reasons for such programs.

Shift revenues and responsibilities to local governments

- Repeal the State mandate for senior citizens' and veterans' property tax relief by local municipalities, but allow local option to grant or withhold the exemption.
- Transfer a portion of State motor vehicle and motor fuel tax receipts to local governments together with the responsibility for class III local road maintenance.
- Eliminate or shift some inspections to local governments with the ability to collect fees for program support.
- Eliminate State general fund support of troopers for road patrols in communities of more than 2,500, but allow communities to continue retain such services if they are willing to pay for them.

Avoid new costs

- Freeze issuance of certificates of need for new hospitals and reassess need for additional nursing homes

Funds Which Affect The Fiscal Gap

- General funds, including program receipts
- Permanent Fund earnings
- Created by appropriation for specific purposes or as a "holding account"
- Special revenue funds where specified in the constitution or statute

Funds Which Do Not Affect The Fiscal Gap

- Loan fund administrative costs
- Loan amounts
- University receipts
- Internal service funds
- Transfers between agencies for contractual obligations, including interagency receipts

Funds Which Cannot Be Appropriated To Other Purposes

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

Increase Revenues

The Commission believes Alaska cannot balance its budget responsibly without new revenues. The Commission has chosen a short-term package of taxes on consumption that imposes real service costs on the state, with a longer-term plan of reimposing the State personal income tax.

Increases to existing taxes include:

Tobacco taxes

- Increase tobacco taxes by \$1 per pack on cigarettes and comparable amounts on other tobacco products (raises \$43 million annually, beginning in FY97). This tax increase will dramatically lower teenage smoking and tobacco use, and should somewhat reduce tobacco use by adults, both of which will reduce the State's future expenditures on health care costs. The Commission recommends the taxes increase 25 cents per pack every three years.

Alcohol taxes

- Increase alcohol taxes by an average of 10 cents per drink (raises \$20 million annually, beginning in FY97). Testimony before the Commission indicated that a substantial portion of the criminal justice system's costs — for police, prosecution, public defense, the courts, and the correctional system — are a result of alcohol abuse. This tax increase pays a small portion of the State's costs that result from abuse of alcohol. The Commission recommends also that taxes be equalized among beer, wine, and distilled spirits so that all alcohol users share in the tax burden. We further recommend that alcohol taxes increase every three years.

Over time, certain of Alaska's tax rates have fallen below the national norms, or have not kept pace with inflation.

We recommend the following increases:

Motor fuel taxes

- Increase motor fuel tax increases from the 1961 level of 8 cents/gallon to the national median of 22 cents/gallon (raises \$39 million annually, beginning in FY98). This tax should be indexed to inflation, so it rises as consumer prices rise. The Commission believes these tax receipts should be used to fund road maintenance efforts at the State and local level.

Marine motor fuel taxes

- Increase marine fuel taxes by 3 cents/gallon (raises \$5 million annually, beginning in FY98). This tax should be indexed to inflation, so it rises as consumer prices rise. The Commission believes these tax receipts should be used to fund port and harbor maintenance efforts at the State and local level.

Motor vehicle license plates

- Double motor vehicle license fees and eliminate exemptions (raises \$29 million, beginning in FY98). These fees are currently well below the national average.

Continued On Next Page

State Long Range Financial Planning Commission Report

FINAL REPORT

User fees

- Raise user fees by approximately \$3 million annually and index fees to inflation where practicable.

Fishery and other resource taxes

- Increase taxes on fisheries and other resources by \$30 million.

New taxes and changes to tax apportionment include:

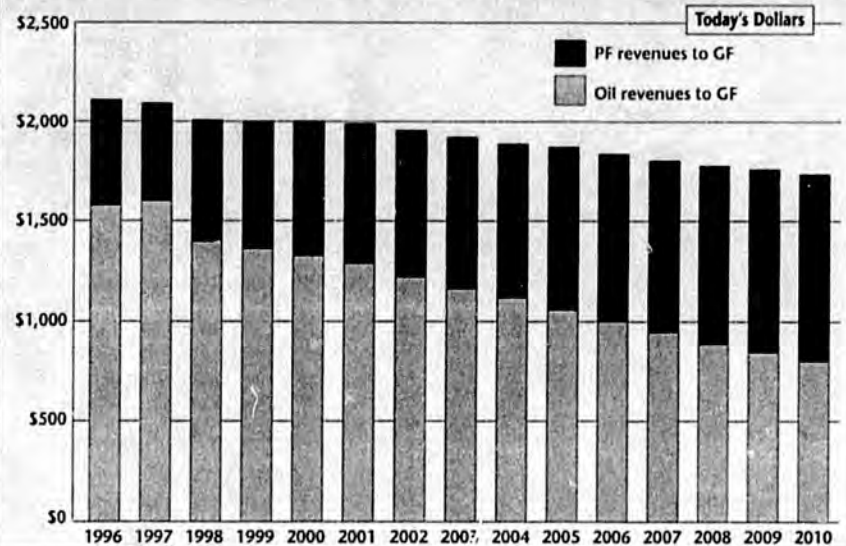
- Establish new taxes to generate at least \$20 million from tourists. While the Commission was unable to reach consensus on the precise method for gaining additional revenue from tourists or the tourism industry, the Commission believes this part of our economy does not fully pay for the State's cost of providing infrastructure and support to the industry.
- The Commission believes the State's oil and gas production property tax, currently set at 20 mills, should benefit both the State and local governments affected by oil development. State law should be amended to limit the local government share to 10 mills on new oil and gas properties built after 1995, ensuring the State receives at least 50 percent of this revenue source.

The Commission considered additional taxes on the oil industry. We found that Alaska is currently in the mid-range of oil taxation nationally. We believe that Alaska is already too dependent upon oil revenues, and that higher oil taxes would create a disincentive to attract and retain petroleum development in Alaska. We believe our plan for closing the fiscal gap and providing a stable revenue and spending climate will ultimately result in increased petroleum revenues as the industry responds by further investment in Alaska oil exploration, development and production.

Establish the Permanent Fund as an endowment

When the Permanent Fund was established in 1976, public debate centered on setting aside a portion of today's oil wealth to meet the needs of future generations of Alaskans. Later, the Legislature adopted the dividend plan to heighten public interest in preserving the fund and guarding its investment performance, and to directly distribute some of Alaska's oil wealth to its citizens. The Commission believes it is time to follow the original intent of the fund, preserving current capital wealth for current and future generations of Alaskans. The Commission believes the best method for doing this is to follow traditional endowment principles. For our Permanent Fund those principles include preservation of the fund, the best possible level of performance of the fund, and the preservation of Alaska's oil wealth for future generations of Alaskans.

Permanent Fund Earnings Replace Oil Earnings



Our plan calls for the Permanent Fund to grow as an endowment for the State.

- The plan establishes the Permanent Fund as an endowment that pays up to four percent of the Fund's five-year average market value to the general fund for the dividend program and State services. This use of Permanent Fund earnings will partially replace declining oil revenues. The Commission recommends a four percent payout based on the experience of other endowment funds in the United States, and takes into account the Permanent Fund's earning experience, asset allocation, and need to protect the principal.
- Earnings of the Permanent Fund in excess of this four percent payout rate are retained in the fund. Years with good investment performance will, over the long run, balance years with poor investment performance in order to more than fully inflation-proof the fund.
- The plan calls for an increase to 50 percent of the minimum contribution to the Permanent Fund from certain oil, gas and mineral lease revenues. The plan calls for an amendment to the constitution to achieve that increase.
- The endowment is further built up by a deposit from the Permanent Fund Earnings Reserve and deposits of any funds in excess of \$1.5 billion in the Constitutional Budget Reserve.

Cap the Permanent Fund Dividend pool

The Permanent Fund Dividend program is an important source of protection for the principal of the Permanent Fund and it is important source of income to Alaskans. Without

changes to the program, however, dividends will grow to take a major share of State revenues — \$965 million in 2005. The Commission recommends:

- Reduce the total amount spent for the Permanent Fund Dividend program from \$565 million this year by \$50 million a year for three years.
- Individual dividends will be about \$900 next year, \$800 in 1997, and \$700 in 1998.

Clarify the purpose of State's reserves

The State maintains two reserve funds that are important in the effort to close the fiscal gap — the Constitutional Budget Reserve (CBR) and the Permanent Fund Earnings Reserve Account (PFER). The CBR consists of funds received in settlements of administrative proceedings or litigation regarding mineral lease bonuses, rentals, royalties, royalty proceeds and taxes. The PFER is a holding account into which is deposited all investment income until the transfers to principal for inflation proofing and to the dividend fund are made. Excess funds in the PFER are held and invested in the same manner as the principal of the Permanent Fund. The Commission determined that under our plan the state needs only one significant reserve.

- The CBR should be maintained at a level of \$1.5 billion to provide stability in the event of a rapid decline in oil prices or production or in the event of a natural disaster. That amount is approximately one year's oil revenues. Funds in excess of that amount should be deposited into the principal of the Permanent Fund. Earnings from CBR investment should continue to flow into the CBR.

Funds in the CBR should be invested in accordance with the prudent investor rule based upon the purposes of the reserve. The commission recommends that the general fund be allowed to borrow against the CBR to even out the flow of funds required to meet monthly cash flow needs.

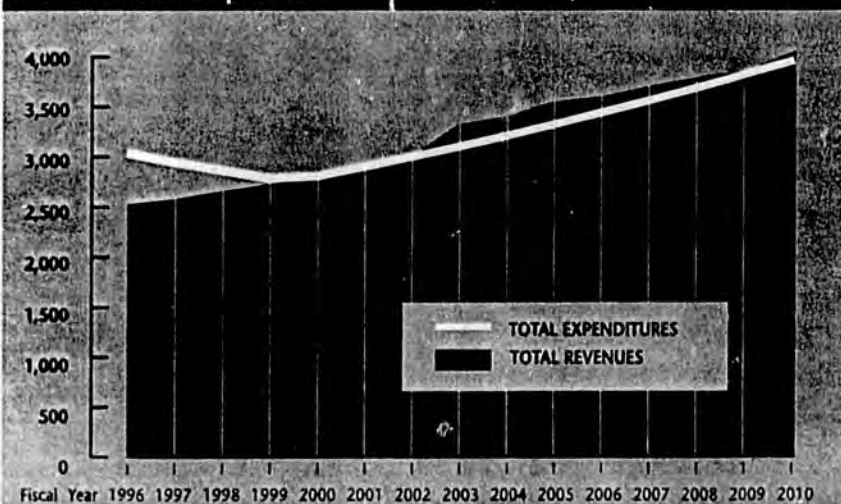
- The sweep provisions in the current CBR should be eliminated (Article X, Section 17 (d) of the Constitution). Sufficient controls on the use and withdrawal of funds from the CBR are achieved by limiting withdrawals from the fund to make up for projected annual revenue deficits rather than availability of funds.

Once the constitutional amendment establishing the Permanent Fund as an endowment is in place in FY98, all funds in the Permanent Fund Earnings Reserve should be deposited into the principal of the Permanent Fund. As an endowment, the Permanent Fund will be effectively inflation-proofed. The dividends will be payable out of the automatic annual withdrawal.

Reform the budget process

The Commission found the budget process does not yield

Total Revenues vs Expenditures



Continued On Next Page

State Long Range Financial Planning Commission Report

FINAL REPORT

How Big Is The Fiscal Gap? \$524 Million in Fiscal Year 1996

- Equal to all the salaries and benefits paid to all state agency employees
- Almost as much as the whole Permanent Fund dividend program
- It equals three-quarters of the entire K-12 public school funding program

Continued From Previous Page

adequate information concerning the State's finances, nor does it describe what we get for what we spend. It discourages appropriate scrutiny of overall State spending. Although the fiscal gap relates to State general fund spending, special funds set aside or collected affect services delivered by the State and require oversight and control.

- The budget process should include review of all State spending, not just State general funds. The executive and legislative branches should establish procedures to provide appropriate scrutiny and disclosure.

- A report to the public should be prepared annually on progress toward closing the fiscal gap. The Commission suggests the spreadsheet format it has used to show the existence or absence of a fiscal gap for the current and succeeding 10 years.

- The legislature should review each program funded or operated by the State, including loans and special appropriations to determine whether or not it meets its intended purpose and whether the program is needed in the 21st century. State programs should also be reviewed to determine if the service is better delivered at the local level.

- Capital improvement funding should be based on a six-year plan to achieve greater efficiencies in funding, planning, construction and maintenance.

The Commission was asked to examine the division of responsibility for providing services and raising revenues between the State and local governments. This area deserves intensive examination, substantially more than the Commission had time to give it. The Commission believes that the State and local governments must continue to work on the issue of the division of State and local responsibilities.

The five- and ten-year plan

In 1999, Alaska comes to a fork in the road. To prevent the

fiscal gap from reappearing, we can cut the budget further, reinstate the State personal income tax, increase other taxes, and/or further reduce dividends. The Commission recommends that a follow-up review be done in late 1998 and early 1999 to adjust the overall plan as needed for the succeeding five to ten years. By that time the budget should balance and we will know more about several things that are now uncertain such as ANWR, the gas line and federal budget changes. As a result, decisions for the first decade of the next century will be less dependent on speculation.

This Commission recommends reimposition of the State personal income tax once the deficit reappears. Under the Commission's plan, after cutting spending and raising revenues, the fiscal gap reappears in about the year 2002. A personal income tax act will require enactment in the year 2000 in order for it to take effect in 2002.

First Session Progress Report on the Financial Plan

Legislation

1. Resolution approving financial plan.
2. Permanent fund endowment constitutional amendment goes to the voters.
3. Constitutional budget reserve constitutional amendment goes to the voters.
4. Retirement incentive program.
5. Tier III to reduce retirement costs for new hires.
6. Geographic pay differential for non-covered employees.
7. Road/harbor transfers to local government and fuel tax increases.
8. Senior/veterans tax exemption becomes local option.
9. New oil & gas property tax has 50/50 split before debt.
10. Tobacco tax increase.
11. Alcohol tax increase.

12. User Fee increases of at least \$3 million

Budget Action

1. Meet fiscal gap target (about \$390 million); \$40 million cut from FY96.
2. Show all funds in State spending plan.
3. Deposit from CBR into Permanent Fund as in plan.
4. Administrative consolidations.
5. Six year capital plan approved.
6. Show Permanent Fund earnings and dividends as part of budget.
7. Do maintenance and deferred maintenance within budget target.
8. Start performance based budgeting.
9. Reduce growth rate of Medicaid and AFDC.

Second Session Progress Report

Legislative Action

1. Fisheries and other resource tax.
2. Tourism tax or self-support of industry promotion.
3. Deposit from CBR to Permanent Fund as in plan.
4. Additional \$3 million in fee increases/indexing.

Budget Action

1. Meet fiscal gap target of about \$220 million; \$70 million cut from FY96.

Third Session Progress Report

Legislative Action

1. Resolution creating financial planning Commission to review progress and make new recommendations.

Budget Action

1. Meet fiscal gap target of about \$60 million; \$100 million cut from FY96.

What The Plan Does

- Makes the Permanent Fund the cornerstone of Alaska's fiscal future
- Closes the fiscal gap by the year 2000
- Ensures growth of the Permanent Fund to offset declining oil and gas revenues
- Stabilizes and diversifies revenues
- Controls state general fund spending
- Maintains a reserve to dampen the effect of oil price swings
- Decreases our dependence on volatile oil revenues

State Long Range Financial Planning Commission Report

FINAL REPORT

LONG-RANGE FINANCIAL PLANNING COMMISSION	(Today's Dollars)									
	FY 1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
AVAILABLE REVENUES (\$ Millions):										
General Fund Source	1,952	1,882	1,669	1,641	1,607	1,575	1,509	1,464	1,414	1,362
Permanent Fund Earnings (Net of inflation proofing & ERA deposits)	565	500	630	648	677	700	727	759	785	810
NEW TAXES AND FEES (\$Millions)										
Highway Motor Fuel Tax (@ \$.219/gal., indexed)	-	38	39	39	40	41	41	42	43	43
Marine Motor Fuel Tax (\$.08/gal., indexed)	-	5	5	5	5	5	5	5	5	6
Tobacco Tax (\$1/pkg cigs; 75%chewing; +25c triennially)	-	42	41	40	50	49	48	57	56	55
Motor vehicle license fees (double)	-	-	27	27	26	26	26	25	25	24
User fee increases	-	3	6	8	11	13	12	12	12	11
Fishery and other resource tax increases	-	-	28	28	28	28	28	28	28	28
Tourism tax increases	-	-	19	19	19	19	19	19	19	19
Alcohol taxes (increase triennially)	-	19	19	19	22	22	22	21	25	25
Income tax	-	-	-	-	-	-	58	224	227	230
TOTAL REVENUE	2,517	2,490	2,483	2,475	2,485	2,478	2,495	2,656	2,639	2,614
EXPENDITURES (\$ Millions):										
Total GF spending on current programs	2,476	2,365	2,264	2,167	2,118	2,135	2,152	2,169	2,186	2,204
PF Dividends	565	500	438	378	367	356	345	334	324	314
TOTAL EXPENDITURES	3,041	2,865	2,702	2,546	2,485	2,490	2,496	2,503	2,510	2,517
PROJECTED ANNUAL FISCAL GAP (\$ Millions)	(524)	(376)	(219)	(71)	1	(12)	(1)	153	129	97
CONSTITUTIONAL BUDGET RESERVE ENDING BALANCE (\$ Millions)										
	1,500	1,456	1,412	1,368	1,326	1,285	1,245	1,207	1,170	1,134
PERMANENT FUND EARNINGS RESERVE ENDING BALANCE										
	922	1,194	-	-	-	-	-	-	-	-
PERMANENT FUND MARKET VALUE (\$ Millions)										
	17,766	17,625	19,391	20,131	20,804	21,459	22,110	22,897	23,657	24,379
PER CAPITA PERMANENT FUND DIVIDEND										
	990	852	727	611	582	553	526	501	475	452
PER CAPITA SPENDING										
	4,938	4,579	4,250	3,941	3,786	3,735	3,685	3,636	3,589	3,543

Special Acknowledgements

The members of the Long Range Financial Planning Commission acknowledge with thanks the contribution of its staff: Brad Pierce, Melissa Fouse, and Bob Walsh. Thanks are due also to House Speaker Gail Phillips, Representative Richard Foster, and OMB Director Annalee McConnell for sharing their staff resources with the Commission.

In addition, the members of the Commission acknowledge the contributions of the Alaska Journal of Commerce and Northwest Strategies in producing this report.

The State Long Range Financial Planning Commission Members

Brian Rogers
Fairbanks
Chairman

Bruce Ludwig
Juneau

Mike O'Conner
Anchorage

Judy Brady
Anchorage
Vice-Chair

Annalee McConnell
Juneau

Rep. Sean Parnell
Anchorage

Lee Gorsuch
Anchorage

Hugh Motley
Cooper Landing

Pat Pourchot
Anchorage

Sen. Georgianna Lincoln
Rampart

Rep. Mike Navarre
Kenai

Sen. Steve Rieger
Anchorage

Robert Loescher
Juneau

Mary Nordale
Fairbanks

Marie Westfall
Ketchikan

State Long Range Financial Planning Commission Report

DISSENTING OPINIONS

By State Sen. Steve Rieger

The Long Range Financial Planning Commission has identified a series of measures which would balance revenues and expenditures over the next ten or more years. However, the final Commission Report goes beyond that task, and recommends additional taxes beyond those which are part of closing the fiscal gap, and which instead serve to place additional money into the corpus of the Permanent Fund. These additional measures are excessive.

The major reason for concern about the fiscal gap was the prospect that, if action was not taken, there would be a crisis reached which would trigger a sudden drop in state spending and threaten the economy and people's jobs, or a major (in the nine figures) new tax such as an income tax or statewide sales tax, or both. These outcomes are all avoided in the Minority Report's plan. However, a major new tax is included in the Commission report.

The Composite Scenario

A set of meaningful but non-precipitous budget cuts, a series of smaller taxes and fees, and use of a portion of the Permanent Fund's earnings after inflation-proofing, closes the gap entirely for about a decade. Under a "Composite Scenario"

developed during the Commission's deliberations, (and using the Commission's assumptions), by the year 2010 these measures would also result in a Permanent Fund balance of almost \$30 billion and additional cash reserves of over \$5 billion. In today's dollars these numbers would be over \$19 billion and \$3 billion respectively. The Composite Scenario represents a reasonable course for Alaska.

Where the Commission Report and the Minority Report part company most dramatically is the extent to which they pursue the goal of making the Permanent Fund an "endowment" for future government spending. To pursue this thought, the Commission Report recommends diverting an additional \$250 million of today's royalties away from the general fund and into the Permanent Fund, thereby cutting the present state revenue stream by approximately \$250 million per year and actually increasing the fiscal gap; by dumping most present or forecast cash reserves into the Permanent Fund; reducing the dividend payout more than in the "Composite Scenario" referred to above; imposing an additional \$40 million to \$50 million per year in small taxes over those used in the Composite Scenario; and by imposing a major new personal income tax generating \$385 million per

year by the year 2010. These measures, including the smaller reserves, result in a Permanent Fund which is a little over \$40 billion in the year 2010, or the equivalent of \$26 billion in today's dollars.

In the Minority Report's view, these additional measures are not worth the sole accomplishment of a Permanent Fund which is 1/3 larger in size. They do not succeed in creating an endowment for state spending, and impose taxes where they are not needed. The Permanent Fund can be a very substantial source of stability and cash for the future. However, in neither the plan advanced by the Commission nor in the Composite Scenario does it come even close to being the sole source of funding for state government.

The fiscal gap can be closed satisfactorily for the next decade with a much more modest set of measures. These measures would be similar to those shown in the Composite Scenario referred to above. A full version of this Minority Report and the Composite Scenario spreadsheet are available by calling 258-8188—we will mail it to you.

State Sen. Steve Rieger, R-Anchorage, was a member of the State Long Range Financial Planning Commission.

By State Rep. Sean Parnell and Hugh Motley

The Commission's Plan Failed to Recognize and Address Alaska's Fundamental Problem: Unstable, Unpredictable Revenues

- Alaska depends upon volatile natural resource revenues for state spending.
- Alaska spends those resources, under the current system, at an unsustainable rate.
- A sustainable level of government spending cannot be defined until Alaska has a *stable* source of revenue.
- The Commission spent the majority of its time grappling with how to close the present fiscal gap rather than focusing on how to stabilize Alaska's revenue stream.
- Alaska's revenue stream must be stabilized and made sustainable for a healthy future: long range planning is impossible without a predictable revenue stream.

The Commission's Plan Is Unacceptable to the General Public

- The plan assumes the current level of government

spending is acceptable and sustainable.

- The public does not accept this premise and will not accept the plan's recommendations for new taxes, cuts in permanent fund dividends, and expending permanent fund earnings to increase state government unless more meaningful reductions are made.
- The Commission's plan recommends creating a partial endowment using the permanent fund to increase spending.
- The Commission's partial endowment fails to stabilize revenues and fails to define a sustainable level of spending.
- The Commission's plan relies on "faith in the Legislature" rather than building fiscal restraint into the legislative budget process.

The Benefits of a True Endowment System

- The true endowment establishes a stable and sustainable level of revenues for state funding.
- The true endowment constitutionally forces fiscal restraint upon the Legislature and Governor.
- The true endowment strengthens and protects the permanent fund.

- The true endowment constitutionally protects future windfalls (ANWR taxes and royalties, for example) by depositing them in their entirety to the corpus of the permanent fund.

Principles to Use for Closing the Present Fiscal Gap

- Once resource revenues have been stabilized through a system, a long range financial plan can be developed.
- A fiscal plan should prioritize meaningful budget reductions before taxes.
- State agencies should be consolidated to operate more efficiently.
- Voters, not the Legislature, must approve an income tax.

State Rep. Sean Parnell, R-Anchorage, was a member of the State Long Range Financial Planning Commission.

By Senator Georgianna Lincoln

A Different Opinion

While I believe the Long Range Financial Planning Commission did an admirable job identifying the options for closing Alaska's ever-widening fiscal gap, I have concerns that lead to this opinion. I did vote to advance the final document to the Governor and the Legislature, as did the majority of the Long Range Financial Planning Commission. However, I do not believe any commission member considered this to be an endorsement of *everything* within the report. It must be pointed out the commission was given a huge task to accomplish within a very short time and with an extremely small budget.

I applaud the commission for giving the public the opportunity to participate in its work, with serious attention paid to the comments throughout our deliberations. One subject which received, in my opinion, strong public support has not been incorporated into the commission's recommendations and that is reinstitution of the state income tax now. During my years in the legislature, I have wrestled with the wisdom of such an action. Since 1990, Alaska has grown by approximately 100,000 residents with as much as 25 percent of our

work force being non-resident; non-residents contribute little to our economy but take much from it. The current plan recommends immediate introduction of a number of smaller taxes based on use with the state income tax implemented after the year 2000. I believe a state income tax, which taxes everyone (resident and non-resident) equitably, would result in a reduction to the state's fiscal gap, but would not result in such a huge, immediate reduction in state government programs as proposed by the commission. Recommended cuts to these programs would devastate those who can least afford them — our youth, our elders, and the disadvantaged. Again, it was my sense in listening and talking to citizens across the state that folks are willing to reinstate the state income tax now and not later as the commission report recommends.

We do not know specifically what Washington D. C. will do within the next year in terms of revisions and/or reductions to programs such as welfare reform, Medicaid, and the transfer of federal responsibility for services such as transportation and education to the State. We do know many of these decisions will have a major negative fiscal impact on our Alaska citizens.

Further, I believe economic opportunity is another key to closing the fiscal gap. Jobs, jobs, jobs!!! This plan does not go far enough in providing incentives for entrepreneurship or enhancing economic opportunity throughout our state. In failing to do so, the plan does not propose solutions to diversify the economy, create jobs, and end the vicious cycle of welfare. We must analyze, in the proper perspective, the impacts of closing the fiscal gap in a rational manner. Without question, the state must cut spending to close the fiscal gap. Although I support many of the commission's current recommendations, I caution those responsible for implementing a final plan to ensure cuts are spread equitably and economic and job development reaches the smallest of communities throughout our great state.

State Sen. Georgianna Lincoln, D-Rampart, was a member of the State Long Range Financial Planning Commission.

SCOMM

101:22

A Plan For Closing Alaska's Fiscal Gap

**The Final Report
of the
State of Alaska
Long-Range
Financial Planning Commission**

Long-Range Financial Planning Commission

**Established by Alaska's Legislature
and Governor in March 1995**

15 Alaskans

- 5 Appointed by Governor Tony
Knowles**

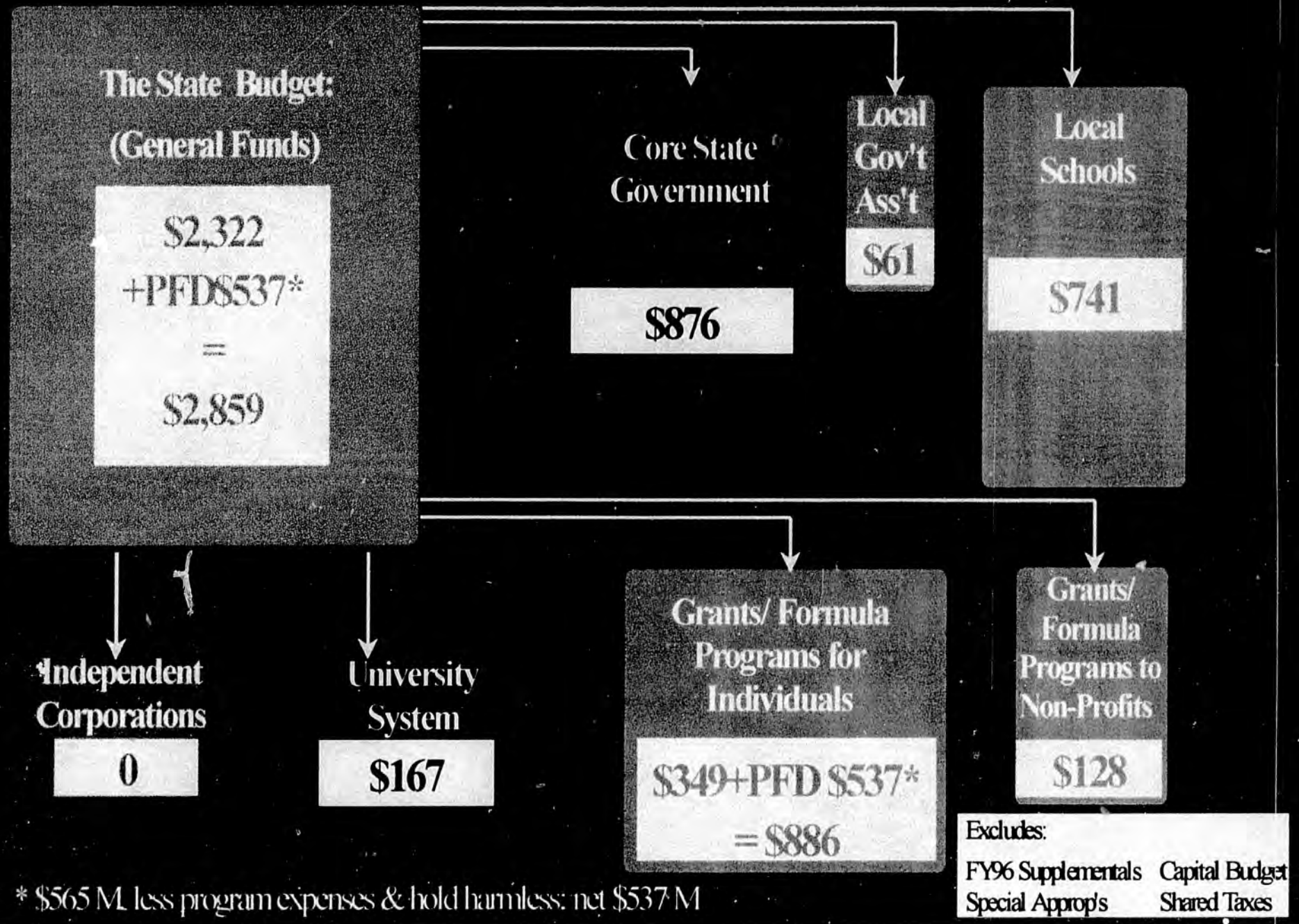
- 5 Appointed by Speaker of the
House Gail Phillips**

- 5 Appointed by Senate President
Drue Pearce**

Long-Range Financial Planning Commission

- **Examine the size of the "fiscal gap"**
- **Look for budget reductions and revenue increases**
- **Examine budget process**
- **Consider impacts of changes on local governments**
- **Hear from the public about the choices Alaskans face**

How Big is the Budget?



How Big is the Fiscal Gap?

- **It is more than all the general fund salaries and benefits paid to all State agency employees**
- **It is almost as much as the whole Permanent Fund dividend program**
- **It equals three-quarters of the entire K-12 public school funding program**

Alaska's Growing Fiscal Gap

Base Case in Today's Dollars

\$3,500
\$3,000
\$2,500
\$2,000
\$1,500
\$1,000
\$500
\$0

FY 96 FY 97 FY 98 FY 99 FY 00 FY 01 FY 02 FY 03 FY 04 FY 05

Revenues

Expenditures

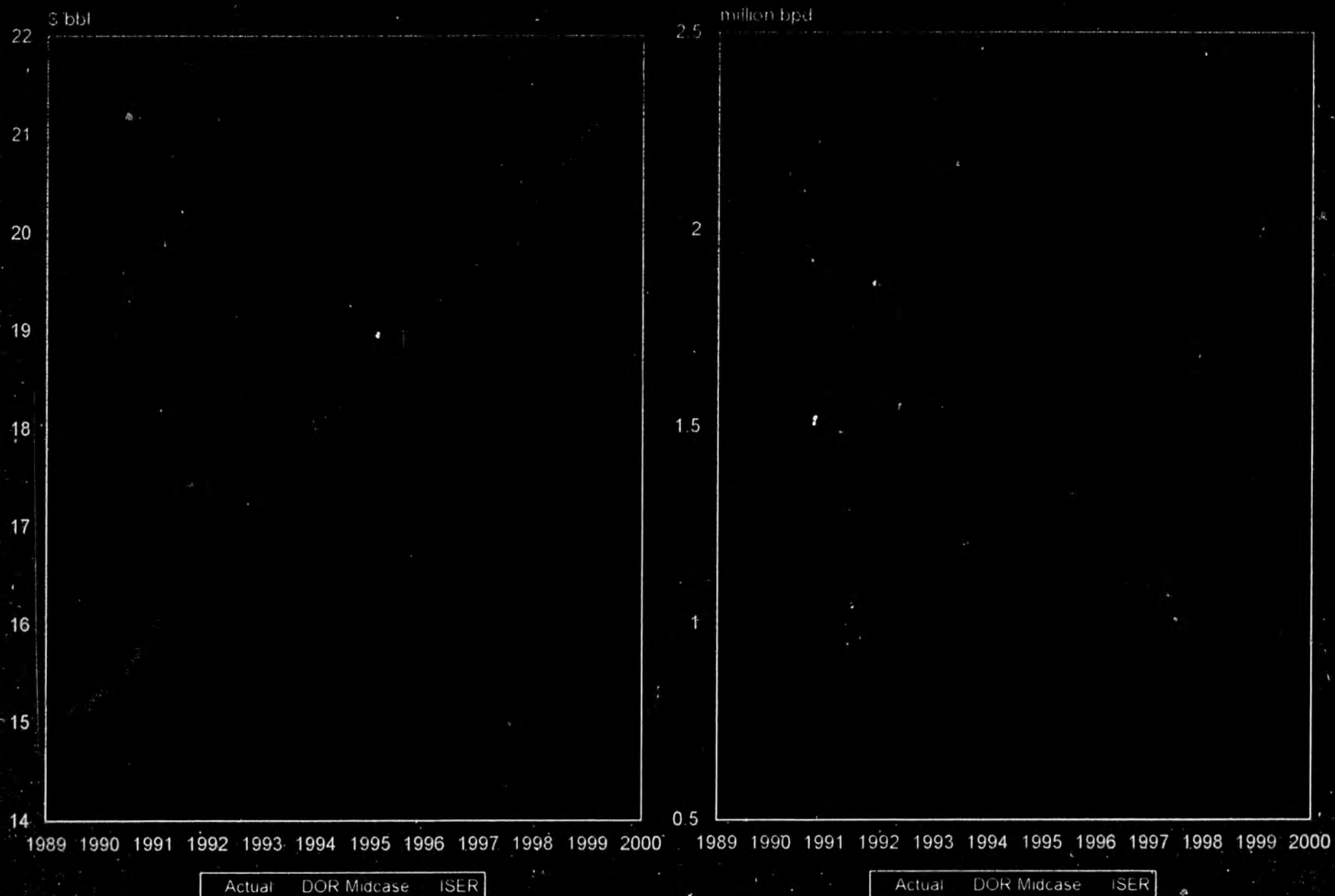
Are We Crying Wolf?

The Gulf War oil price increase in FY90-91 provided much higher revenues than forecast

The budget has been cut more than ISER predicted

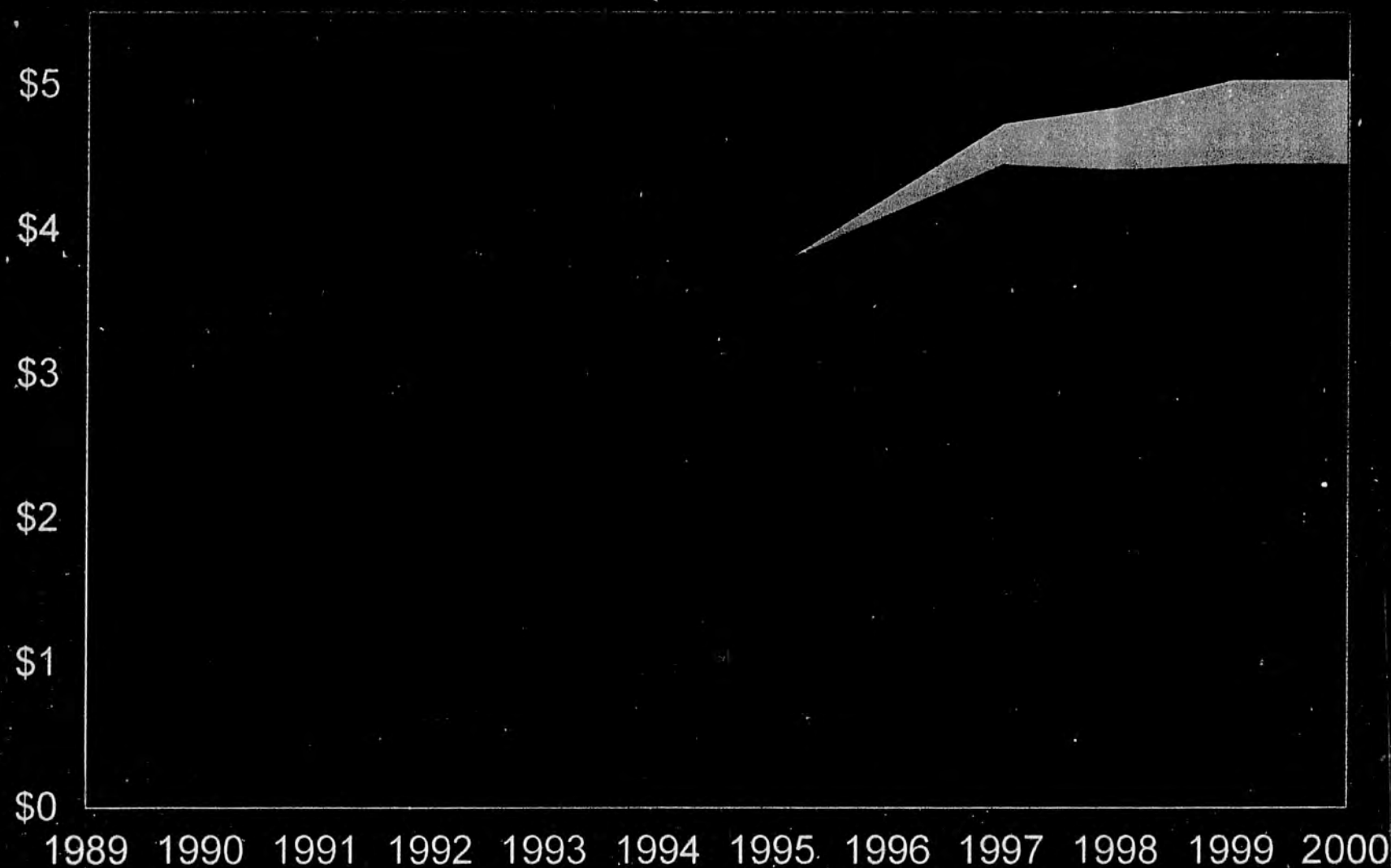
Oil settlements have been over two times as large as ISER predicted

Oil Prices & Production



Cumulative Settlement Amounts

billion \$



Actual ■ DOR Projection ISER

The Plan Recommended By This Commission

- **Creates a new philosophy for State revenues**
 - Permanent Fund income begins to replace oil revenues
- **Enhances our ability to save for future generations**
- **Imposes some spending discipline on the State**
- **Defines a role of the Permanent Fund in Alaska's future**
- **Clears up some of the confusion over cash reserves**
- **Suggests embarking upon some structural changes in State government**
- **Involves the public in the decision making process**

The Plan Closes The Fiscal Gap

It:

- **Cuts spending**
- **Increases revenues**
- **Establishes the Permanent Fund as an endowment**
- **Caps the Permanent Fund dividend pool**

The First Three Years

Budget Cuts

- \$100 million in nominal dollars
 - \$40 million in 1996
 - \$30 million in 1997
 - \$30 million in 1998
- \$300 million reduction in today's dollars (takes \$100 million in cuts and absorbs inflationary increases)
 - Equals a 5% per year reduction in existing services

Spending Side

Recommendations

- **Salaries & Benefits**

- **Adoption of a Retirement Incentive Program**

- ▶ **Tier III retirement plan**

- **Reduce retirement benefits for new employees**

- **New geographical pay differentials**

- **Salary & benefits study**

Spending Side

Recommendations

- Consolidate administrative support functions
- Reduce growth in formula programs
 - Education, Health & Social Services, Corrections
- Review health plans
 - Combine plans & self-insurance
- Longevity bonus program
 - Repeal if courts reject phase-out plan

Spending Side

Recommendations

- **Local Government**
 - **Repeal senior citizens' tax exemption**
 - ▶ **Replace with local option**
 - **Shift inspection functions to local governments**
 - **Eliminate State funding of troopers in communities with population of 2,500 or more**

Spending Side

Recommendations

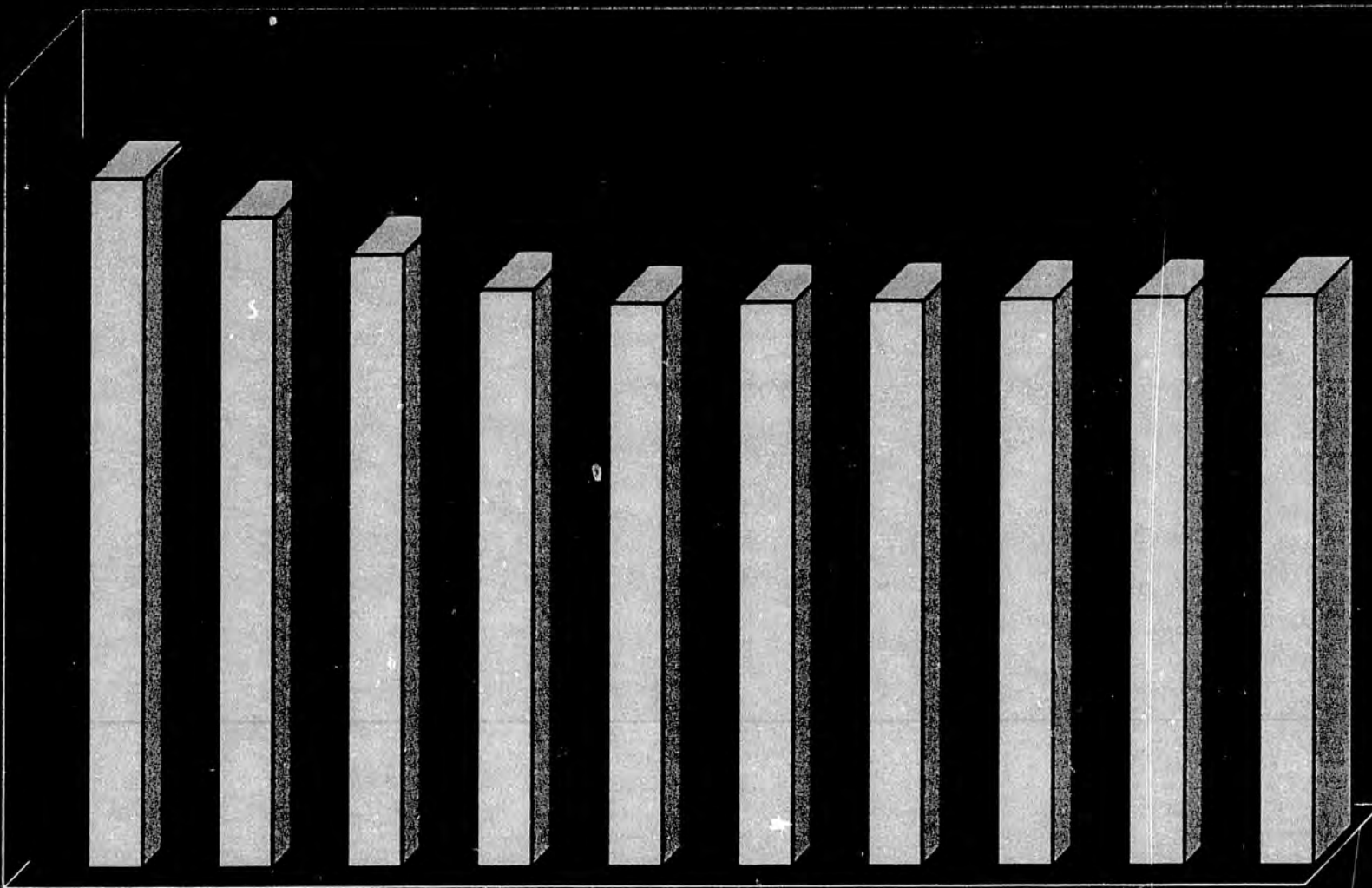
- **Review opportunities for privatization and contracting out**
- **Consider out-sourcing and in-sourcing**
 - **Allow State employee groups to bid against private sector**

Expenditure Comparison

Today's Dollars

million \$

\$3,500
\$3,000
\$2,500
\$2,000
\$1,500
\$1,000
\$500
\$0



FY 96 FY 97 FY 98 FY 99 FY 00 FY 01 FY 02 FY 03 FY 04 FY 05

Base Case ■ Endowment Plan

Endowment Plan Per Capita State Spending



General Fund Operations
Total GF & Dividends

New Taxes & User Fees

\$150 million

- **Dramatic increases in tobacco & alcohol taxes**
 - **\$1 per pack of cigarettes**
 - **10 cents per drink for alcohol**
- **Increase marine motor fuel tax from 5 to 8 cents per gallon**
- **Double motor vehicle license fees**
 - **Eliminate exemptions for motor vehicle fees**
- **Increase user fees**
- **Establish tourism industry taxes**
- **Increase fishery & other resource taxes**

Reinstitute the Individual Income Tax

\$300 million

- When the fiscal gap reappears, reinstitute the Individual Income Tax
 - Repealed in 1980
- Each 1% of tax raises about \$75 million per year
 - Nonresidents would pay about 11% of total tax

Revenue Comparison

million \$ Today's Dollars

\$3,000

\$2,500

\$2,000

\$1,500

\$1,000

\$500

\$0

FY 96 FY 97 FY 98 FY 99 FY 00 FY 01 FY 02 FY 03 FY 04 FY 05

Base Case

Endowment Plan

Permanent Fund Becomes Cornerstone Of Alaska's Fiscal Future

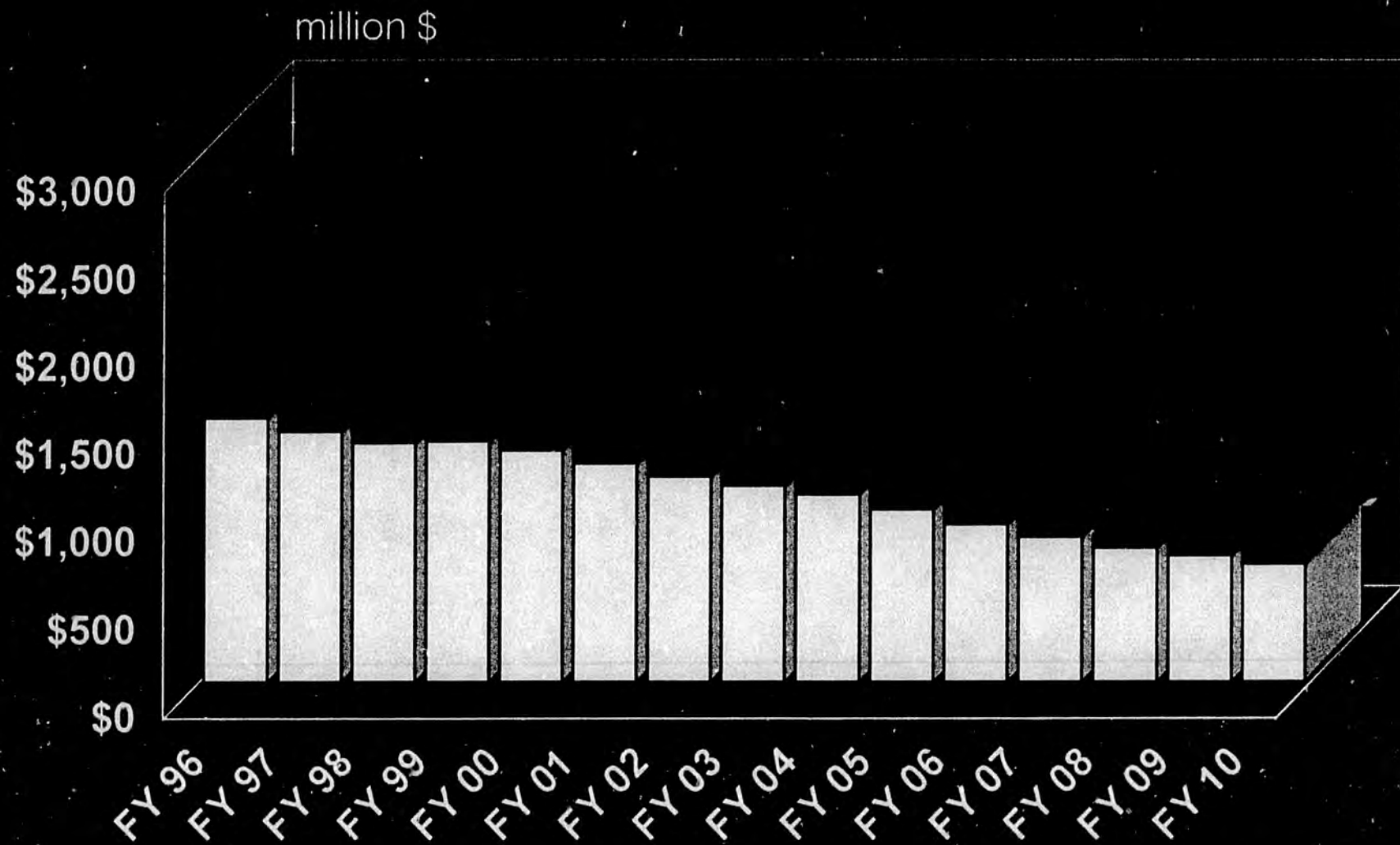
- **Establish Permanent Fund as an endowment**
 - **Set payout rate of 4% of the average market value for the preceding 5 years**
 - ▶ **4% is common for funds across the country**
 - ▶ **Preserves the purchasing power by making large inflation-proofing deposits in good years**
 - ▶ **Smaller inflation-proofing deposits in bad years**

Endowment Plan Insures Growth Of The Permanent Fund

- **Raise dedicated percentage of royalties and bonuses from 25% to 50% of ALL fields**
- **Deposit the entire Permanent Fund Earnings Reserve into the fund**
- **Deposit from the Constitutional Budget Reserve all amounts in excess of \$1.5 billion on an annual basis into the Permanent Fund**

Oil Revenue & Permanent Fund Income

Today's Dollars



LRFPC Base Case

Oil Revenue

Permanent Fund Income

Permanent Fund Dividend

- **Step down the dividend payment**
 - **FY96 payment \$565 million**
 - ▶ **Drop the dividend pool by \$50 million for the next 3 years**
- **Dividend payments**
 - **\$990 in 1995**
 - **\$900 in 1996**
 - **\$800 in 1997**
- **Freeze the dividend pool at \$415 million**

Permanent Fund Dividend Pool

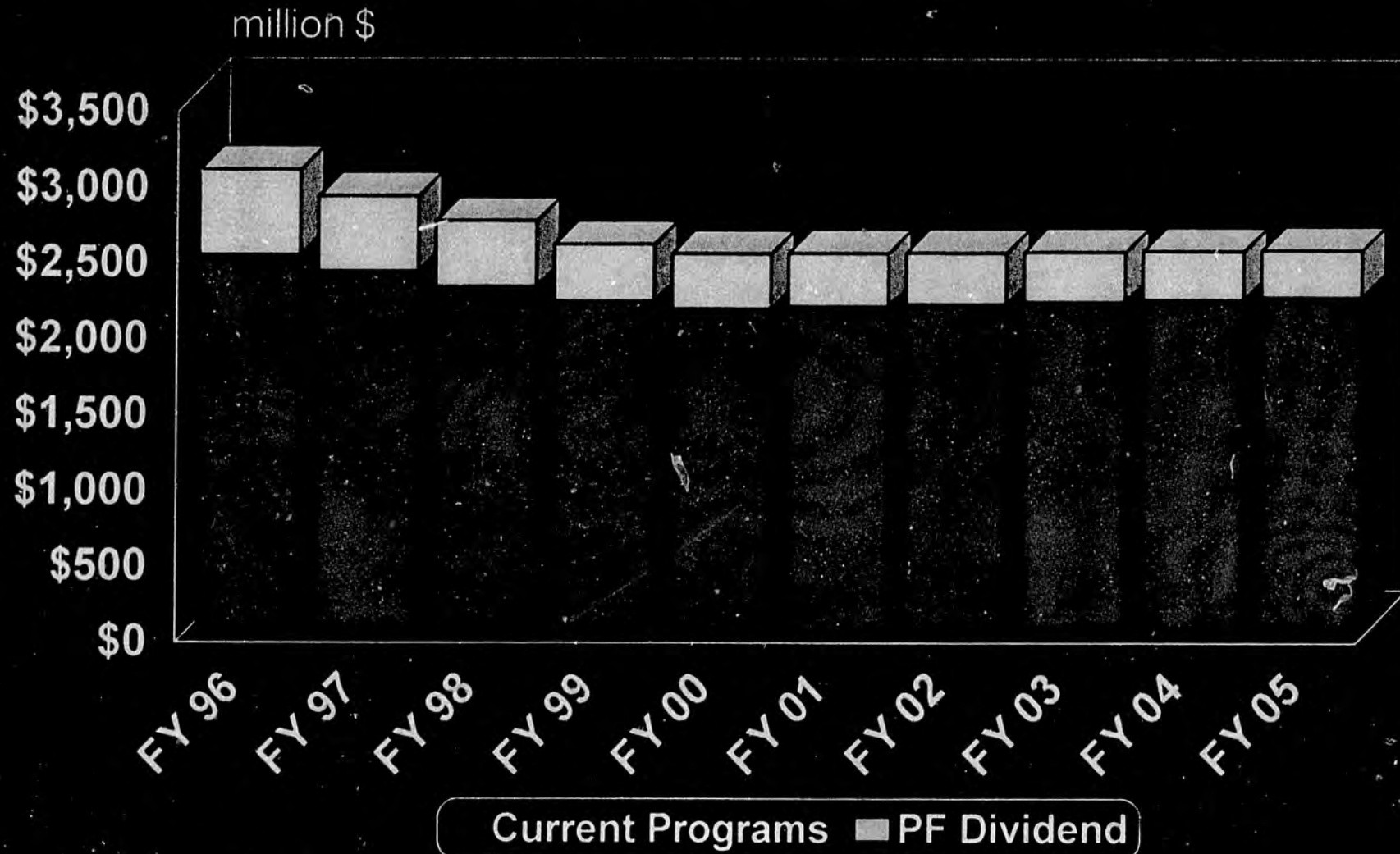
Today's Dollars



Endowment Plan Base Case

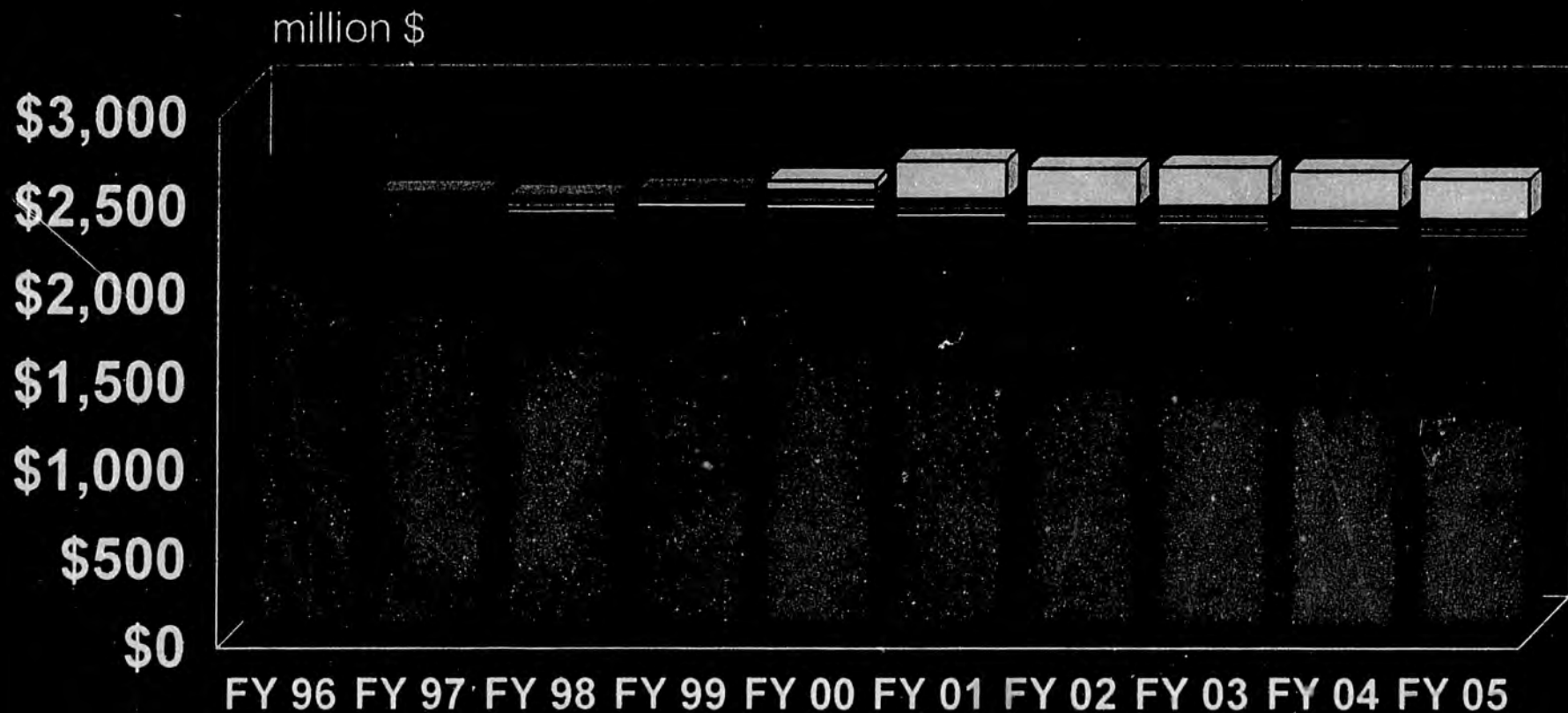
Expenditures

Endowment Plan Today's Dollars



Revenue Sources

Endowment Plan
Today's Dollars



- | | | |
|--------------------|-------------|--------------------|
| Existing GF | PF Net | Endowment Earn |
| Highway Fuel | Marine Fuel | Tobacco Tax |
| Motor Vehicle Fees | User Fees | Fishery & Resource |
| Tourism Tax | Alcohol Tax | Income Tax |

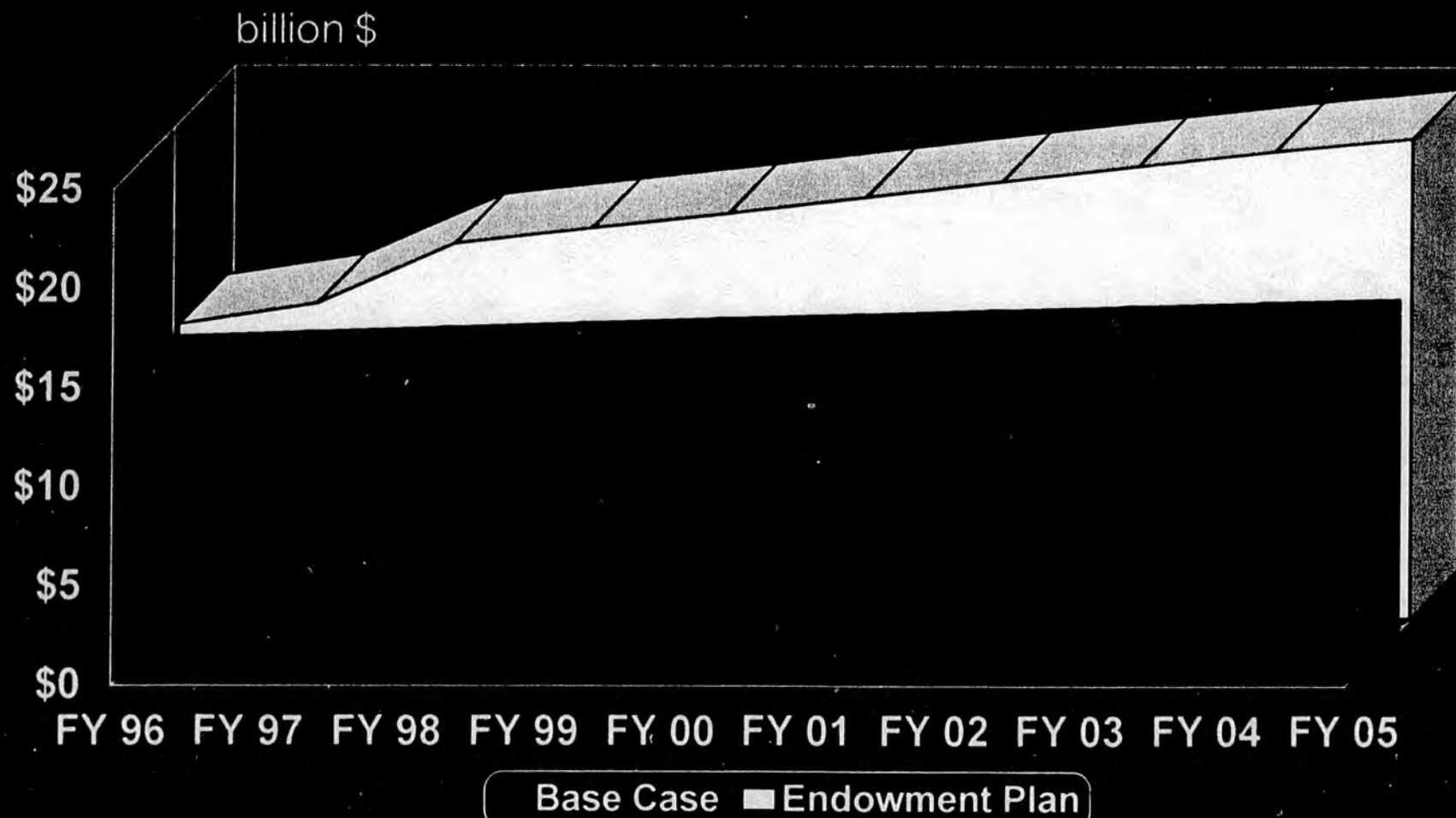
Endowment Plan Closes The Gap

Today's Dollars



Permanent Fund Principal

Today's Dollars



What The Plan Does

- Makes the Permanent Fund the cornerstone of Alaska's fiscal future
- Closes the fiscal gap by the year 2000
- Ensures growth of the Permanent Fund to offset declining oil and gas revenues
- Stabilizes and diversifies revenues
- Controls State general fund spending
- Maintains a reserve to dampen the effect of oil price swings
- Decreases our dependence on volatile oil revenues

Projected Constitutional Budget Reserve Fund Balance



SCOMM

101:23

LONG RANGE FINANCIAL PLANNING COMMISSION
716 West Fourth Avenue, #470
Anchorage, Alaska 99501

MEMORANDUM

08 January 1996

TO: Tamara Brandt Cook
Director, Legislative Legal Services

FROM: Melissa Fouse, Staff
Long Range Financial Planning Commission

The Commission met on Friday, 05 January 1996 to finalize its packet of legislation. Following is a list of those bills requested by the Commission and any changes they approved. Please prepare this legislation for introduction by the Rules Committee and have them delivered to Tim Benintendi in the House Rules Committee Office, Capitol Room 204 and to Theresa Sager in the Senate Rules Committee, Capitol Room 125.

9-LS1264\G "An Act relating to excise taxes on alcoholic beverages; and providing for an effective date". **Please remove section 2, the CPI indexing section.**

9-LS1265\F "An Act relating to taxes on cigarettes and tobacco products; and providing for an effective date" **Please remove sections 4 & 5, the CPI indexing section and notice requirements under that section.**

9-LS1267\F " An Act relating to motor vehicle registration fees; and providing for an effective date." **Please check page 2, line 28 for numbering.**

9-LS1268\G "An Act relating to the tax on transfers or consumption of motor fuel, and repealing the exemption from that tax for motor fuel which is at least 10 percent alcohol by volume; and providing for an effective date".

9-LS1319\C "Proposing amendments to the Constitution of the State of Alaska relating to the budget reserve fund".

9-LS1428\A " An Act relating to municipal property tax exemptions for certain residences and to property tax equivalency payments for certain residents; and providing for an effective date."

9-LS1433\A "Proposing an amendment to the Constitution of the State of Alaska relating to the permanent fund.

Also attached is a draft concurrent resolution. Please prepare one for each body.

Thank you. If you have any questions please call me at 258-8165.

Draft LRFPC Resolution

Whereas the state has spent more than it has collected in revenues during six of the past nine fiscal years;

Whereas the state's Fiscal Year 1996 fiscal gap between revenues and expenditures is estimated to be \$429 million;

Whereas petroleum revenues currently account for about 80% of unrestricted general funds and Alaska's petroleum production is projected to decline by a third during the next 10 years;

Whereas the fiscal gap is projected to grow steadily to \$1.65 billion by Fiscal Year 2005 if the state does nothing in terms of reducing expenditures or raising revenues;

Whereas current reserves in the Constitutional Budget Reserve fund will be depleted by Fiscal Year ~~2000~~ without changes in projected revenues and expenditures; 2000

Whereas fiscal policy forums held during the past five years have identified that the fiscal tools needed to address the fiscal gap include spending reductions, use of liquid reserves, tax and fee increases and use of Permanent Fund income;

Whereas the fiscal policy forums held to date have concluded that neither budget cuts alone nor any single fiscal tool is sufficient to address the fiscal gap and that all tools must be used in combination to bring about state economic stability;

Whereas the members of the Long Range Financial Planning Commission (LRFPC) were jointly appointed by the Governor and Legislature to build upon the work of previous fiscal policy studies and the findings of public forums and were charged with developing three, five and ten year financial plans for balancing revenues and expenditures;

Whereas the financial plan developed by the Commission makes the Permanent Fund the cornerstone of Alaska's fiscal future through a constitutional amendment establishing the Permanent Fund as an endowment that will continue to grow with additional deposits and retained earnings as well as provide a reliable annual payout to the general fund in order to replace declining future oil revenues

Whereas the financial plan recommended by the Commission contains a combination of spending reductions including reductions in Permanent Fund dividends, use of Permanent Fund earnings, and revenue increases that

will close the fiscal gap by Fiscal Year 2000 and balance revenues with expenditures through Fiscal Year 2005;

Whereas the Commission's plan proposes a constitutional amendment that resolves problems with the existing Constitutional Budget Reserve fund and maintains a \$1.5 billion continuing balance to cushion oil price volatility;

Whereas the combination of fiscal policies recommended by the Commission puts Alaska on firm fiscal ground and strikes a balance between current needs and providing a legacy of petroleum wealth to the next generation;

Whereas the Long Range Financial Planning Commission recommended Fiscal Year 97 actions to narrow the fiscal gap to \$387 million that includes general fund spending reductions, and increased taxes and user fees.

Therefore be it resolved that the Nineteenth Alaska Legislature intends to use the recommendations of the Long Range Financial Planning Commission as a starting point in developing the Legislature's Fiscal Year 1997 budget and long range financial plan, and

Be it further resolved that the Nineteenth Alaska Legislature adopts the recommendation of the Long Range Financial Planning Commission to narrow the fiscal gap in Fiscal Year 1997 to \$387 million provided that the Legislatures reserves the right to change the mix of spending reductions and revenue increases, and

Be it further resolved that the Nineteenth Alaska Legislature adopts the recommendation of the Long Range Financial Planning Commission to close the fiscal gap by Fiscal Year 2000, and

Be it further resolved that the Nineteenth Alaska Legislature adopts the recommendation of the Long Range Financial Planning Commission to annually balance state revenues with expenditures from Fiscal Year 2000 through Fiscal Year 2005, and urges subsequent Alaska Legislatures to follow this recommendation, and

Be it further resolved that the Nineteenth Alaska Legislature adopts the recommendation of the Long Range Financial Planning Commission that the Legislature and the Governor should report annually to the people of Alaska on actions taken to close the fiscal gap and the impacts of those actions on the Commission's base case projections, and

Be it further resolved that the Nineteenth Alaska Legislature urges all Alaskans to learn about Alaska's fiscal situation and to support the actions necessary to close the fiscal gap, and

Be it further resolved that the Twentieth Alaska Legislature is urged to crease and appoint a successor Long Range Financial Planning Commission in 1998 to assess progress in closing the fiscal gap and to recommend further actions to close the fiscal gap and maintain a balanced state budget.

Copies of this resolution shall be sent to Governor Tony Knowles, President of the Senate Drue Pearce, Speaker of the House Gail Phillips, and the members of the Long Range Financial Planning Commission.

9-LS1264\G ✓
Chenoweth
12/12/95

BILL NO.**IN THE LEGISLATURE OF THE STATE OF ALASKA****NINETEENTH LEGISLATURE - SECOND SESSION**

BY THE _____ RULES COMMITTEE BY REQUEST OF THE LONG RANGE
FINANCIAL PLANNING COMMISSION

Introduced:

Referred:

A BILL**FOR AN ACT ENTITLED**

1 "An Act relating to excise taxes on alcoholic beverages; and providing for an
2 effective date."

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

4 * Section 1. AS 43.60.010(a) is amended to read:

5 (a) Every brewer, distiller, bottler, jobber, retailer, wholesaler, or manufacturer
6 who sells alcoholic beverages in the state or who consigns shipments of alcoholic
7 beverages into the state, whether or not the alcoholic beverages are brewed, distilled,
8 bottled, or manufactured in the state, shall pay on all malt beverages (alcoholic content
9 of one percent or more by volume), wines, and hard or distilled alcoholic beverages,
10 the following taxes:

11 (1) malt beverages, per [AT THE RATE OF 35 CENTS A] gallon or
12 fraction of a gallon, at the following rates:

13 (A) on and after the effective date of this Act and through
14 June 30, 1999 - \$1.05;

(B) after June 30, 1999, and through June 30, 2002 - \$1.15;

(C) after June 30, 2002, and through June 30, 2005 - \$1.25;

and

(D) after June 30, 2005 - \$1.25 plus an additional 10 cents

during each succeeding three-year period, the increase to be effective on

the first day of the succeeding three-year period;

(2) wine or other beverages of 21 percent alcohol by volume or less,
per [AT THE RATE OF 85 CENTS A] gallon or fraction of a gallon, at the following
rates:

(A) on and after the effective date of this Act and through
June 30, 1999 - \$2.50;

(B) after June 30, 1999, and through June 30, 2002 - \$3.15;

(C) after June 30, 2002, and through June 30, 2005 - \$3.80;

and

(D) after June 30, 2005 - \$3.80 plus an additional 65 cents
during each succeeding three-year period, the increase to be effective on
the first day of the succeeding three-year period; and

(3) other beverages having a content of more than 21 percent alcohol
by volume, per [AT THE RATE OF \$5.60 A] gallon or fraction of a gallon, at the
following rates

(A) on and after the effective date of this Act and through
June 30, 1999 - \$8.50;

(B) after June 30, 1999, and through June 30, 2002 - \$10.60;

(C) after June 30, 2002, and through June 30, 2005 - \$12.70;

and

(D) after June 30, 2005 - \$12.70 plus an additional \$2.10
during each succeeding three-year period, the increase to be effective on
the first day of the succeeding three-year period.

* Sec. 2. AS 43.60 is amended by adding a new section to read:

Sec. 43.60.025. TAX ADJUSTMENT. (a) In addition to changes in the
amount of the tax made by AS 43.60.010(a), the amounts in AS 43.60.010(a) change,

1 as provided in this section, according to and to the extent of changes in the Consumer
2 Price Index for all urban consumers for the Anchorage Metropolitan Area compiled by
3 the Bureau of Labor Statistics, United States Department of Labor. The index for
4 January of 1997 is the reference base index.

5 (b) The amounts change on July 1 of each even-numbered year in an amount
6 equal to the percentage of change, calculated to the nearest whole percentage point,
7 between the index for January of that year and the most recent index used to change
8 the amount in AS 43.60.010(a). However, the amounts do not change if the amounts
9 required by this section are those currently in effect as a result of earlier application
10 of this section.

11 (c) If the index is revised, the percentage of change is calculated on the basis
12 of the revised index. If a revision of the index changes the reference base index, a
13 revised reference base index is determined by multiplying the reference base index
14 applicable by the rebasing factor furnished by the United States Bureau of Labor
15 Statistics. If the index is superseded, the index referred to in this section is the one
16 represented by the Bureau of Labor Statistics as reflecting most accurately changes in
17 the purchasing power of the dollar for Alaskan consumers.

18 * Sec. 3. AS 43.60 is amended by adding a new section to read:

19 Sec. 43.60.035. NOTICE. At the time of a change in the amount of tax under
20 AS 43.60.010(a) or 43.60.025, the department shall promptly give public notice of the
21 change. The department shall also provide notification of a change in the amount to
22 each brewer, distiller, bottler, jobber, retailer, wholesaler, manufacturer, or other person
23 liable for payment of the tax levied by AS 43.60.010.

24 * Sec. 4. This Act takes effect October 1, 1996.

9-LS1265\F ✓
Chenoweth
12/12/95

BILL NO.**IN THE LEGISLATURE OF THE STATE OF ALASKA****NINETEENTH LEGISLATURE - SECOND SESSION**

**BY THE _____ RULES COMMITTEE BY REQUEST OF THE LONG RANGE
FINANCIAL PLANNING COMMISSION**

Introduced:

Referred:

A BILL**FOR AN ACT ENTITLED**

1 "An Act relating to taxes on cigarettes and tobacco products; and providing for
2 an effective date."

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

4 * Section 1. AS 43.50.190(a) is amended to read:

5 (a) On [THERE IS LEVIED AN EXCISE TAX OF 12 MILLS ON] each
6 cigarette imported or acquired in this state, there is levied an excise tax at the
7 following rates:

8 (1) on and after the effective date of this Act and through June 30,
9 1999 - 62 mills;

10 (2) after June 30, 1999, and through June 30, 2002 - 74 mills;

11 (3) after June 30, 2002, and through June 30, 2005 - 86 mills; and

12 (4) after June 30, 2005 - 86 mills plus an additional 12 mills during
13 each succeeding three-year period, the increase to be effective on the first day of
14 the succeeding three-year period.

1 * Sec. 2. AS 43.50.190 is amended by adding a new subsection to read:

2 (c) At the time of a change in the amount of tax under (a) of this section, the
3 department shall give public notice of the change. The department shall also provide
4 notification of the change to all persons licensed under this chapter.

5 * Sec. 3. AS 43.50.300 is amended to read:

6 Sec. 43.50.300. EXCISE TAX LEVIED. An excise tax is levied on tobacco
7 products in the state at the rate of 100 [25] percent of the wholesale price of the
8 tobacco products. The tax is levied when a person

9 (1) brings, or causes to be brought, a tobacco product into the state
10 from outside the state for sale;

11 (2) makes, manufactures, or fabricates a tobacco product in the state
12 for sale in the state; or

13 (3) ships or transports a tobacco product to a retailer in the state for
14 sale by the retailer.

15 * Sec. 4. AS 43.50 is amended by adding a new section to article 4 to read:

16 Sec. 43.50.365. TAX ADJUSTMENT. (a) The amount in AS 43.50.300
17 changes, as provided in this section, according to and to the extent of changes in the
18 Consumer Price Index for all urban consumers for the Anchorage Metropolitan Area
19 compiled by the Bureau of Labor Statistics, United States Department of Labor. The
20 index for January of 1997 is the reference base index.

21 (b) The amounts change on July 1 of each even-numbered year in an amount
22 equal to the percentage of change, calculated to the nearest whole percentage point,
23 between the index for January of that year and the most recent index used to change
24 the amount in AS 43.50.300. However, the amounts do not change if the amounts
25 required by this section are those currently in effect as a result of earlier application
26 of this section.

27 (c) If the index is revised, the percentage of change is calculated on the basis
28 of the revised index. If a revision of the index changes the reference base index, a
29 revised reference base index is determined by multiplying the reference base index
30 applicable by the rebasing factor furnished by the United States Bureau of Labor
31 Statistics. If the index is superseded, the index referred to in this section is the one

1 represented by the Bureau of Labor Statistics as reflecting most accurately changes in
2 the purchasing power of the dollar for Alaskan consumers.

3 * Sec. 5. AS 43.50 is amended by adding a new section to read:

4 Sec. 43.50.380. NOTICE. At the time of a change in the amount of the tax
5 under AS 43.50.365, the department shall promptly give public notice of the change.
6 The department shall also provide notification of a change to all persons licensed under
7 this chapter.

8 * Sec. 6. This Act takes effect October 1, 1996.

9-LS1267F
Ford/Cook
12/18/95

BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - SECOND SESSION

BY**Introduced:****Referred:****A BILL****FOR AN ACT ENTITLED**

1 "An Act relating to motor vehicle registration fees; and providing for an effective
2 date."

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

4 * Section 1. AS 28.10.108(c) is amended to read:

5 (c) A vehicle subject to registration [AND NOT DESCRIBED IN (b) OF THIS
6 SECTION] shall have its initial registration, and may have its annual registration,
7 renewed in the month of initial registration in the state, subject to the provisions of (f)
8 of this section.

9 * Sec. 2. AS 28.10.181(e) is amended to read:

10 (e) Vehicles owned by the state or a municipality [, MUNICIPALITIES,
11 AND CHARITABLE ORGANIZATIONS OF THE STATE]. Every certificate of
12 registration and registration plate issued to the state or [,] a municipality [, OR
13 CHARITABLE ORGANIZATION OF THE STATE] is in effect until the vehicle for
14 which the registration certificate and plate were issued is no longer owned and

1 operated by the state or [,] the municipality [, OR THE CHARITABLE
2 ORGANIZATION OF THE STATE] or until the department, in its discretion, declares
3 its expiration. The state or [,] municipality [, OR CHARITABLE ORGANIZATION
4 OF THE STATE] shall maintain a current listing of all vehicles registered to it in the
5 order of the registration number assigned to each vehicle, and shall provide a copy of
6 the listing to the department upon request. The listing must include a description of
7 each vehicle and other identifying information required by the department.
8 Registration plates issued under this subsection must be of a distinctive design and
9 numbering system. [FOR THE PURPOSES OF THIS SUBSECTION,
10 "CHARITABLE ORGANIZATION" MEANS A NONPROFIT ASSOCIATION,
11 CORPORATION, SOCIETY, OR OTHER ENTITY ORGANIZED,
12 INCORPORATED, OR HEADQUARTERED IN THE STATE FOR EDUCATIONAL,
13 CULTURAL, SCIENTIFIC, OR OTHER CHARITABLE PURPOSES,
14 AS PRESCRIBED IN REGULATIONS OF THE DEPARTMENT.]

15 * Sec. 3. AS 28.10.421(b) is amended to read:

16 (b) The annual registration fees under this subsection are imposed within the
17 following classifications for:

18 (1) a vehicle that is not used or maintained for the transportation
19 of persons or property for hire or for other commercial use and that is a
20 passenger vehicle, [OR] motor home, pick-up truck not exceeding 6,000 pounds
21 unladen weight, or van not exceeding 6,000 pounds unladen weight [NOT USED
22 OR MAINTAINED FOR THE TRANSPORTATION OF PERSONS OR PROPERTY
23 FOR HIRE OR FOR OTHER COMMERCIAL USE] \$75 [\$35];

24 (2) [A PICK-UP TRUCK OR A VAN NOT EXCEEDING 6,000
25 POUNDS UNLADEN WEIGHT AND NOT USED OR MAINTAINED FOR THE
26 TRANSPORTATION OF PERSONS OR PROPERTY FOR HIRE OR FOR OTHER
27 COMMERCIAL USE \$40;

28 (3)] a taxicab \$140 [\$70];

29 (3) [(4)] a motor bus with a seating capacity for 20 or more persons
30 and used exclusively for commercial purposes in the transporting of visitors or tourists
31 \$170 [\$85];

- 1 (4) ~~[(5)]~~ a motorcycle or a motor-driven cycle \$40 [\$20];
- 2 (5) ~~[(6)]~~ a trailer not used or maintained for the transportation of
- 3 persons or property for hire or for other commercial use, including, but not limited to,
- 4 a boat trailer, baggage trailer, box trailer, utility trailer, house trailer, travel trailer, or
- 5 a trailer rented or offered for rent \$10 [\$5];
- 6 (6) a vehicle owned by a rancher, farmer, or dairyman and
- 7 registered under AS 28.10.181 \$70;
- 8 (7) a snowmobile or off-highway vehicle \$10;
- 9 (8) dealer registration plates,
- 10 (A) the initial set of plates \$90;
- 11 (B) each subsequent set of plates \$50.

12 * Sec. 4. AS 28.10.421(c) is amended to read:

13 (c) The annual registration fees under this subsection are imposed and are

14 based upon the actual unladen weight as established by the manufacturer's advertised

15 weight or upon the actual weight which the owner shall furnish, subject to the approval

16 of the commissioner or the commissioner's representative, for a vehicle, including a

17 motor vehicle pulling a trailer or semi-trailer, that is registered in the name of a

18 company or business, or is used or maintained for the transportation of passengers for

19 hire, excepting taxicabs and buses under (b) of this section, or for the transportation

20 of property for hire or for other commercial purposes, including a trailer, semi-trailer,

21 truck, wrecker, tow car, hearse, ambulance, and tractor, as follows:

- 22 (1) up to and including 5,000 pounds \$102 [\$51];
- 23 (2) more than 5,000 pounds to and including 12,000 pounds
- 24 \$172 [\$86];
- 25 (3) more than 12,000 pounds to and including 18,000 pounds
- 26 \$312 [\$156];
- 27 (4) more than 18,000 pounds \$442 [\$221].

28 * Sec. 5. AS 28.10.421(d) is amended to read:

29 (d) The special registration fees under this subsection are imposed annually,

30 unless otherwise specified, for:

- 31 . (1) [AN HISTORIC VEHICLE (ONE TIME ONLY UPON INITIAL

1 REGISTRATION UNDER AS 28.10.181) \$10;

2 (2)] special request plates for

3 (A) Alaska National Guard personnel \$30;

4 (B) veterans or retired veterans \$30;

5 (C) recipients of the Purple Heart \$30;

6 (D) owners of custom collector or historic vehicles

7 \$30 [\$50];

8 (E) amateur mobile radio station vehicles under

9 AS 28.10.181(i) \$10;

10 (F) other special request plates \$30;

11 plus the fee required for that vehicle under (b) of this section; the fee required by this
12 paragraph shall be collected only on the first issuance and on the replacement of
13 special request plates;

14 (2) [(3) A VEHICLE OWNED BY A DISABLED VETERAN OR
15 OTHER HANDICAPPED PERSON, AND REGISTERED UNDER AS 28.10.181 OR
16 A RESIDENT 65 YEARS OF AGE OR OLDER WHO FILES A WRITTEN
17 APPLICATION FOR AN EXEMPTION ON A FORM PRESCRIBED BY THE
18 DEPARTMENT NONE:

19 (4)] a vehicle owned by the state none;

20 (3) [(5)] a vehicle owned by an elected state official

21 the fee required for that vehicle under (b) of this section;

22 (4) [(6) REPEALED

23 (7) A VEHICLE OWNED BY A RANCHER, FARMER, OR
24 DAIRYMAN AND REGISTERED UNDER AS 28.10.181 \$35;

25 (8) A SNOWMOBILE OR OFF-HIGHWAY VEHICLE \$5;

26 (9) AN AMATEUR MOBILE RADIO STATION VEHICLE,

27 (A) WITH A TRANSCEIVER CAPABLE OF LESS THAN 5-
28 BAND OPERATION THE FEE REQUIRED
29 FOR THAT VEHICLE UNDER (b) OR (c) OF THIS SECTION;

30 (B) IN RECOGNITION OF SERVICE TO THE PUBLIC: A
31 MOBILE AMATEUR RADIO STATION OWNED BY AN AMATEUR WITH

1 GENERAL CLASS OR HIGHER LICENSE, PROVIDED THE STATION
2 MUST BE SATISFACTORILY PROVED CAPABLE OF OPERATING ON
3 AT LEAST FIVE BANDS FROM 160 THROUGH 10 METERS, MUST
4 HAVE AN ANTENNA, AND MUST HAVE A POWER SUPPLY AND
5 WIRING AS A PERMANENT PART OF THE VEHICLE; THE
6 TRANSMITTING UNIT MAY BE REMOVED FROM THE CAR FOR
7 SERVICE OR DRY STORAGE NONE
8 FOR A MOBILE AMATEUR RADIO STATION VEHICLE INCLUDED IN
9 (b)(1) OR (2) OF THIS SECTION;

10 (10) DEALER REGISTRATION PLATES,

11 (A) THE INITIAL SET OF PLATES \$45;

12 (B) EACH SUBSEQUENT SET OF PLATES \$25;

13 (11)] a vehicle owned by a municipality [OR CHARITABLE
14 ORGANIZATION MEETING THE REQUIREMENTS OF AS 28.10.181(e)]
15 \$10 [\$5];

16 (5) [(12) REPEALED

17 (13) A VEHICLE OWNED BY A PEARL HARBOR SURVIVOR OR
18 A FORMER PRISONER OF WAR NONE;

19 (14) REPEALED

20 (15)] special request university plates \$50 plus the fee
21 required for that vehicle under (b)(1) [OR (2)] of this section; the fee required by this
22 paragraph shall be collected only on the first issuance and on the replacement of
23 special request plates; the commissioner of administration shall separately account by
24 university campus designation for the fees received under this paragraph that the
25 department deposits in the general fund; the annual estimated balance in the accounts
26 that is in excess of the cost of issuing special request university plates may be
27 appropriated by the legislature for the support of programs at each campus.

28 * Sec. 6. AS 28.10.421 is amended by adding a new subsection to read:

29 (h) The Department of Labor shall adjust the fees imposed under this section
30 on July 1 of every even-numbered year to reflect changes in the transportation new
31 vehicle segment of the Consumer Price Index for all urban consumers for all items

compiled by the Bureau of Labor Statistics, United States Department of Labor, for the second half of the preceding calendar year. The semiannual index for the second half of 1996 is the reference base index. The Department of Labor shall round each fee adjusted under this subsection to the nearest dollar. The Department of Labor shall provide a schedule of the adjusted fees to the Department of Public Safety, and shall make the schedule of the adjusted fees available to the public by November 1 of each year in which fees are revised. An adjusted fee imposed under this subsection takes effect on December 1 of the year in which the fee is adjusted.

* Sec. 7. AS 28.10.431(b)(3) is amended to read:

(3) vehicles 66 55 44 33 22 17 11 8

specified in AS 28.10.421(b)(2)

[AS 28.10.421(b)(3)]

* Sec. 8. AS 28.10.431(b)(5) is amended to read:

(5) vehicles 110 88 66 55 44 33 22 11

specified in AS 28.10.421(b)(3)

[AS 28.10.421(b)(4)]

* Sec. 9. AS 28.10.431(b)(6) is amended to read:

(6) vehicles 9 8 7 6 4 3 2 2

specified in AS 28.10.421(b)(5)

[AS 28.10.421(b)(6)]

* Sec. 10. AS 28.10.431(b)(9) is amended to read:

(9) vehicles eligible for 44

dealer plates under AS 28.10.421(b)(8)

[AS 28.10.421(d)(10)].

* Sec. 11. AS 28.10.495(c) is amended to read:

(c) Proof of disablement or medical handicap, for the purpose of this section, consists of proof that the individual has a disability that limits or impairs the ability to walk as defined in 23 C.F.R. 1235.2 [SHALL BE THE SAME AS THAT REQUIRED FOR THE PURPOSES OF AS 28.10.181(d)].

* Sec. 12. AS 29.45.030(j) is amended to read:

(j) One motor vehicle per household owned by a resident 65 years of age or

1 older on January 1 of the assessment year is exempt [EITHER] from taxation on its
2 assessed value [OR FROM THE REGISTRATION TAX UNDER AS 28.10.431]. An
3 exemption may be granted under this subsection only upon written application on a
4 form prescribed by the Department of Public Safety.

5 * Sec. 13. AS 28.10.108(b), 28.10.181(d), 28.10.181(l), 28.10.411(f), 28.10.431(b)(7),
6 28.10.431(b)(8), 28.10.431(h); and AS 28.35.235(a)(2) are repealed.

7 * Sec. 14. Section 6 of this Act takes effect January 1, 1998.

8 * Sec. 15. Except as provided in sec. 14 of this Act, this Act takes effect January 1, 1997.

9-LS1268VG✓
Chenoweth
12/12/95

BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE _____ RULES COMMITTEE BY REQUEST OF THE LONG RANGE FINANCIAL
PLANNING COMMISSION

Introduced:

Referred:

A BILL**FOR AN ACT ENTITLED**

1 "An Act relating to the tax on transfers or consumption of motor fuel, and
2 repealing the exemption from that tax for motor fuel which is at least 10 percent
3 alcohol by volume; and providing for an effective date."

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

5 * Section 1. AS 43.40.010(a) is amended to read:

6 (a) There is levied a tax of 22 [EIGHT] cents a gallon on all motor fuel sold
7 or otherwise transferred within the state, except that

8 (1) the tax on aviation gasoline is four and seven-tenths cents a gallon;

9 (2) the tax on motor fuel used in and on watercraft of all descriptions
10 is eight [FIVE] cents a gallon; and

11 (3) the tax on all aviation fuel other than gasoline is three and two-
12 tenths cents a gallon.

13 * Sec. 2. AS 43.40.010(b) is amended to read:

14 (b) There is levied a tax of 22 [EIGHT] cents a gallon on all motor fuel

consumed by a user, except that

(1) the tax on aviation gasoline consumed is four and seven-tenths cents a gallon;

(2) the tax on motor fuel used in and on watercraft of all descriptions is eight [FIVE] cents a gallon; and

(3) the tax on all aviation fuel other than gasoline is three and two-tenths cents a gallon.

* Sec. 3. AS 43.40.015(d) is amended to read:

(d) A certificate of use is not required

(1) for fuel exempted under AS 43.40.100(2)(C) [, (F),] or (K); and

(2) for fuel exempted under AS 43.40.100(2)(J) other than fuel sold or transferred under this exemption to a person who is engaged in construction or mining activity.

* Sec. 4. AS 43.40.030(a) is amended to read:

(a) Except as specified in AS 43.40.010(j), a person who uses motor fuel to operate an internal combustion engine is entitled to a refund of 16 [SIX] cents a gallon if

(1) the tax on the motor fuel has been paid;

(2) the motor fuel is not aviation fuel, or motor fuel used in or on watercraft; and

(3) the internal combustion engine is not used in or in conjunction with a motor vehicle licensed to be operated on public ways.

* Sec. 5. AS 43.40 is amended by adding a new section to read:

Sec. 43.40.045. TAX AND REFUND ADJUSTMENT. (a) The amounts in AS 43.40.010(a) and (b) and 43.40.030(a) change, as provided in this section, according to and to the extent of changes in the Consumer Price Index for all urban consumers for the Anchorage Metropolitan Area compiled by the Bureau of Labor Statistics, United States Department of Labor. The index for January of 1997 is the reference base index.

(b) The amounts change on July 1 of each even-numbered year in an amount equal to the percentage of change, calculated to the nearest whole percentage point,

1 between the index for January of that year and the most recent index used to change
2 the amounts in AS 43.40.010(a) and (b) and 43.40.030(a). However, the amounts do
3 not change if the amounts required by this section are those currently in effect as a
4 result of earlier application of this section.

5 (c) If the index is revised, the percentage of change is calculated on the basis
6 of the revised index. If a revision of the index changes the reference base index, a
7 revised reference base index is determined by multiplying the reference base index
8 applicable by the rebasing factor furnished by the United States Bureau of Labor
9 Statistics. If the index is superseded, the index referred to in this section is the one
10 represented by the Bureau of Labor Statistics as reflecting most accurately changes in
11 the purchasing power of the dollar for Alaskan consumers.

12 (d) At the time of a change in the amount of tax required by (b) of this
13 section, the department shall promptly give public notice of the change. The
14 department shall also provide notification of a change in amounts required under (b)
15 of this section to all dealers that collect the tax levied by AS 43.40.010.

16 * Sec. 6. AS 43.40.100(2)(F) is repealed.

17 * Sec. 7. This Act takes effect October 1, 1996.

9-LS1319C ✓

Cook

12/12/95

_____ JOINT RESOLUTION NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE _____ RULES COMMITTEE BY REQUEST OF THE LONG RANGE FINANCIAL
PLANNING COMMISSION

Introduced:

Referred:

A RESOLUTION

1 Proposing amendments to the Constitution of the State of Alaska relating to the
2 budget reserve fund.

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

4 * Section 1. Article IX, sec. 17(a), Constitution of the State of Alaska, is amended to read:

5 (a) There is established as a separate fund in the State treasury the budget
6 reserve fund. The purpose of the budget reserve fund is to help stabilize State
7 spending from year to year. Except for money deposited into the permanent fund
8 under Section 15 of this article, all money received by the State after July 1, 1990, as
9 a result of the termination, through settlement or otherwise, of an administrative
10 proceeding or of litigation in a State or federal court involving mineral lease bonuses,
11 rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments or
12 bonuses, or involving taxes imposed on mineral income, production, or property, shall
13 be deposited in the budget reserve fund. Money in the budget reserve fund shall be
14 invested so as to yield competitive market rates to the fund. Income of the fund shall
15 be retained in the fund. Section 7 of this article does not apply to deposits made to
16 the fund under this subsection. Money may be appropriated from the fund only as

1 authorized under (b) or (c) of this section.

2 * Sec. 2. Article IX, sec. 17(b), Constitution of the State of Alaska, is amended to read:

3 (b) If the amount of unrestricted revenue available [FOR APPROPRIATION]
4 for a fiscal year is less than the combined amount of unrestricted revenue and
5 money from the budget reserve fund appropriated for the previous fiscal year, an
6 appropriation may be made from the [BUDGET RESERVE] fund. However, the
7 amount appropriated from the fund under this subsection may not exceed the amount
8 necessary [, WHEN ADDED TO OTHER FUNDS AVAILABLE FOR
9 APPROPRIATION,] to provide for total appropriations of unrestricted revenue and
10 money from the fund equal to the amount of appropriations made from these sources
11 [IN THE PREVIOUS CALENDAR YEAR] for the previous fiscal year. The
12 legislature shall implement this subsection by law. For purposes of this
13 subsection, "unrestricted revenue" means all money received by the State during
14 a fiscal year except money held in trust, received from the federal government for
15 a particular purpose, or dedicated for a particular purpose as permitted by this
16 constitution.

17 * Sec. 3. Article IX, sec. 17(d), Constitution of the State of Alaska, is repealed.

18 * Sec. 4. The amendments proposed by this resolution shall be placed before the voters of
19 the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the
20 State of Alaska, and the election laws of the state.

9-LS1428VA

Cook

12/12/95

BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE _____ RULES COMMITTEE BY REQUEST OF THE LONG RANGE FINANCIAL
PLANNING COMMISSION

Introduced:

Referred:

A BILL

FOR AN ACT ENTITLED

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

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

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

6 (h) Nothing [EXCEPT AS PROVIDED IN (g) OF THIS SECTION,
7 NOTHING] in (j) [(e) - (j)] of this section affects similar exemptions from property
8 taxes granted by a municipality on September 10, 1972 [, OR PREVENTS A
9 MUNICIPALITY FROM GRANTING SIMILAR EXEMPTIONS BY ORDINANCE
10 AS PROVIDED IN AS 29.45.050].

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

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

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

- 1 (i) A municipality may by ordinance approved by the voters exempt from
2 taxation all or part of the assessed value [THAT EXCEEDS \$150,000] of real
3 property owned and occupied as a permanent place of abode by a resident who is
4 (1) 65 years of age or older;
5 (2) a disabled veteran, including a person who was disabled in the line
6 of duty while serving in the Alaska Territorial Guard; or
7 (3) at least 60 years old and a widow or widower of a person who
8 qualified for an exemption under (1) or (2) of this subsection.
9 * 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
10 29.45.040 are repealed.
11 * Sec. 5. This Act takes effect January 1, 1997.

9-LS1433A
Cook
12/13/95

_____ JOINT RESOLUTION NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE _____ RULES COMMITTEE BY REQUEST OF THE LONG RANGE FINANCIAL
PLANNING COMMISSION

Introduced:
Referred:

A RESOLUTION

1 Proposing an amendment to the Constitution of the State of Alaska relating to
2 the permanent fund.

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

4 * Section 1. Article IX, sec. 15, Constitution of the State of Alaska, is amended to read:

5 SECTION 15. ALASKA PERMANENT FUND. At least fifty percent
6 [TWENTY-FIVE PER CENT] of all mineral lease rentals, royalties, royalty sale
7 proceeds, federal mineral revenue sharing payments and bonuses received by the State
8 shall be placed in a permanent fund, the principal of which shall be used only for
9 those income-producing investments specifically designated by law as eligible for
10 permanent fund investments. Income [ALL INCOME] from the permanent fund shall
11 be retained in the permanent fund, except that appropriations may be made from
12 the income to [DEPOSITED IN] the general fund. Annual appropriations from the
13 permanent fund may not exceed four percent of the average market value of the
14 permanent fund during the immediately preceding five years. The legislature
15 shall implement this section [UNLESS OTHERWISE PROVIDED] by law.

16 * Sec. 2. The amendment proposed by this resolution shall be placed before the voters of

1 * Sec. 2. AS 43.50.190 is amended by adding a new subsection to read:

2 (c) At the time of a change in the amount of tax under (a) of this section, the
3 department shall give public notice of the change. The department shall also provide
4 notification of the change to all persons licensed under this chapter.

5 * Sec. 3. AS 43.50.300 is amended to read:

6 Sec. 43.50.300. EXCISE TAX LEVIED. An excise tax is levied on tobacco
7 products in the state at the rate of 100 [25] percent of the wholesale price of the
8 tobacco products. The tax is levied when a person

9 (1) brings, or causes to be brought, a tobacco product into the state
10 from outside the state for sale;

11 (2) makes, manufactures, or fabricates a tobacco product in the state
12 for sale in the state; or

13 (3) ships or transports a tobacco product to a retailer in the state for
14 sale by the retailer.

15 * Sec. 4. AS 43.50 is amended by adding a new section to article 4 to read:

16 Sec. 43.50.365. TAX ADJUSTMENT. (a) The amount in AS 43.50.300
17 changes, as provided in this section, according to and to the extent of changes in the
18 Consumer Price Index for all urban consumers for the Anchorage Metropolitan Area
19 compiled by the Bureau of Labor Statistics, United States Department of Labor. The
20 index for January of 1997 is the reference base index.

21 (b) The amounts change on July 1 of each even-numbered year in an amount
22 equal to the percentage of change, calculated to the nearest whole percentage point,
23 between the index for January of that year and the most recent index used to change
24 the amount in AS 43.50.300. However, the amounts do not change if the amounts
25 required by this section are those currently in effect as a result of earlier application
26 of this section.

27 (c) If the index is revised, the percentage of change is calculated on the basis
28 of the revised index. If a revision of the index changes the reference base index, a
29 revised reference base index is determined by multiplying the reference base index
30 applicable by the rebasing factor furnished by the United States Bureau of Labor
31 Statistics. If the index is superseded, the index referred to in this section is the one

1 represented by the Bureau of Labor Statistics as reflecting most accurately changes in
2 the purchasing power of the dollar for Alaskan consumers.

3 * Sec. 5. AS 43.50 is amended by adding a new section to read:

4 Sec. 43.50.380. NOTICE. At the time of a change in the amount of the tax
5 under AS 43.50.365, the department shall promptly give public notice of the change.
6 The department shall also provide notification of a change to all persons licensed under
7 this chapter.

8 * Sec. 6. This Act takes effect October 1, 1996.

WORK DRAFT

WORK DRAFT

WORK DRAFT

9-LS1268VF
Chenoweth
12/7/95

BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE _____ RULES COMMITTEE BY REQUEST OF THE LONG RANGE FINANCIAL
PLANNING COMMISSIONIntroduced:
Referred:

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the tax on transfers or consumption of motor fuel."

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

3 * Section 1. AS 43.40.010(a) is amended to read:

4 (a) There is levied a tax of 21.9 [EIGHT] cents a gallon on all motor fuel sold or
5 otherwise transferred within the state, except that

6 (1) the tax on aviation gasoline is four and seven-tenths cents a gallon;

7 (2) the tax on motor fuel used in and on watercraft of all descriptions is

8 eight [FIVE] cents a gallon; and9 (3) the tax on all aviation fuel other than gasoline is three and two-tenths
10 cents a gallon.

11 * Sec. 2. AS 43.40.010(b) is amended to read:

12 (b) There is levied a tax of 21.9 [EIGHT] cents a gallon on all motor fuel
13 consumed by a user, except that

14 (1) the tax on aviation gasoline consumed is four and seven-tenths cents

WORK DRAFT

WORK DRAFT

WORK DRAFT

1 a gallon;

2 (2) the tax on motor fuel used in and on watercraft of all descriptions is
3 eight [FIVE] cents a gallon; and

4 (3) the tax on all aviation fuel other than gasoline is three and two-tenths
5 cents a gallon.

6 * Sec. 3. AS 43.40.030(a) is amended to read:

7 (a) Except as specified in AS 43.40.010(j), a person who uses motor fuel to
8 operate an internal combustion engine is entitled to a refund of 15.9 [SIX] cents a gallon
9 if

10 (1) the tax on the motor fuel has been paid;

11 (2) the motor fuel is not aviation fuel, or motor fuel used in or on
12 watercraft; and

13 (3) the internal combustion engine is not used in or in conjunction with
14 a motor vehicle licensed to be operated on public ways.

15 * Sec. 4. AS 43.40 is amended by adding a new section to read:

16 Sec. 43.40.045. TAX AND REFUND ADJUSTMENT. (a) The amounts in AS
17 43.40.010(a) and (b) and 43.40.030(a) change, as provided in this section, according to
18 and to the extent of changes in the Consumer Price Index for all urban consumers for the
19 Anchorage Metropolitan Area compiled by the Bureau of Labor Statistics, United States
20 Department of Labor. The index for January of 1997 is the reference base index.

21 (b) The amounts change on ^{July} October 1 of each even-numbered year in an amount
22 equal to the percentage of change, calculated to the nearest whole percentage point,
23 between the index for January of that year and the most recent index used to change the
24 amount in AS 43.40.010. However, the amounts do not change if the amounts required
25 by this section are those currently in effect as a result of earlier application of this section.

26 (c) If the index is revised, the percentage of change is calculated on the basis of
27 the revised index. If a revision of the index changes the reference base index, a revised
28 reference base index is determined by multiplying the reference base index applicable by
29 the rebasing factor furnished by the United States Bureau of Labor Statistics. If the index
30 is superseded, the index referred to in this section is the one represented by the Bureau
31 of Labor Statistics as reflecting most accurately changes in the purchasing power of the

WORK DRAFT

. WORK DRAFT

WORK DRAFT

1 dollar for Alaskan consumers.

2 (d) The department shall adopt a regulation announcing

3 (1) on or before June 30 of each year in which amounts are to change, the
4 changes in amounts required by (b) of this section; and

5 (2) promptly after the changes occur, changes in the index required by (c)
6 of this section, including, if applicable, the numerical equivalent of the reference base
7 index under a revised reference base index and the designation or title of any index
8 superseding the index.

9 (e) The department shall also provide notification of a change in amounts
10 required under (b) of this section to all dealers that collect the tax levied by
11 AS 43.40.010.

*eff Oct 96,
deleted gasoline exemption*

MEMORANDUM

State of Alaska
Department of RevenueTO: Brad Pierce
Policy Analyst
Office of Management and Budget

DATE: November 2, 1995

TELEPHONE NO: 465-4773

FROM: Robert Bartholomew *RB*
Deputy Director
Income and Excise Audit Division

SUBJECT: LRFPC Legislation

The Long Range Financial Planning Commission (LRFPC) has prepared eight pieces of draft legislation. Four of these have a direct impact on the Department of Revenue and based on our review I have the following comments.

Motor Fuel Program Tax Increase

The current draft legislation does not provide for an effective date. For analysis purposes we assumed the increases would take effect July 1, 1996. Sections 1 and 2 raise the tax rate on motor fuel from 8 cents a gallon to 21.9 cents. Special rates for aviation and marine fuel are not increased. Section 3 increases the refund for "off-highway" fuel to 15.9 cents a gallon, the effect is to increase taxation of this fuel type from 2 cents a gallon to 6 cents. Section 4 establishes provisions for adjusting rates every two years to compensate for the CPI. Subparagraph (b) and (c) is hard to understand and the exact requirement is unclear. We recommend reviewing the intent of this section and finding a simpler way of saying it. Also is the intent to change rates on *★* October 1? If so, why in the middle of a fiscal year?

Our estimate of potential new revenue is based on FY 95 tax collections. For FY 97 the increase would be approximately \$36.4 million (\$6.4 million from off-highway). The current legislation does not change the exemption from tax for gasohol. We estimate 60 million gallons to be exempted in FY 96 which is a loss of \$13,000,000 in revenue. The division anticipates requesting an additional position and related support costs (total \$75,000 a year) beginning in FY 97 for taxpayer education and to enhance compliance efforts related to this legislation.

★ Note: this is date CPI posted by US Dept Labor.

9-LS1268\A ✓
Chenoweth
9/5/95

BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - SECOND SESSION

BY**Introduced:****Referred:****A BILL****FOR AN ACT ENTITLED**

1 **"An Act relating to the tax on transfers or consumption of motor fuel."**

2 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

3 *** Section 1.** AS 43.40.010(a) is amended to read:

4 (a) There is levied a tax of 21.9 [EIGHT] cents a gallon on all motor fuel sold or
5 otherwise transferred within the state, except that

6 (1) the tax on aviation gasoline is four and seven-tenths cents a gallon;

7 (2) the tax on motor fuel used in and on watercraft of all descriptions is
8 five cents a gallon; and

9 (3) the tax on all aviation fuel other than gasoline is three and two-tenths
10 cents a gallon.

11 *** Sec. 2.** AS 43.40.010(b) is amended to read:

12 (b) There is levied a tax of 21.9 [EIGHT] cents a gallon on all motor fuel
13 consumed by a user, except that

14 (1) the tax on aviation gasoline consumed is four and seven-tenths cents
15 a gallon;

1 (2) the tax on motor fuel used in and on watercraft of all descriptions is
2 five cents a gallon; and

3 (3) the tax on all aviation fuel other than gasoline is three and two-tenths
4 cents a gallon.

5 * Sec. 3. AS 43.40.030(a) is amended to read:

6 (a) Except as specified in AS 43.40.010(j), a person who uses motor fuel to
7 operate an internal combustion engine is entitled to a refund of 15.9 [SIX] cents a gallon
8 if

9 (1) the tax on the motor fuel has been paid;

10 (2) the motor fuel is not aviation fuel, or motor fuel used in or on
11 watercraft; and

12 (3) the internal combustion engine is not used in or in conjunction with
13 a motor vehicle licensed to be operated on public ways.

TO:

**COMMISSIONERS LONG RANGE FINANCIAL PLANNING
COMMISSION**

FROM:

**MELISSA FOUSE
STAFF, LONG RANGE FINANCIAL PLANNING COMMISSION
FAX: 258-9869
PHONE: 258-8165**

FOLLOWING ARE:

- 1. BILL DRAFT INCREASING MOTOR VEHICLE REGISTRATION FEES,
REPEALING EXEMPTIONS, AND INDEXING FURTHER INCREASES TO
THE US CPI**
- 2. ATTORNEY GENERAL COMMENTARY ON THE BILL; MOST OF THIS IS
TECHNICAL DRAFTING COMMENTARY, HOWEVER THE LAST
PARAGRAPH ADDRESSES THE POLICY ISSUE OF REPEALING
EXEMPTIONS.**

7 PAGES

NO MORE BILL DRAFTS WILL FOLLOW

MEMORANDUM**State of Alaska**
Department of Law

TO: Deborah Behr
Assistant Attorney General
Legislation/Regulations Section

DATE: October 31, 1995

FILE NO:

465-3428

TEL. NO:

SUBJECT: Long Range Financial Planning
Commission Bill increasing motor
vehicle registration fees

FROM: Anne D. Carpeneti *alc*
Assistant Attorney General
Criminal Division

At your request we have reviewed the referenced bill, and have the following technical comments:

1. Section one of the bill amends AS 28.10.108(b)(1) and (2). These sections should be repealed rather than amended, because the Department of Public Safety, since the original staggering of registration, follows AS 28.10.108(c). AS 28.10.108(c) should be amended to eliminate reference to AS 28.10.108(b).

2. Section four of the bill repeals the registration fee exemption for disabled veterans and other handicapped persons; a conforming amendment is required for AS 28.10.181(d), which authorizes the exemption.

3. Section four of the bill repeals the registration fee exemption for charitable organizations; AS 18.10.181(e) should be amended to eliminate reference to charitable organizations.

4. Section four of the bill repeals the registration fee exemption for certain amateur radio station vehicles; AS 28.10.181(i) provides for distinctive plates for these vehicles, although it does not refer to charges for the plates. This may need a conforming amendment providing a fee for the distinctive plates.

5. Section four of the bill repeals the registration fee exemption for Pearl Harbor survivors and former prisoners of war; AS 28.10.181(l), which authorizes the exemption, must also be amended to conform with the elimination of the fee exemption.

6. Section four of the bill repeals the registration fee exemption for persons 65 years of age or older; AS 28.10.411(f), which authorizes the exemption, must also be repealed.

7. Section five of the bill requires the Department of Labor to adjust the registration fees for inflation every even-numbered year. The language is awkward, but is apparently clear enough to the Department of Labor. I spoke to Chris Miller, Acting Chief of the research section of the Department of Labor, who made three observations: first, the

*NO
one time
fee motor
vehicle*

Deborah Behr
Assistant Attorney General

October 31, 1995
Page 2

department doesn't like this kind of provision; second, on page five, line two, they suggest the insertion of "U.S. City Average" between "the" and "Consumer" to make it certain which part of the CPI is referenced; and third, on page five line eight, replace "and" with "who" so that the state agency publicizing the fee schedule is the Department of Public Safety. The department can provide fee adjustment figures, but they don't want to be in the position of being required to promulgate regulations. This should be clarified in the bill.

8. The Department of Public Safety informs me that the time schedule for fee increases in section five is inadequate. They need six months lead time for fee increases. Similarly, they require a later effective date, e.g., January 1, 1997, in order to administer the fee increases. Finally, DPS would prefer that the Department of Labor publicize the fee increases.

In addition to these technical comments, you should be aware that state criminal justice agencies met and agreed that removing the registration exemption for certain groups, e.g., Pearl Harbor survivors, is not a good idea. The savings involved in removing these exemptions is so minor that it isn't worth the possible affront to the few persons qualifying for them.

ADC:jf

cc: Ron Otte, Commissioner, DPS

9-LS 267A ✓
Ford
9/11/95

BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - SECOND SESSION

BY

Introduced:
Referred:

A BILL**FOR AN ACT ENTITLED**

1 "An Act relating to motor vehicle registration fees; and providing for an effective
2 date."

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

4 * Section 1. AS 28.10.108(b) is amended to read:

5 (b) Subject to the provisions of (f) of this section, a vehicle subject to registration
6 (1) under AS 28.10.011 and 28.10.421(b)(3) and (4) and (c)(1) - (4) shall
7 have its initial registration, and may have its annual registration, renewed during the
8 month of December;

9 (2) under AS 28.10.181, 28.10.411 and 28.10.421(d)(3) and (8) [(9)]
10 shall have its initial registration, and may have its annual registration, renewed during the
11 month of January.

12 * Sec. 2. AS 28.10.421(b) is amended to read:

13 (b) The annual registration fees under this subsection are imposed within the
14 following classifications for:

(1) a passenger vehicle or motor home not used or maintained for the transportation of persons or property for hire or for other commercial use

..... \$70 [\$35];

(2) a pick-up truck or a van not exceeding 6,000 pounds unladen weight and not used or maintained for the transportation of persons or property for hire or for other commercial use

\$80 [\$40];

(3) a taxicab

\$140 [\$70];

(4) a motor bus with a seating capacity for 20 or more persons and used exclusively for commercial purposes in the transporting of visitors or tourists

..... \$170 [\$85];

(5) a motorcycle or a motor-driven cycle

\$40 [\$20];

(6) a trailer not used or maintained for the transportation of persons or property for hire or for other commercial use, including, but not limited to, a boat trailer, baggage trailer, box trailer, utility trailer, house trailer, travel trailer, or a trailer rented or offered for rent

\$10 [\$5].

* Sec. 3. AS 28.10.421(c) is amended to read:

(c) The annual registration fees under this subsection are imposed and are based upon the actual unladen weight as established by the manufacturer's advertised weight or upon the actual weight which the owner shall furnish, subject to the approval of the commissioner or the commissioner's representative, for a vehicle, including a motor vehicle pulling a trailer or semi-trailer, that is registered in the name of a company or business, or is used or maintained for the transportation of passengers for hire, excepting taxicabs and buses under (b) of this section, or for the transportation of property for hire or for other commercial purposes, including a trailer, semi-trailer, truck, wrecker, tow car, hearse, ambulance, and tractor, as follows:

(1) up to and including 5,000 pounds

\$102 [\$51];

(2) more than 5,000 pounds to and including 12,000 pounds

..... \$172 [\$86];

(3) more than 12,000 pounds to and including 18,000 pounds

..... \$312 [\$156];

(4) more than 18,000 pounds

\$442 [\$221].