

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

2389 SCOMM 101 LONG RANGE FINANCIAL PLANNING COMMISSION, 1995

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

(d) The special registration fees under this subsection are imposed annually, unless otherwise specified, for:

(1) an historic vehicle (one time only upon initial registration under AS 28.10.181) \$10;

(2) special request plates for

(A) Alaska National Guard personnel \$30;

(B) veterans or retired veterans \$30;

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

(D) owners of custom collector vehicles \$50;

(E) other special request plates \$30;

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

(3) a vehicle owned by a disabled veteran or other handicapped person, and registered under AS 28.10.181 or a resident 65 years of age or older who files a written application for an exemption on a form prescribed by the department

..... none;

(4) a vehicle owned by the state none;

(5) a vehicle owned by an elected state official the fee required for that vehicle under (b) of this section;

(6) [REPEALED

(7)] a vehicle owned by a rancher, farmer, or dairyman and registered under AS 28.10.181 \$70 [\$35];

(7) [(8)] a snowmobile or off-highway vehicle \$10 [\$5];

(8) [(9)] an amateur mobile radio station vehicle,

(A) with a transceiver capable of less than 5-band operation

..... the fee required for that vehicle under (b) or (c) of this section;

(B) in recognition of service to the public: a mobile amateur radio station owned by an amateur with general class or higher license, provided the station must be satisfactorily proved capable of operating on at least five bands

from 160 through 10 meters, must have an antenna, and must have a power supply and wiring as a permanent part of the vehicle; the transmitting unit may be removed from the car for service or dry storage none for a mobile amateur radio station vehicle included in (b)(1) or (2) of this section;

(9) [(10)] dealer registration plates,

(A) the initial set of plates \$90 [\$45];

(B) each subsequent set of plates \$50 [\$25];

(10) [(11)] a vehicle owned by a municipality or charitable organization meeting the requirements of AS 28.10.181(e) \$10 [\$5];

(11) [(12)] REPEALED

[(13)] a vehicle owned by a Pearl Harbor survivor or a former prisoner of war none;

(12) [(14)] REPEALED

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

* Sec. 5. AS 28.10.431(b)(7) is amended to read:

(7) vehicles specified 66 55 44 33 22 17 11 8

in AS 28.10.421(d)(8) [AS 28.10.421(d)(9)]

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

(h) A vehicle owned by a former prisoner of war exempted from registration fees under AS 28.10.431(d)(11) [AS 28.10.421(d)(13)] is subject to a motor vehicle registration tax under this section.

* Sec. 7. This Act takes effect July 1, 1996.

9-LS1293A ✓
Cook
9/27/95

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 automatic adjustments to fees or charges collected or received
2 by an agency."

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

4 * Section 1. AS 37.10.050(a) is amended to read:

5 (a) An [A STATE] agency may not charge for the provision of state services
6 unless the charge (1) is set or otherwise authorized by statute; and (2) where a
7 regulation is necessary, is set by or provided for in a regulation that meets the
8 standards of AS 44.62.020 and 44.62.030. A fee or other charge that is set by
9 regulation may not exceed the estimated actual costs of the [STATE] agency in
10 administering the activity or providing the service unless otherwise provided by the
11 statute under which the regulation is adopted; this limitation does not apply to a sale
12 [SALES] of property by an [A STATE] agency or to a charge to the extent that it
13 has been adjusted under (f) of this section. Unless specifically exempted by statute,
14 an [A STATE] agency authorized to collect or receive fees, charges, licenses, taxes,

1 or other money belonging to the state shall account for and remit the receipts, less fees
2 to which the collector is entitled by statute or regulation, to the Department of
3 Revenue at least once each month. The commissioner of administration shall
4 separately account under AS 37.05.142 for receipts deposited under this subsection.

5 * Sec. 2. AS 37.10.050 is amended by adding a new subsection to read:

6 (f) A fee or charge collected or received by an agency is automatically
7 adjusted on October 1 of each even-numbered year as provided in this subsection,
8 according to and to the extent of changes in the Consumer Price Index for all urban
9 consumers for the Anchorage Metropolitan Area completed by the Bureau of Labor
10 Statistics, United States Department of Labor. The index for January of 1997 is the
11 reference base index. The charge is adjusted in an amount equal to the percentage of
12 change, calculated to the nearest whole percentage point, between the index for
13 January of that year and the most recent index used to adjust the charge. If the index
14 is revised, the percentage of change is calculated on the basis of the revised index.
15 If a revision of the index changes the reference base index, a revised reference base
16 index is determined by multiplying the reference base index applicable by the rebasing
17 factor furnished by the Bureau of Labor Statistics, United States Department Labor.
18 If the index is superseded, the index referred to in this subsection is the one
19 represented by the Bureau of Labor Statistics as reflecting most accurately changes in
20 the purchasing power of the dollar for Alaskan consumers. This subsection does not
21 apply to the extent that federal law prohibits adjustment of a charge or to a charge that
22 has been adopted, enacted, or amended during the preceding 12 months.

MEMORANDUM

State of Alaska
Department of Law

TO: Deborah Behr
Assistant Attorney General
Legislation & Regulations - Juneau

DATE: October 26, 1995

FILE NO:

465-2123

TEL. NO:

SUBJECT: Automatic Fee Adjustment Statute

FROM:


Sarah J. Felix
Assistant Attorney General
Governmental Affairs - Juneau

You have asked that I review proposed draft legislation entitled "An Act relating to automatic adjustments to fees or charges collected or received by an agency." Most agency fees must be set by regulation, therefore, principles applicable to adoption of regulations must be reviewed in analyzing legislation relating to agency fees. The major change proposed in this legislation is addition of a new subsection (f) to AS 37.10.050, to read as follows:

(f) A fee or charge collected or received by an agency is automatically adjusted on October 1 of each even-numbered year as provided in this subsection, according to and to the extent of changes in the Consumer Price Index of all urban consumers for the Anchorage Metropolitan Area completed by the Bureau of Labor Statistics, United States Department of Labor. The index for January of 1997 is the reference base index. The charge is adjusted in an amount equal to the percentage of change, calculated to the nearest whole percentage point, between the index for January of that year and the most recent index used to adjust the charge. If the index is revised, the percentage of change is calculated on the basis of the revised index. If a revision of the index changes the reference base index, a revised reference base index is determined by multiplying the reference base index applicable by the rebasing factor furnished by the Bureau of Labor Statistics, United States Department of Labor. If the index is superseded, the index referred to in this subsection is the one represented by the Bureau of Labor Statistics as reflecting most accurately changes in the purchasing power of the dollar for Alaskan consumers. This subsection does not apply to the extent that federal law prohibits adjustment of a charge or to a charge that has been adopted, enacted, or amended during the preceding 12 months.

(Emphasis added.)

You indicated that I should briefly outline any legal issues or concerns raised by the draft legislation. I believe that the automatic fee increase provision, which is tied to the consumer price index, set out in new proposed subsection (f) raises a legal issue under Northern Lights Motel, Inc. v. Sweaney, 561 P.2d 1176, 1181 (Alaska 1977). In this case, the court indicates that

Deborah Behr

October 26, 1995

Page 2

[w]hile the adoption of future amendments has been upheld in certain cases, we recognize that the due process problem is a serious one.

The court in Northern Lights also cited with approval the following provision from the drafting manual for administration regulations:

Under presently controlling court decisions, an agency may not adopt by reference a code or set of standards from another state, the federal government, or a private organization and provide that future amendments as they become effective are being adopted also. Of course, when a particular or set of standards is changed, an agency may adopt the amended version.

Id. at n. 7 (Emphasis in original).

The concern set out in Northern Lights and in the older version of the drafting manual for administrative regulations is also contained in the current version of the drafting manual at page 91:

When adopting a standard (e.g., Uniform Building Code) by reference, an agency should not include a provision that all future versions of the standard are automatically adopted by reference. The agency may adopt any subsequent amended version of the standard by initiating a new regulations project, following the APA regulations adoption procedure, and formally adopting the amended version in regulation. (Cites omitted.) While the Alaska Supreme Court has reserved the question of the constitutionality of adopting future amendments by reference, the Department of Law recommends that the question be avoided by clearly limiting adoptions by reference to specific standards as of a past definite date. (Cites omitted.)

It might be possible to amend subsection (f) to cure this defect. The amendment would remove the automatic fee increase language and replace it with language directing state agencies to adopt regulations increasing their fees in accordance with the increase in the Consumer Price Index (CPI). However, the practical downside of this course of action is an increase in regulations projects for all state agencies.

Another alternative to achieve the administration's goal would be to leave AS 37.10.050 as is, and adopt an Administrative Order instead. In the Administrative Order, the Governor could direct all state agencies to adopt regulations amending their fees to reflect increases in the CPI. The potential problem with this course of action is that some agencies might thereby charge fees exceeding their actual administrative costs. This could be addressed by amending AS 37.10.050(a) to exempt CPI increases from the prohibition against fees in excess of administrative costs. Also, there are certain statutes which require that a state agency's fees reflect the agency's

Deborah Behr

October 26, 1995

Page 3

actual administrative costs, and these statutes would need to be amended to allow fee increases in accordance with increases in the CPI. For example, AS 08.01.065(c) would need to be amended to allow occupational licensing fees to increase in accordance with increases in the CPI.

I trust this memorandum satisfies your request. Do not hesitate to contact me if I can be of further assistance to you on this matter.

SJF:clh

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 AUTHORIZING STATE AGENCIES TO MAKE AUTOMATIC
ADJUSTMENTS TO FEES AND CHARGES**
- 2. COMMENTARY BY ASSISTANT ATTORNEY GENERAL RE: CONCERN
THAT AUTHORITY BY REFERENCE IS NOT ALLOWABLE (IN THIS
CASE THE CONSUMER PRICE INDEX). THIS AG OPINES THAT AN
ADMINISTRATIVE ORDER MAY BE SUFFICIENT, RATHER THAN A
STATUTE CHANGE.**

5 PAGES

MORE BILL DRAFTS WILL FOLLOW

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 (COMMITTEE SUBSTITUTE FOR HOUSE BILL 185) THAT
 - ALLOWS MUNICIPALITIES TO EXEMPT SR. CIT. PROPERTY TAXES
2. COMMENTARY BY ASSISTANT ATTORNEY GENERAL RE: CONCERN ABOUT EQUAL PROTECTION AS RELATES TO "NEEDS-BASED" EXEMPTIONS BEING EQUALLY APPLIED THROUGHOUT THE STATE.

5 PAGES

MORE BILL DRAFTS WILL FOLLOW

CS FOR HOUSE BILL NO. 185(CRA) *

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

Offered: 3/24/95
Referred: Finance

Sponsor(s): REPRESENTATIVE IVAN

A BILL

FOR AN ACT ENTITLED

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

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

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

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

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

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

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

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

all
OK

1 (i) A municipality may by ordinance [APPROVED BY THE VOTERS]
2 exempt from taxation the assessed value of real property [that exceeds the limits set
3 under AS 29.45.030(e)] if the [\$150,000 OF REAL] property is owned by an
4 individual [who qualifies for an exemption under AS 29.45.030(e)] [AND
5 OCCUPIED AS A PERMANENT PLACE OF ABODE BY A RESIDENT WHO IS
6 (1) 65 YEARS OF AGE OR OLDER;
7 (2) A DISABLED VETERAN, INCLUDING A PERSON WHO WAS
8 DISABLED IN THE LINE OF DUTY WHILE SERVING IN THE ALASKA
9 TERRITORIAL GUARD; OR
10 (3) AT LEAST 60 YEARS OLD AND A WIDOW OR WIDOWER
11 OF A PERSON WHO QUALIFIED FOR AN EXEMPTION UNDER (1) OR (2) OF
12 THIS SUBSECTION]. OK

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

97

MEMORANDUM**State of Alaska
Department of Law**

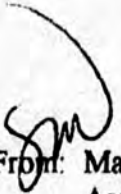
To: Deborah Behr
Assistant Attorney General
and Legislation Attorney

Date: October 30, 1995

File No.:

Tel.: 465-215

Subject: Legal review of Long Range Financial
Planning Commission draft legislation
(Municipal property tax exemptions)


From: Margie Vandor
Assistant Attorney General
Governmental Affairs - Juneau

As requested, I have reviewed the preliminary draft legislation from the Long Range Financial Planning commission regarding exemptions from municipal property taxes for certain primary residences. The preliminary draft legislation is currently House Bill 185, 19th Legislature - First Session.

HB 185 eliminates the mandatory municipal property tax exemption for senior citizens' and disabled veterans' primary residences in AS 29.45.030. However, the bill would allow a municipality to provide an optional exemption through passage of an ordinance. An ordinance passed by a municipality may provide for exemption from taxation of all or part of the assessed value of the primary residence of a senior citizen or disabled veteran. Further, that exemption may be based on financial need as provided in the ordinance. It is this latter provision that raises constitutional equal protection concerns depending on the language of an ordinance. "Financial need," is not defined in HB 185 nor does the bill set out any qualifying standards for financial need. Therefore, a municipality deciding to base a senior citizen or disabled veteran property tax exemption on financial need must adopt a definition of "financial need" or set its own standards in order to classify taxpayers qualifying for the exemption.

In very general terms, the equal protection clause (state or federal constitution) requires that similar individuals be dealt with in a similar manner by a government entity. When a court reviews a classification based upon economic or social welfare matters, it presumes that use of such a classification is within the prerogative of the government entity and a rational basis standard of review would most likely be applied by a reviewing court. Under a rational basis standard of review, a court would ask only whether it is conceivable that the classification of "financial need" as defined, bears a rational relationship to an end of government which is not prohibited by the state or federal constitution. If there were an equal protection claim against a financial need exemption, the more likely basis of the claim would stem from the application of the exemption and how to qualify depending on the language of a municipality's ordinance. An ordinance defining or setting standards for "financial need" may be held to be unconstitutional, not because it creates an improper exemption, but because the classification is over or under-inclusive of the group intended to benefit from the exemption. Due to the fact HB 185 does not explain what is meant by financial need, it is safe to

Deborah Behr
Municipal property tax exemptions

October 30, 1995
Page two

assume that varying definitions or standards will be adopted by municipalities which may result in much litigation against municipalities on equal protection claims. However, we believe the legislature could help alleviate some litigation by providing municipalities with standards it believes should be used by municipalities in fashioning an optional senior citizen/disabled veteran property tax exemption when financial need is also a basis to qualify.

I note no other constitutional or legal problems with HB 185.

MLV:jn

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

September 28, 1995

SUBJECT: State debt secured by income of the Permanent Fund
(Work Order No. 9-LS1297)

TO: Brian Rogers, Chair
Long Range Financial Planning Commission
Attn: Melissa Fouse

FROM: Tamara Brandt Cook
Director *TBC*

You have asked whether the state may borrow money and pledge as security the income of the Permanent Fund. I do not understand whether the state would borrow the money directly or whether the permanent fund corporation would be the borrower, nor do I know what the borrowed money would be used for. These details would affect the answer to your question. Note that, in pledging its full faith and credit, the state right now is probably pledging income of the Permanent Fund along with its other assets when it issues general obligation bonds pursuant to art. IX, sec. 8 of the state constitution. I suspect, however, that it is very unlikely that a way could be found to borrow the money and use it for general governmental purposes, like state government operations.

The authority of the state to incur debt is restricted under art. IX, sec. 8 which provides:

STATE DEBT. No state debt shall be contracted unless authorized by law for capital improvements or unless authorized by law for housing loans for veterans, and ratified by a majority of the qualified voters of the State who vote on the question. The State may, as provided by law and without ratification, contract debt for the purpose of repelling invasion, suppressing insurrection, defending the State in war, meeting natural disasters, or redeeming indebtedness outstanding at the time this constitution becomes effective.

While the attorney general has expressed the position that this section prohibits only indebtedness secured by the full faith and credit of the state, the court has not specifically held that it applies only to general obligation bonds as opposed to revenue and other bonds. The court has considered the scope of art. IX, sec. 9, which contains language very similar to sec. 8, but applies to municipalities rather than to the state. (Chefornak v. Hooper Bay

Construction Co., 758 P.2d 1266 (Alaska 1988)) While that case left open the question of what types of debt, in addition to general obligation bonds, might be subject to the constitutional restriction on incurring debt, it appears that other types of debt might, indeed, be restricted. The court stated:

Thus, we think it clear that the framers of our constitution intended section 9 to restrict a municipality's ability to voluntarily borrow funds or issue bonds. (Page 1269, emphasis added)

We conclude that the restrictions on contracting debt contained in article IX, sec. 9 are applicable only where a political subdivision has endeavored to borrow money, via the issuance of bonds or other paper indebtedness. (Page 1270, emphasis added)

There is, of course, a constitutional basis for the formation of a public corporation with the power to issue bonds. Art. IX, sec. 11 of the state constitution states in part, "The restrictions on contracting debt do not apply to debt incurred through the issuance of revenue bonds by a public enterprise or public corporation of the State or a political subdivision, when the only security is the revenue of the enterprise or corporation." The Alaska Supreme Court has specifically recognized that the bonds of public corporations are not debts of the state. (Walker v. Alaska State Mtg. Ass'n., 415 P.2d 245 (Alaska 1966); DeArmond v. Alaska State Dev. Corp., 376 P.2d 717 (Alaska 1962)) The question here is whether the Permanent Fund could possibly be deemed to be a "public enterprise" of the state for purposes of art. IX, sec. 11. It seems to me that the Permanent Fund is very different in scope and kind from the usual project funded through revenue bonds. Furthermore, I suspect that, by implication, a public corporation that borrows money must use it for a function of the corporation. Even if the permanent fund corporation were granted the power to issue debt, I doubt the money could be used to fund state operations or for other purposes the corporation is not involved in. Nor could income from the Permanent Fund be considered income of the corporation. The constitution itself makes it clear that the income is subject to disposal by law rather than being subject to management of a corporation.

Despite the foregoing, note that the court recently upheld the issuance of certificates of participation to finance construction of a public building that was the subject of a lease-purchase agreement. (Carr-Gottstein Properties v. State, 899 P.2d 136 (Alaska 1995)) Noting that the money for the lease payments was made specifically subject to appropriation, the court viewed

"... constitutional "debt" as a term of art used to describe an "obligation" involving borrowed money where "there is a promise to pay sums such as rents accruing in the future whether funds are available or not." ... Where a lease-purchase agreement does not require a future legislature to appropriate funds, the agreement is not a long-term binding obligation to repay borrowed

Brian Rogers
September 28, 1995
Page 3

money pursuant to article IX, section 8 and is not "debt" as defined by the Alaska Supreme Court. (Pages 142 - 143)

Perhaps, under the reasoning of this case, it would be possible for the state to borrow money secured by the income of the Permanent Fund if debt payments from that income were also specifically subject to appropriation. Then, presumably, the legislature (or the governor through the veto) could elect at any time not to appropriate the money for the debt payment and simply allow a default to occur. Perhaps a court would view such an arrangement as not amounting to a "long-term binding obligation" of the type covered by article IX, sec. 8. But why would the state want to borrow money and appropriate Permanent Fund income for debt payments when it could simply appropriate money directly from the income for whatever purpose the borrowed money is to be used for and avoid debt payments altogether?

TBC:lmb
95-264.lmb

SCOMM

101:26

August 23, 1995

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

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

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

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

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

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

Good luck!

Sincerely,



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

ASSOCIATION OF ALASKA SCHOOL BOARDS

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

Advocates for Alaska's Youth

August 3, 1995

RECEIVED
NATURAL RESOURCES

AUG 9 1995

SEALASKA CORPORATION



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Michael Williams

EXECUTIVE
DIRECTOR
Carl F.N. Rose

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

Dear Bob:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

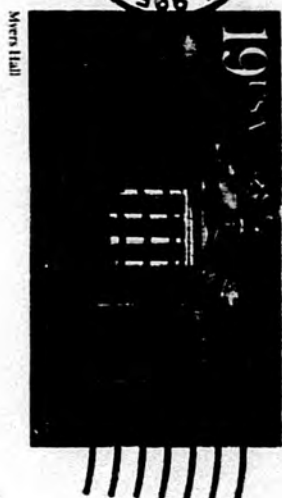
Sincerely,



Carl Rose,
Executive Director

Enclosures
in Commission
Office.

Ray M. Quilley
P.O. Box 141811
Anchorage, Alaska
99514-1811



State of Alaska
J.F.F.P. Commissioner

716 W. 4th Avenue
Anchorage, Alaska

99501

CI SPS 89M

See 95-5 in the 9/12/95
letter to the press (the
Federal Bureau of Investigation
has been advised that the
and strong security and
investigation of the
the State and that the
foreign interests.

Since 9/12 - should
the local press be to be in the
the 9/12/95 letter? (see
the letter for details) in
the 9/12 letter to the
investigation of the
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the 9/12 letter to the
the 9/12 letter to the

Ray M. Quilley

SCOMM

101:27

Alaska State Senate

SENATOR STEVE RIEGER
District I

Senate Finance Committee
Chair, Senate Transportation Committee

Legislative Budget and Audit Committee
Administrative Regulation Review Committee
Legislative Council



During Session:
State Capitol, Room 516
Juneau, Alaska 99801
(907) 465-3879

716 West 4th Avenue, Suite 530
Anchorage, Alaska 99501
(907) 258-8188

MINORITY REPORT

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 a statewide sales tax, or both. These outcomes are avoided in the Minority Report's plan. However, a major new tax is included in the Commission report.

There are some similarities. The Minority Report agrees with a number of points in the Commission's recommendations. The most notable among them include the following:

1. A baseline forecast of revenues and expenditures shows an ever-widening divergence, or "fiscal gap." With no alteration of course all reserves would be depleted within a few years. Therefore some sort of action is clearly necessary.
2. Cutting spending is a necessary component of closing the fiscal gap.
3. A series of smaller revenue-raising measures, including excise taxes, fees to support specific programs, and motor fuel taxes contribute, in the aggregate, a significant amount toward closing the fiscal gap.
4. Inflation-proofing should become a top priority or even automatic for the Alaska Permanent Fund. In addition, a portion of the remaining earnings after inflation-proofing should be used for general fund purposes, even though it will have an effect on the size of the dividend.

The fiscal measures described above are surprisingly powerful in themselves. They can close the fiscal gap for a decade, and actually build up significant cash reserves at the same time. Under a "Composite Scenario" developed during the Commission's

deliberations, (and using the Commission's assumptions), by the year 2010 these measures would 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 was put together largely out of the work of the Commission. There were a number of individual assumptions or points which differ from what the Minority Report would prefer to see. However, these were not sufficient in themselves to necessitate a dissenting Minority Report. The Composite Scenario represents a reasonable course for Alaska.

Discussion Of Differences. 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, plus calling for smaller reserves of \$1.5 billion, compared to \$5 billion in the Composite Scenario, 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 when 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. While they are actually sufficient to cover forecast cash needs through the year 2010 with room to spare, the Minority Report recommends that the fiscal outlook be revisited in approximately the year 2005, when the state begins to be faced once again with drawing down cash reserves rather than building up cash reserves. At that time the state will probably have to choose between making further cuts in spending, or making a yet greater draw on after-inflation Permanent Fund Earnings (resulting in a reduced dividend payout), or imposing additional taxes. It is possible that at that time the state will be seeing new revenues under the existing fiscal structure, because of ANWR activity, gas line activity, or other new developments, but the Minority Report would not recommend relying on those developments at this time. They will be part of the information available at the revisit ten years from now.

An argument raised for the Endowment approach is an assertion that the Composite Scenario does not do enough beyond the year 2005, when the gap starts widening again. A close look at the Endowment Plan shows that the gap is not closed because of the larger Permanent Fund. Both plans show a deficit in the year 2010 absent additional measures. The spreadsheet for the Endowment Plan shows a deficit \$503 million smaller than the Composite scenario; however, the Endowment Plan has \$371 million higher taxes than the Composite Plan in that year, and \$276 million lower transfers to the Permanent Fund Dividend program. In other words, higher taxes and lower dividends account for more than 100% of the net fiscal difference between the two plans, even in the year 2010. At the same time, much of the larger Permanent Fund earnings under the Endowment Plan by the year 2010 primarily serve to offset the higher royalty contribution rate to the fund.

Summary. The fiscal gap is a real problem which demands immediate action. However, the action required is quite manageable and--while it will be felt--it will not place dramatic strains on the Alaskan economy or individual Alaskans. In contrast, the action recommended in the Commission Report attempts not only to close the fiscal gap but also attempts, unsuccessfully, to create an endowment for state government. In doing so the Commission Report recommends a more disruptive course than is necessary, with greater effects on the economy and on individuals, especially because of the personal income tax. The Minority Report recommends taking only those actions which are required to close the fiscal gap. While the details may be the subject of debate, the Composite Scenario shown in the attached spreadsheet is representative of the action needed.

Appendix

The attached spreadsheet was presented to the Long Range Financial Planning Commission on September 29-30, when the Commission was developing its final recommendations. It uses assumptions which had been developed by the LRFPC at that time.

RIEGER COMPOSITE SCENARIO PROJECTION — SEPTEMBER 30

PERMANENT FUND EARNINGS AT 7.94% (AVG)

(Nominal Dollars)

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
AVAILABLE REVENUES (\$ Millions):															
Existing General Fund sources	1,952	1,919	1,997	2,038	2,062	2,083	2,059	2,058	2,052	2,038	1,985	1,936	1,950	1,910	1,870
Lift ANS Export Ban		20	20	20	20	20	20	20	20	20	20	20	20	20	20
New oil production										25	100	100	100	100	100
Permanent Fund Net Earnings	1,213	1,391	1,450	1,514	1,581	1,651	1,722	1,796	1,872	1,951	2,031	2,114	2,200	2,288	2,379
Permanent Fund Inflation-Proofing	-429	-494	-541	-566	-592	-619	-647	-676	-706	-737	-768	-800	-834	-868	-904
Transfer to Permanent Fund Earnings Reserve	-219	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Highway Motor Fuel Tax @ \$.219/gal., indexed		39	41	43	45	47	50	52	55	57	60	63	66	69	73
Marine Motor Fuel Tax (\$.08/gal., per HB 122, indexed)		5	5	5	6	6	6	7	7	7	8	8	8	9	9
Tobacco Tax (\$1/pkg cigs; 75%/chewing; +25¢ triennially)		43	44	44	56	57	58	71	72	73	87	88	102	104	106
Motor vehicle license fees (double)			29	29	30	30	31	31	32	32	33	33	34	35	35
User fee increases		3	6	9	12	15	15	15	15	15	15	15	15	15	15
Alcohol taxes (increase similar to HB 96)			20	21	21	21	22	22	22	23	23	23	24	24	24
TOTAL REVENUES	2,517	2,926	3,072	3,159	3,241	3,312	3,336	3,396	3,441	3,506	3,594	3,600	3,686	3,706	3,728
Note: PF earnings used for GF programs		350	394	469	509	617	647	683	713	740	766	792	728	756	785
Note: Cumulative Spending Cuts total		40	70	100											
EXPENDITURES (\$ Millions):															
Total GF spending on current programs	2,476	2,436	2,406	2,376	2,471	2,570	2,673	2,780	2,891	3,007	3,127	3,252	3,382	3,517	3,658
Permanent Fund Dividends	565	575	550	525	525	473	502	520	542	565	589	613	638	664	691
TOTAL EXPENDITURES	3,041	3,011	2,956	2,901	2,996	3,043	3,174	3,300	3,433	3,572	3,716	3,865	4,020	4,181	4,348
PROJECTED ANNUAL FISCAL GAP	-524	-85	116	258	245	269	161	96	8	-67	-122	-265	-334	-475	-621
DRAW FROM CBR	524	85	-116	-258	-245	-269	-161	-96	-8	67	122	265	334	475	621
Constitutional Budget Reserve beginning balance	2,006	1,107	1,592	1,957	2,487	2,888	3,337	3,707	4,035	4,294	4,496	4,655	4,681	4,639	4,454
Interest	125	69	99	122	155	180	209	232	252	268	281	291	293	290	278
Settlements	500	500	150	150											
Drawn for GF spending	524	85	-116	-258	-245	-269	-161	-96	-8	67	122	265	334	475	621
CBR Transfer to Permanent Fund Principal	1000														
Constitutional Budget Reserve ending balance	1,107	1,592	1,957	2,487	2,888	3,337	3,707	4,035	4,294	4,496	4,655	4,681	4,639	4,454	4,112
PF Earnings Reserve beginning balance	703	904	904	904	904	904	904	904	904	904	904	904	904	904	904
Net from PF Earnings not used for GF	219	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PF Earnings reserve transfer to PF Principal	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PF Earnings Reserve ending balance	904	904	904	904	904	904	904	904	904	904	904	904	904	904	904
Alaska Permanent Fund beginning balance	14,139	16,285	17,006	17,790	18,615	19,470	20,353	21,262	22,197	23,161	24,153	25,170	26,214	27,300	28,414
Dedicated state revenues - DOR Spring mid-case	217	227	244	259	263	264	261	259	258	256	249	243	253	246	239
FY end principal balance before inflation-proofing & deposits	14,356	16,512	17,250	18,049	18,878	19,734	20,614	21,521	22,455	23,417	24,402	25,413	26,467	27,546	28,653
Deposits to Principal from CBR	1,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deposits to Principal PFER	500	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Inflation-Proofing	429	494	541	566	592	619	647	676	706	737	768	800	834	868	904
FY ending balance Inflation Proofed	16,285	17,006	17,790	18,615	19,470	20,353	21,262	22,197	23,161	24,153	25,170	26,214	27,300	28,414	29,557
Escrow Accounts and Settlements	142	153	165	178	192	208	224	242	261	282	305	329	355	384	414
Net income (Calculated)	1,190	1,391	1,450	1,514	1,581	1,651	1,722	1,796	1,872	1,951	2,031	2,114	2,200	2,288	2,379
Real Return	761	897	909	949	990	1,032	1,075	1,120	1,166	1,214	1,263	1,314	1,366	1,420	1,476
Permanent Fund Dividends	582	575	550	525	525	473	502	520	542	565	589	613	638	664	691
Income transferred to (from) General Fund	-40	350	394	469	509	617	647	683	713	740	766	792	728	756	785
Alaska Permanent Fund ending balance	16,285	17,006	17,790	18,615	19,470	20,353	21,262	22,197	23,161	24,153	25,170	26,214	27,300	28,414	29,557

Fiscal Year	96	97	98	99	0	1	2	3	4	5	6	7	8	9	10
SB 51 EARNINGS		1,391	1,450	1,514	1,581	1,651	1,722	1,796	1,872	1,951	2,031	2,114	2,200	2,288	2,379
MID CASE DOR INFLATION	1.0299	1.0299	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318
PER CAPITA CALCULATION		1.0463784	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088	1.0483088
AVERAGE POPULATION GROWTH - DOL	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016	1.016
INFLATION*1/2 POPULATION	1.038	1.038	1.040	1.040	1.040	1.040	1.040	1.040	1.040	1.040	1.040	1.040	1.040	1.040	1.040
	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
PER CAPITA DIVIDENDS (NOMINAL \$)															
POPULATION OF APPLICANTS (THOUSANDS)	525	533	542	551	559	568	577	587	596	606	616	625	635	646	656
ADMIN COST	31	32	33	34	35	36	37	38	40	41	42	43	45	46	47
STATUS QUO PROJECTION															
DISTRIBUTION AMOUNT (MILLIONS)	565	608	624	663	721	767	815	863	913	965	1019	1075	1133	1184	1257
PER CAPITA PROJECTION	\$1,017	\$1,080	\$1,091	\$1,142	\$1,226	\$1,286	\$1,347	\$1,406	\$1,465	\$1,526	\$1,588	\$1,651	\$1,713	\$1,779	\$1,846
COMPOSITE SCENARIO PROJECTION															
DISTRIBUTION AMOUNT (MILLIONS)	565	575	550	525	525	473	502	520	542	565	589	613	638	664	691
PER CAPITA PROJECTION	\$1,017	\$1,018	\$954	\$892	\$876	\$769	\$805	\$822	\$843	\$866	\$889	\$912	\$934	\$958	\$982
ANNUAL DOLLAR CUT IN PER CAPITA DIVIDEND FROM STATUS QUO	\$0	\$62	\$137	\$251	\$350	\$517	\$543	\$584	\$622	\$660	\$699	\$739	\$779	\$821	\$864
% CUT	0%	6%	13%	22%	29%	40%	40%	42%	42%	43%	44%	45%	45%	46%	47%
PER CAPITA SPENDING (NOMINAL \$)															
POPULATION	615.9	625.8	635.8	645.9	656.3	666.8	677.4	688.3	699.3	710.5	721.9	733.4	745.1	757.1	769.2
PER CAPITA GF SPENDING	\$4,020	\$3,893	\$3,785	\$3,679	\$3,765	\$3,854	\$3,945	\$4,039	\$4,134	\$4,232	\$4,332	\$4,434	\$4,539	\$4,646	\$4,756
PER CAPITA GF + PFDS	\$4,938	\$4,812	\$4,650	\$4,491	\$4,565	\$4,564	\$4,686	\$4,794	\$4,910	\$5,027	\$5,147	\$5,270	\$5,395	\$5,523	\$5,653

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

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

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

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

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

REAL RATE OF RETURN AVERAGE

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

RIEGER COMPOSITE SCENARIO PROJECTION — SEPTEMBER 30

PERMANENT FUND EARNINGS AT 4.79% (real)

(FY 96 Dollars)

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

Fiscal Year	96	97	98	99	0	1	2	3	4	5	6	7	8	9	10
INFLATION MID CASE DOR PROJECTION	1.0299	1.0299	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318	1.0318
CONVERT NOMINAL TO FY 96 \$	1.0000	1.0299	1.0626508	1.0984431	1.13131	1.1672857	1.2044053	1.2427054	1.2822235	1.3229982	1.3650695	1.4084787	1.4532684	1.4994823	1.5471658
	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>
PER CAPITA DIVIDENDS (REAL \$)															
POPULATION OF APPLICANTS (THOUSANDS)	525	533	542	551	559	568	577	587	596	606	615	625	635	645	656
ADMIN COST	31	31	31	31	31	31	31	31	31	31	31	31	31	31	30
STATUS QUO PROJECTION															
DISTRIBUTION AMOUNT (MILLIONS)	565	590	587	605	637	657	677	694	712	729	746	763	780	796	812
PER CAPITA PROJECTION	\$1,017	\$1,049	\$1,026	\$1,042	\$1,084	\$1,102	\$1,119	\$1,132	\$1,142	\$1,153	\$1,163	\$1,172	\$1,179	\$1,186	\$1,193
COMPOSITE SCENARIO PROJECTION															
DISTRIBUTION AMOUNT (MILLIONS)	565	558	518	479	464	405	416	419	423	427	431	435	439	443	446
PER CAPITA PROJECTION	\$1,017	\$988	\$898	\$813	\$774	\$659	\$668	\$661	\$657	\$654	\$651	\$647	\$643	\$639	\$634
ANNUAL DOLLAR CUT IN PER CAPITA DIVIDEND FROM STATUS QUO % CUT	0	\$60	\$128	\$229	\$310	\$443	\$451	\$470	\$485	\$499	\$512	\$525	\$536	\$548	\$558
PER CAPITA SPENDING (REAL \$)															
POPULATION	615.9	625.8	635.8	645.9	656.3	666.8	677.4	688.3	699.3	710.5	721.9	733.4	745.1	757.1	769.2
PER CAPITA GF SPENDING	\$4,020	\$3,780	\$3,561	\$3,355	\$3,328	\$3,302	\$3,276	\$3,250	\$3,224	\$3,199	\$3,173	\$3,148	\$3,123	\$3,098	\$3,074
PER CAPITA GF + PFDS	\$4,938	\$4,672	\$4,376	\$4,096	\$4,035	\$3,910	\$3,891	\$3,858	\$3,829	\$3,800	\$3,771	\$3,742	\$3,712	\$3,683	\$3,654

Correspondence Received to Date

- 1.) E-Mail message from Philip E Kettering
- 2.) Letter from Mary E. Schenker
- 3.) Letter from Ruth McHenry (Already sent to members)
- 4.) Packet from AML (Already sent to members)
- 5.) Letter from Marie Brooks
- 6.) Letter from City of Hoonah(Mayor Albert Dick)(Already sent to members)
- 7.) Response letter from Commissioner Joe Perkins (Already sent to members)
- 8.) Letter from Pat Marley
- 9.) Letter from Doug VanWingerden
- 10.) Letter from Gerald Lee Sharp (Already sent to members)
- 11.) Letter from John A. Lund (Already sent to members)
- 12.) Letter from Mark Ames (Response sent back to sender)
- 13.)Letter from City of Craig School District (response sent and has listened in on several meetings.)
- 14.) Letter from James Elson
- 15.) Letter from the State Council on the Arts
- 16.) Letter from Alaska Public Offices Commission
- 17.) Fax letter from the Law Offices of Donald M. Johnson,P.C.
- 18.) Letter from Senator Dave Donley
- 19.) Faxed comments from Kenneth J. Luckey
- 20.) Faxed Letter from Robert Pfisterer, President Anchorage Education Association.
- 21.) Letter from Mr. John Havelock, Alaska Common Ground
- 22.) Letter from the Executive Director A.P.O.C.

cc:Mail for: Melissa Fouse

Subject: LRP Preliminary Report

From: Kettering#m#_Phillip_E@msmail.aai.Arco.COM ("Kettering, Phillip E") at CC2M... 9/12/95 1:24 PM

To: LRFPC at LAA_ANC

To: Planning Commission

Bob,

I picked up both of your phone messages and appreciate you following up on the technical problems. The error message I received for the undelivered e-mail gave a code but no description. Again, thanks for letting me know things are cleared up.

I picked up a copy of your preliminary report yesterday and read it last night. I appreciate the chance to comment but would like to know if you can give me a little more information. Do you have, or know where I can get, a copy of our states financial statement in a format similar to the base case projection noted on page 7 of your report but documenting the last ten years?

I believe that controlling cost is a must but recognize that there is no single budget item that can be cut which will solve our problems. I would support a balance of various actions which may include capping the PFD checks but would emphasize the need for reducing some of the operating/capital costs. I don't believe that any further taxation is necessary (sales or income/personal or business) and hope these alternatives are noted and then dismissed.

I appreciate your assistance in getting me the information requested above. Should you need any clarification or have any questions of me please feel free to contact me via E-Mail at PKettering@aai.arco.com.

Thanks,
Phil Kettering

①

WRPFC REC. 9/12/95
11:30 AM

701 Dogwood Street
Anchorage, Alaska 99501
September 11, 1995

Long Term Fiscal Planning Commission
c/o Legislative Information Office
716 4th Avenue
Anchorage, Alaska 99501

Since I will be unable to participate in the Anchorage teleconference September 13 regarding the fiscal gap in state finances, I am taking this avenue to correspond with you.

The magnitude of the problem is overwhelming and the consequences of not making considerable changes could be catastrophic. I am therefore offering my personal views on where some cuts could possibly be made, where cuts should not be made, and the options I personally would favor on raising revenue.

Cuts in the \$31 million budget for the Legislature could be made in out-of-state travel. It should be severely curtailed and in-state travel should be limited to what is absolutely essential.

There are many areas of the budget that I know nothing about as far as how overblown it is. For example, what comprises the Health and Human Services budget. I doubt that the Corrections budget can be cut in view of escalating crime rates. It might be possible to effect some savings by privatization.

I am willing to give up my Longevity Bonus but believe it should be cut for everyone if anything is done. It is not fair for some to receive it and not others. This will create a hardship for many low income seniors but it should have been left at the original \$50 and was raised only because we had money to burn in the 80's. It will be greatly missed by me, but my husband had to forego his when he moved to the Pioneer Home nursing wing and we are managing without it.

The entire welfare system needs to be drastically overhauled and cut. There is too much dependence on welfare checks such as teenagers knowing that when they have a baby or multiple babies out of wedlock the government will take care of them. I have even heard some of them make statements to that effect on TV. There is too much fraud in the areas of welfare and food stamps.

Senior tax relief should be eliminated although it will put a large hole in my budget. I have had the benefit of it for only two years and have appreciated it, but I managed to live without it before.

Tourism Marketing can probably stand some cutting as most people want to come to Alaska without being bombarded with ads. Although I watch Channel 7 almost exclusively, it may be possible to cut public television a bit more. To eliminate it entirely would be tragic, especially for children.

The one area that should not be cut is the nursing program of the Pioneer Homes. To eliminate this wonderful and desperately needed service to Alaskans will cause untold heartache among families of stroke victims, Parkinsonians, and those afflicted with Alzheimers as well as other health problems that require skilled nursing care around the clock. Privatizing or selling the Homes will result in placing an impossible financial burden on the families. It will result in danger and abbreviated lives for many patients. Families will be forced to try to care for loved ones at home where that care presents such physical and emotional stresses that often the caregiver goes before the patient. My husband has been in the nursing wing for over a year. He is a victim of Parkinson's Disease so I know whereof I speak. I implore you to maintain compassion for the patients and their families by continuing to fund fully the Pioneer Homes throughout the state. One recommendation I would make that could result in less expense would be to phase out the residential care. Many of these residents are able bodied and could well care for themselves at home. Entrance to the Homes should be based on a doctor's verification that the service is sorely needed.

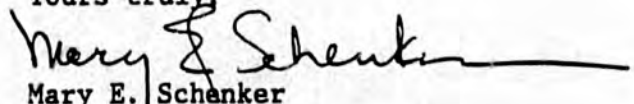
I am also willing to forego my Permanent Fund Dividend but it should be one of the last things cut as it does provide a great stimulus to the economy as well as helping individual Alaskans. It should not be cut until all non-essentials and waste are eliminated.

I also believe a stringent energy saving policy (e.g., turn off the lights) should be instituted and enforced in all state offices and buildings. It should be patterned after the one President Carter put into effect during the oil shortage.

As for raising revenue, I personally am willing to pay a statewide personal income tax or a statewide sales tax although it would be a considerable burden. I prefer whichever would cost me the least although I favor the sales tax in principal so that the many who benefit from state services but don't live here year around could contribute. I doubt that a lottery would raise much money with our small population. I am willing to pay a higher motor fuel tax. Alcohol and tobacco taxes should be raised to the maximum possible.

I would appreciate your consideration and would implore you once more to urge the Legislature to save the Pioneer Homes' nursing program and continue to fund at the present level.

Yours truly,


Mary E. Schanker

c: Governor Tony Knowles

HC60 Box 306T
Copper Center, AK 99573
September 7, 1995

Received
9/11/95
LRFPC

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

Dear Commission Members:

Thank you for producing the "Fiscal Gap" report and encouraging public comment on it. Following are my comments:

CUTTING SPENDING:

--Don't cut rural and bush areas disproportionately. Please remember that most state revenues come from those areas.

--Corrections spending has increased alarmingly. I do not believe that more jails are the answer to crime; they're costly and aren't working. Because there seems to be a strong link between crime and the problems of divorce, single-parenting and poor parenting, the state should be innovating ways to reduce teen pregnancies, encourage higher education, encourage parents to stay home with their children, and encourage families to stay intact. (For instance, counselling might be required before a couple could file for divorce.)

--Also regarding Corrections, emphasis should be shifted from jail time to restitution. Permanent Fund Dividends should be routinely taken for restitution and fines, for as many years as is necessary to make adequate restitution. In the case of juvenile offenders, the parents' PFD's should also be taken. Drunk drivers should lose their vehicles upon a first offence.

--Don't make further cuts to Fish and Game and Natural Resources. As the graph on page 8 of your report shows, those departments have already taken more than their share of cuts. Since our state has a natural resource-based economy, our future depends upon knowing what natural resources we have and how they function. Thus, a greater share of funding should go to field work.

--Involve the University to a greater degree in solving problems and doing research for the state. Using degree candidates could be cost-effective.

--Cut travel budgets in all departments. Eliminate first class travel at state expense. Reduce travel allowances so that they are closer to actual costs. Encourage conference calls as an alternative to travel.

INCREASING REVENUES:

--Higher tobacco and alcoholic beverage taxes: Yes!

--Statewide sales tax or individual income tax: It's time for one of these. I slightly favor the sales tax because it would allow us to collect revenue from non-resident travellers as well as non-resident workers, and because individuals

wouldn't have to file returns. Its down side is that it is regressive. That could be partially remedied by exempting food, rent, and medical payments, while not exempting high-ticket items. To capture more tax from nonresidents, the tax rate should be higher in summer; also, summer is when many residents are better able to afford a tax. If the individual income tax is reinstated, it should be as simple as possible, but it should be progressive.

--Natural resource taxes and royalties: The revenue structure for all natural resources should be reviewed to be sure that they strike a balance between being fair to the resource extractor and providing a reasonable return to the owner (us), both now and in the future when demand might soar for, say, timber or minerals.

--Lottery: No. I suspect that lotteries are regressive--that the poorest and most poorly-educated people have the highest participation rate.

PERMANENT FUND:

--Retain the dividend, if only because it gives the people a vested interest in the fund.

--Cap the dividend.

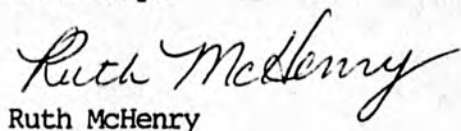
--Invest all natural resource revenues in the fund (the Cremo Plan or a variation of it).

OTHER:

--It should be a state policy to avoid encouraging population growth. Because we are a resource-revenue state, a higher population just increases the fiscal gap. Both the public and private sectors should use all federally-permitted means to give preferential hire to Alaska residents. Whenever possible, we should alter state policies and programs that have the side-effect of encouraging people to move to the state. The state should work hard at lowering its high teen pregnancy rate, and it should help women of all ages avoid unwanted pregnancies.

Again, thank you for the work you are doing on the state's fiscal problems.

Sincerely,



Ruth McHenry

SEPT. 13, 1996

Wasilla, AK
376-5802
659-4408

**COMMENTS TO THE
LONG RANGE FINANCIAL PLANNING COMMISSION
C/O L.I.O WASILLA**

No new taxes until State spending is in control!

How will we know when we have cut enough?

Here are three possible criteria:

- 1) When the total per capita spend of the State (excluding Federal Funding) is no more than it was in 1973 (adjusted for inflation).**
- 2) When the total per capita spend of the State (excluding Federal Funding) is no more than that of other comparable States of large area and small population such as Idaho or Montana.**
- 3) When total State spend does not exceed current revenues. Cut as necessary.**

Revise the State spending policies to mandate elimination of political favoritism.

Since each individual owns an equal share of State revenues, State funded programs should distribute their spending to each area of the state proportionate to the number of residents in each area. This would eliminate political favoritism and competition between politicians to bring back the most pork for their districts. It would also help all to focus more clearly on the larger picture of total spending instead of the narrow interest in how much can we get. In this type of distribution the same percentage of cuts and downsizing would be felt in each area and the cuts would not be the subject of the political games we now suffer.

Thank you for your time,



Pat Marley

TOTAL P.01

Long Range Financial Planning Commission
716 West 4th Ave.
Anchorage, Alaska 99501

Dear Members of the Commission,

As a long term resident of the State of Alaska I am very concerned with what our State is doing. Especially with regards to the budget and the growing fiscal gap. I would like to share my feeling about both the spending that the State does and also how it collects revenues.

First, I think the spending is way out of line. I realize there is a lot of pressure from a myriad of sources all with heart wrenching stories about what a wonderful program they need funding for and how millions will suffer if the funding is cut back. I have lived in Alaska all but the first couple years of my life. I am 43 years old this year so I have seen the State go through a lot of changes in its growth. I have seen people come to Alaska for the taste of adventure and the beauty of the land. Since the 80's these numbers have grown tremendously. I saw when these people moved into Anchorage in the 50's and 60's. As they settled in to their life in the last frontier everything was new and quaint. A frontier town with many dirt roads, your own well and septic system, a small neighborhood school and etc. As time went on these people started wanting somebody to grade and water those dirt roads and plow the snow in the winter. They didn't want to have to worry about wells and backed up sewers in the winter. They wanted busses for their kids to ride to school in, big gyms, ball fields, sports programs, school lunch programs, natural gas, etc. They wanted someone to take care of them. Along comes some smooth talking politician who promises them the great society if he gets into office. Forty years later we have Anchorage what it is today. Looks to me like a mini Seattle. Meanwhile someone has to pay for all this and it seem like the only solution is taxes and State grants.

Ten years later, these people who came looking for adventure and the beauty of the land are tired of the traffic, dirt, falling apart pavement, property taxes, crowded schools, teacher strikes, noisy garbage trucks early in the morning, all that road and snow removal equipment, etc. They're thinking about moving a little farther out of town where you can live on a rural road and have your own well and septic system, a small community school, a quieter lifestyle and the cycle repeats itself. Eventually these people keep moving or leave the State. The problem is all the people who have lived there since the beginning end up having to pay for all the stuff they never wanted in the first place. I have lived in the Valley since the early 60's and this is what is happening here now.

My earliest years growing up were in a small village. My dad dug a well and we used an out house. Eventually my dad put in a septic system and we had a toilet. We used a hand pump to pump water into a tank in the attic so we could flush the toilet. We had a generator that we used occasionally when it was needed. The point is we provided for our own needs. We didn't depend on government to do everything for us. That is what is happening all over this State today. That is why the gap is so wide. Sure people need sanitary systems but

why does the State have to provide it? Electricity is something we all depend on anymore, but why does the State have to subsidise electricity bills for people in the bush? What people think are necessities maybe are only conveniences.

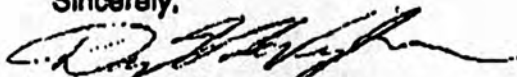
My answer to all of this is if you want the conveniences of electricity, gas, TV, etc. move to the city. If you want paved streets, fancy shopping centers, somebody to take care of everything for you, move the city, pay for what you use through taxes or whatever and don't expect the State to pay for it.

Secondly, we have a great many people who come to Alaska to work. They don't even live here. They have some of the best and highest paying jobs in the State and don't help the economy one bit. They come up and work for a week or more and take their fat paychecks home to the lower 48 with them. The most they spend in the state is maybe \$1.00 at the airport for a cup of coffee. (I guess the airport is trying to make up for what they don't spend in this state.) There are also a lot of commercial fisherman who come up, make their boat load of money and leave the State.

I think that maybe we should have a State income tax ^{with} ~~and also~~ some kind of a dividend or some way to give it back to people who live in Alaska. Use the same criteria the Alaska Permanent Fund Dividend program does for residents. I hate to see another tax. I don't believe taxes are the answer to anything. It usually reflects poor management and lack of back bone to say no to what we can't afford. But I don't feel its right for people to be able to come to this State and reap its benefits and not have to share its expenses.

To summarize what I am trying to say is the State must do what I have to do. There maybe some really important things that I would like to do but I just don't have the money to do it. We have to say **NO** to everything except what is absolutely necessary. I think we should prioritize everything the State spends money on. Start with the most important and absolutely necessary to run the State and work down till everthing is listed. Then decide how much revenue we have to spend without getting ourselves into a bind later on. Also consider a safety margin into that amount. Then start funding according to the list, when the money is gone, thats it, period. That is what every contributing member to society has to do. The State must do it too. I also think people who share the gain from the State should share the pain. Maybe tax is a way to do that. Leave the PFD alone.

Sincerely,



Doug VanWingerden
P.O. Box 872785
Wasilla, Alaska 99687

JAMES A. ELSON
P.O. BOX 2788
KENAI, AK 99611
Telephone: (907) 283-5831 (Work)
283-7970 (Home)
283-2394 (Fax)

September 13, 1995

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

Dear Commissioners:

Subject: Fiscal Gap Testimony

Last night, I testified during the teleconference conducted from the Kenai Legislative Information Office. Since I am not sure I was comprehensible, I am providing this written comment.

I have been on the board of directors of the Kenai Peninsula Borough Economic Development District since 1988 and chairman for the past four years. During that time I have attended and participated in several forums on the subject of the fiscal gap facing the state. In fact, the KPBEDD facilitated forums within our borough in partnership with the Governor's office and the University.

In response to the remarks made last night, regarding the low turnout for the teleconferences being held, I suspect the reason is that the decision makers in our communities have participated in the past, have not seen results, and have established higher priorities for their time.

It is my belief that all the tools identified by the commission will be needed in the long run. However, the question is where to begin. I have a concept that I would like you to consider regarding the area of taxation. The premise is the protection and creation of private sector jobs.

Most states derive their revenues from established commerce and industry. Because the State of Alaska derives nearly all its revenue from the sale of natural resources, it has a unique opportunity.

Long Range Planning Commission
September 13, 1995
Page 2

As taxes are imposed, particularly, royalties or severance taxes, the state will have the opportunity to provide rewards for performance that add value, protect the environment, provide worker safety, and create jobs.

Under our present system of worker and environmental protection, we have a punitive system to insure minimum compliance. Under my proposal this would not change, however, if a business excelled they could be rewarded through a credit on their tax or possibly additional availability of the resource.

The same theory could apply to companies interested in producing a value added product. Prior to start up, a plan would have to be agreed upon with the State which established certain bench marks they would have to reach before earning tax credits or resource availability. Certainly job creation would be one of those bench marks.

This concept is not an incentive, as there is no up front risk for the state. It is a reward for past performance.

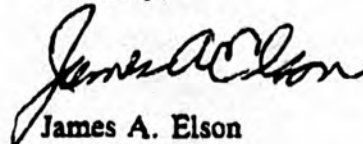
An example of benefit to the State budget could be education. Presently, the state funds the majority of education costs. As value added production expands, the local tax base would grow, and the demand for state assistance could be decreased.

I believe the State of Alaska has the opportunity to make the state an attractive place to do business and offset some of the barriers we now face.

It has been a long established psychology, whether it's child or labor relations, you get more by rewarding than by threatening. Alaska has the opportunity to use that psychology in the market place and create jobs, diversify its economy and expand its markets, while maintaining a quality of life that is unique in its richness.

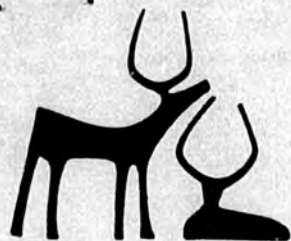
Thank you for your consideration.

Sincerely,



James A. Elson

cc: Senator Judy Salo
Senator John Torgeson
Representative Mike Navarre
Representative Gail Phillips
Representative Gary Davis



September 15, 1995

The State of Alaska Long-Range
Financial Planning Commission
716 W. Fourth Avenue, Suite 470
Anchorage, Alaska 99501

Dear Commission Members:

Thank you for the opportunity to submit written testimony regarding the Commission's preliminary report on Alaska's fiscal gap. I know each of you has spent many long hours studying the State's financial condition and proposing various scenarios for public and legislative consideration. On behalf of the Alaska State Council on the Arts and as an Alaskan resident, I want to say thank you for your hard work. It is a difficult task at best and one that may never receive the amount of appreciation it well deserves.

Certainly, one of the most difficult and controversial questions the Commission faces is what services should be funded, and which should not? As Chair of the State Arts Council, I noted in your report that several of the scenarios show privatization of the council. As you might anticipate, I have serious concerns about that option.

As indicated in the attached "testimony," continued state funding is necessary for two reasons: 1) it is unrealistic to believe the private sector can sustain the arts without public assistance; and 2) without state support, it is difficult to leverage funding from other sources.

Please know that the Council understands the seriousness of the gap and is itself examining other funding options. In fact, we are planning a Governor's Conference on the Arts on December 1 and 2 for the purpose of developing and setting a direction for the future of the arts in this state. I invite any and all of the Long-Range Planning Commission members to attend and participate in this conference.

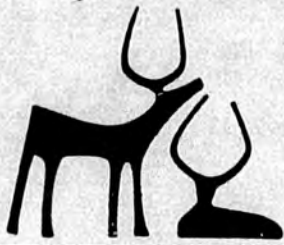
If you have any questions regarding my testimony, please feel free to contact me at 561-4488. Again, thank you for your many long hours of service and your commitment to the state.

Sincerely,

Bonnie L. Bernholz
Chair, Alaska State Council on the Arts

Alaska State Council on the Arts

411 West 4th Avenue, Suite 1E, Anchorage, Alaska 99501-2343 (907) 269-6610 Fax: (907) 269-6601



Testimony from Bonnie Bernholz, Chair, Alaska State Council on the Arts
before the State of Alaska Long-Range Financial Planning Commission

September 13, 1995

Thank you, Commission members. Based on your report, I have divided my written testimony into four parts:

- 1). A brief background on the history and mission of the Alaska State Council on the Arts;
- 2). Potential Federal Budget Impact on the Council;
- 3). Principles for State Expenditures on the Arts; and,
- 4). Long Range Revenue Options for the Council.

Background

The Alaska State Council on the Arts (ASCA) was established in 1966 by Governor Bill Egan, long in advance of the first oil discovery in Prudhoe Bay. In the Council's first budget year, it received \$18,835 in state appropriations and \$35,943 in federal appropriations, for a total budget of \$54,778.

Since that time, the Council has received a maximum state appropriation of \$4,975,800 in FY83 with a federal match of \$839,300. These state and federal funds continue to be used by the state to provide programs, services and grants to artists and arts organizations throughout the state. Each federal dollar is matched by the state, and each granted state dollar is in turn matched by local government and/or private dollars.

ASCA's mission is to encourage all aspects of the arts statewide by securing and dispersing state and federal funds. We do this in a way that fosters excellence, respects diverse cultural artistic expression and enriches the human spirit. It is the purpose of the council to integrate the arts into the lives of all Alaskans by administering grants and providing arts education and technical assistance.

During the past several years, ASCA's budget has been drastically reduced. Its FY95 budget was cut 21 percent (compared to the State's overall operating budget, which was cut 4.5 percent). Its FY96 budget was cut another 32 percent.

Alaska State Council on the Arts

411 West 4th Avenue, Suite 1E, Anchorage, Alaska 99501-2343 (907) 269-6610 Fax: (907) 269-6601

Based on the most recent national comparisons compiled by the National Association of State Arts Agencies (NASAA), in FY94 ASCA received 0.0330 percent of the state's general fund. This compares to a national average of 0.0719 percent. In FY95, Alaska was one of 16 states to received decreased state funding with only the District of Columbia receiving a larger decrease. According to NASAA, updated 1995 appropriations figures for state arts agencies confirm a 5 percent increase over last year. This is the second consecutive year that aggregate appropriations to state arts agencies have increased. With the abovementioned 16 exceptions, states are demonstrating widespread support for the arts by maintaining their commitment through the tough economic times and slow recovery of recent years.

Potential Federal Budget Impact on the Council

As you aware, there has been a great deal of controversy surrounding the reauthorization of the National Endowment of the Arts (NEA) and its budget. While the long-term future of this agency is in grave danger, even its short-term future presents a significant difficulty for Alaska. Although a final budget number has not yet been reached through a House-Senate conference committee, it is expected that even if the Senate's budget number is adopted, the NEA still suffers a 30 percent budget cut. What does that mean to Alaska? For every \$ 1 million cut from the NEA's budget, it means approximately \$5,000 less to ASCA.

These budget cuts become even more critical in light of the state's contribution. Between FY89 and FY94, NEA grants through ASCA grew from \$486,908 to \$661,900 – an increase of 36 percent. During that same period, the Council's contribution from the state fell 38 percent.

Concurrent to the NEA's budget cuts, however, is increased Congressional focus on giving more financial authority to the individual state arts agencies. This means that while the total overall dollars allocated to the NEA may be less, a higher percentage of the funding will go directly to ASCA. Elimination of ASCA would result in this state's inability to receive these federal funds.

Principles for State Expenditures on the Arts

All too frequently, "the arts" are perceived as takers, but not necessarily givers. Yet, the arts represent a substantial industry within the state, and are rapidly becoming an area of continuing economic growth, especially with the advent of cultural tourism. According to the state's Division of Tourism, the number of visitors to Alaska between 1992 and 1994 who sought out a cultural experience increased by at least 27 percent. Without question, increased emphasis and marketing of cultural experiences and events in Alaska could increase visitors and, thus, revenue to the state.

It is imperative for this state to find ways to diversify the economy and to continue to support those industries with a proven economic track record. The following, based on a McDowell Group study, are some of the quantifiable economic impacts of the arts.

- Nonprofit arts directly and indirectly supports approximately 1,300 jobs in Alaska with a total payroll of \$8.3 million.
- Nonprofit arts organizations receive \$12.6 million in grants, revenue and donations. As a return on this investment, arts organizations held 3,000 events, generating more than \$23.5 million of spending in Alaska.
- A conservative estimate shows that there were \$1.5 million admissions to arts events in Alaska in FY94.
- The thousands of volunteers, who donate time and labor on behalf of nonprofit arts organizations, provide a measure of just how valued these institutions are in our communities.

One area not explored within the Commission's report that deserves further examination is that of intra-state agency partnerships. In many states facing similar budgetary restrictions, successful new programs have been forged within various agencies. For instance, the Kansas Arts Commission's Arts in Education Program serves an increasing number of identified groups of at-risk children. Some projects include a dance company that works with children of substance-abusing mothers in halfway house; classes given at the Wichita Center for the Arts for kids who have gotten in trouble for bringing weapons to school and a partnership with Social and Rehabilitation Services to support artists in residence at four Youth Centers, which are state juvenile detention facilities.

Another example is the Wind River Health Promotion Program, which has received funding from the Wyoming Arts Council, HUD, Fremont Counseling and the state Division of Behavioral Health for a multifaceted prevention program targeting young people under the age of 21 and their families. This program provides cultural activities using tribal elders as teachers, role models, and mentors.

As you might imagine, there are many, many more examples of interdepartmental programs that reduce spending without compromising or losing valuable programs.

Long-Range Options for the Arts in Alaska

As I indicated earlier, although I understand the Commission's suggestion to privatize the Council, I don't believe it is a realistic scenario.

TONY KNOWLES, GOVERNOR

REPLY TO:

2221 E. NORTHERN LIGHTS, ROOM 128
ANCHORAGE, ALASKA 99508-4149
PHONE: (907) 276-4178
FAX: (907) 276-7018

DEPARTMENT OF ADMINISTRATION

ALASKA PUBLIC OFFICES COMMISSION

P.O. BOX 110222
JUNEAU, ALASKA 99811-0222
PHONE: (907) 485-4864
FAX: (907) 485-4832

Sept 13, 1995

Brian Rogers, Chairman
State of Alaska
Long Range
Financial Planning Commission
716 West Fourth Avenue
Anchorage, Ak 99501

Dear Mr. Rogers:

I have recently reviewed the preliminary report of The Long Range Financial Planning Commission, "Alaska's Growing Fiscal Gap." As the Executive Director of the Alaska Public Offices Commission (APOC), I have some concerns. As you probably know, the APOC administers four disclosure laws: AS 15.13, the Campaign Disclosure Law; AS 39.50, the Conflict of Interest Law; AS 24.60, The Legislative Financial Disclosure Law; and AS 24.45, the Lobbying Law. These laws require public officials, politically active groups, and lobbyists and their employers to disclose campaign contributions and expenditures, personal financial interests and funds expended to influence the administrative or legislative branches of state government. All of this "disclosed" information is available to the public.

I recognize that it is difficult in a short report to make all your assumptions clear. It is not clear to me with regard to the APOC what your Commission envisions. Scenarios one and two include the APOC in a category named "consolidate/eliminate". Since the APOC and the Alcohol Beverage Control (ABC) Board are the only two programs in that category with funds remaining after FY 2000, it would appear that these two programs would be consolidated. The ABC Board controls the manufacture, possession and sale of alcoholic beverages in the state, a very different function from APOC. It is unclear to me how the two programs could be functionally consolidated.

With regard to the estimated savings column by FY 2000, the amount remaining represents a 75% reduction of APOC's budget including program receipt revenues. Over the last several years, the APOC has received significant cuts in its budget and as a result, is minimally funded at its current level. It is not possible to run a credible program that meets the expectations of the public and carries out the basic mandates of the four disclosure statutes with anything less. Further, Article II, Section 12 of the Alaska Constitution requires lobbying to be regulated.

As I understand from talking to Melissa Fouse, staff to your commission, part of the intention of scenarios one and two is to demonstrate the drastic cuts that would be necessary to reduce the general fund by \$500 million dollars. These are only examples, not recommendations. Although, I appreciate this distinction, all too often ideas committed to paper have a life of their own and a validity that may not have been intended. A credible and effective Alaska Public Offices Commission can not be supported with the funds remaining after a 75% reduction.

Sincerely,



Karen Boorman
Executive Director
Alaska Public Offices Commission

cc: Alaska Public Offices Commission Members

LAW OFFICES OF DONALD M. JOHNSON, P.C.
1400 West Benson Boulevard, Suite 110
Anchorage, Alaska 99503
(907) 276-2808

Testimony of Donald Johnson
before the Long-Range Financial Planning Commission
September 13, 1995

Mr. Chairman, my name is Donald Johnson, and I appreciate the chance to share my views on the interim report of the Long-Range Financial Planning Commission.

I am an attorney in private practice here in Anchorage. Most of the people I represent don't own their own businesses, and aren't oil company executives. They're average Alaskans, doing their best to get by.

Many of them are long-time residents who have ridden out Alaska's boom-and-bust cycles, and stayed on. They have paid a high price, though. Cutbacks in the private sector have rippled through the economy. Instead of stable, high-paying work, they now work at jobs paying a third to a half of what they once made -- if they have jobs at all.

That's why it's hard for them to watch public employees work a 37-hour week, and get annual inflation-adjusted raises. That's why it's hard to see the state spend millions for non-essential services and programs when they have to cut back to bare necessities. The average Alaskan has taken his lumps and adjusted to new economic realities, and it is time for the state bureaucracy to take its lumps as well.

The state spends more than \$3 billion dollars each year, and keeps spending more every year, while the North Slope is running out of oil. It is obvious that Alaska spends more than it takes in. And it's obvious that the solution is to spend less. There are lots of opportunities.

Alaskans will have to give up some of their special entitlements, like the Longevity Bonus, the rural power subsidies, and property tax rebates. We should zero-out the Alaska Seafood

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Marketing Institute and Alaska Tourism Marketing Council budgets, and make these industries carry their own weight.

The Department of Corrections needs an overhauling. When it costs more than \$90,000 per year to house an inmate, something is just plain wrong.

The Legislature needs to make a significant effort at welfare reform. We need to reduce the number of people getting benefits.

I think we should take a hard look at some form of an incentive-driven program. Our social conscience, expressed in governmental action should be that we can help you if you need it, but you must work for it. For a lot of people, our present system fosters a degrading lifestyle that leads them to decide that they would lose more in welfare benefits than they would earn in wages. You can't blame them for making the astute financial decision to stay on welfare.

There is a finite minimum amount of money, food, housing and clothing that a person or family needs to survive, while retaining some modicum of self-respect. Requiring recipients to help in achieving this through their own contributions should lessen the cost of our help, and build the recipient's self-esteem.

In short, our government leaders will have to get used to the idea that the state cannot -- and should not -- pay for everything, regardless of cost. And they must realize that they have no right to reimpose income taxes or limit Permanent Fund dividends until they demonstrate that they are using the revenue they presently have access to wisely and efficiently.

With all due respect, we've been hearing about the state's budget deficit for several years now. I'm glad this commission is finally working to find the solutions to this situation. It is long past the time for Alaska to restore some sanity to our fiscal planning process.

Good luck, and thank you for your time and attention.



SENATOR DAVE DONLEY
ALASKA STATE LEGISLATURE

August 30th, 1995

Mr. Brian Rogers, Chairman
Long Range Financial Planning Commission
P.O. Box 80690
Fairbanks, Alaska 00708

Dear Mr. Rogers,

I wanted to advise you, as well as other commission members of my response toward the preliminary report of the LRFPC, specifically, capping the Alaska Permanent Fund Dividend, and imposing either a sales or income tax. I understand the LRFPC is considering many options, including these, in order to address Alaska's declining revenue and to stabilize our economy in the future.

While I do not support any change in the Alaska Permanent Fund Dividend program as it is now, if it were to be modified, I do not believe that capping the amount of the dividend awarded to residents each year would be in the best interest of the Fund. Instead of capping the amount of dividends disbursed to each Alaskan, a **lower percentage of the annual income for distribution as dividends** would make much more sense. The same financial goals would be attained while preserving the Fund and politically insulating it against future raids. Unlike with 'capping' the dividend, Alaskans would retain their interest in increasing the value of the fund while the State of Alaska will have accessed additional operating revenue.

I do not support any new taxes. I will continue to oppose any new taxes until the state can decrease spending. A sales tax is regressive and places more of the tax burden on Alaskans and less of the tax burden on transient workers. I do not support the imposition of an income tax, although an income tax is more logical and credits can be given for local taxes paid. Income tax with such credits has advantages over sales tax in that it:

1. minimizes the burden on Alaskans,
2. is deductible from federal income tax paid,
3. encourages the formulation of local governments for the 20% of Alaska that currently has no local government, and
4. is a progressive, fair system of taxation.

The local boundary commission has determined that there is an adequate financial base

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MEMBER: Senate Finance Committee • Senate State Affairs Committee

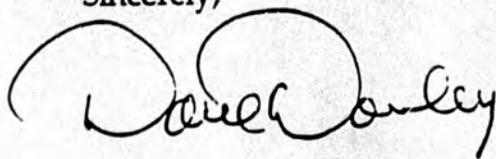
Printed in House

Brian Rogers
August 30th, 1995
Page Two

in rural Alaska to support the formulation of local governments statewide and an income tax with credits for local taxes paid would encourage the formulation of local governments. Currently, the State of Alaska governs unorganized Alaska yet the residents do not contribute any local or state tax.

Once again, I do not support any change in the Alaska Permanent Fund Dividend program as it is now. If it were to be modified, I do not believe that capping the amount of dividends distributed to each Alaskan is in the best interest of the Fund. In addition, I do not support new taxes, although an income tax could be tailored to give credit for local taxes paid, whereas sales tax has no such option.

Sincerely,

A handwritten signature in dark ink, appearing to read "Dave Donley", with a large, stylized loop at the beginning.

Senator Dave Donley

DD/kb



TIW CORPORATION
A Paces Industries Company

**Testimony of Kenneth J. Luckey
to the Long-Range Financial Planning Commission
9/13/95**

Thank you for the opportunity to comment on Alaska's state budget. My name is Kenneth J. Luckey, and I hope I can help give you a perspective you might not have heard yet.

I'm a businessman -- I work for a contracting company that depends on a healthy oil industry here in Alaska. Any businessman will tell you that you just can't spend more than you earn without going broke. It's that simple. So I'm glad to see the state is finally trying to balance its budget. But you won't balance it unless you make sure that the oil keeps flowing.

I have seen how the state has kept the oil industry off balance for years. They've changed tax laws retroactively, kept tax return audits in limbo for years, and constantly jack up the permitting requirements. They've generally made it so the oil industry doesn't know if it still makes sense to invest here or not.

This kind of uncertainty filters down to contractors like me. I never know if I should keep employees on my payroll, or buy new equipment, or not. It makes it very difficult to carry out a business plan any distance into the future.

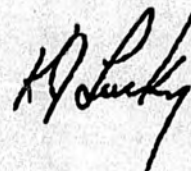
I'm like many here in Alaska. I came here because Alaska is full of opportunities if you're willing to work hard and play by the rules. I know times are tough, but you can't keep changing the rules in the middle of the game and expect everyone to keep playing.

You'll do a lot better on your bottom line -- in terms of oil revenue, and in terms of keeping jobs and families and businesses in the state -- if you make it easier for the oil industry to explore new oil fields, especially the marginal fields. That way, you keep money coming in so you have time to cut the fat out of the state budget.

I personally believe Alaskans could get by with a lot less money going to Permanent Fund dividends, power cost equalization, welfare and mental health programs, property tax rebates -- a lot of things that people everywhere else pay for themselves.

I raised my family here in Alaska, and I love it. It's my home, and I want to be able to stay here and watch my children have families and careers of their own. But an awful lot of people can't stay in Alaska if the state government tries to cut down on its feed bill by killing the goose that lays the golden egg.

Thanks for giving me the chance to testify.



Anchorage Education Association



Affiliated with The National Education Association
1840 South Bragaw Street, Suite 103, Anchorage, Alaska 99508
(907) 274-0536

To: Alaska Long -Range Financial Planning Commission
From: Rob Pfisterer, President Anchorage Education Association
Subject: Alaska's Growing Fiscal Gap
Date: September 14, 1995

For several years now many in Alaska have been concerned with the potential of a fiscal crisis when the oil revenues are depleted. It is very prudent of the state to be concerned about this possibility. When considering the alternatives available to our state it is important to remember that our state constitution mandates that our citizens must have adequate public safety and that our children must be educated.

I would like to give you a rationale as to why it is important to fully fund our public schools. Since prior to our nation's founding we have a history of communities and states funding public education. The reason for this was so that all children should have an education. Our founding fathers were concerned that if we did not have an excellent public education system then only those who could afford school would receive an education. If this were to occur we would have an elite group who would be educated and thus would be created a class system in America.

At this point in time we are faced with the very real possibility that by not funding public education at a level that will allow our schools to present a high quality program we will force wealthy and middle class parents to send their children to private schools. This exodus from the public system would damage the very heart of democracy in not only America but also Alaska.

It is all too easy to say that we are just adjusting to a potential fiscal problem. We often hear Chamber members decry the tax word or sales taxes. Many citizens don't have children in schools. But the fact remains that as a community we thrive when all our citizens are well educated. As a community we must think about the future of our society and how that society will be prepared for the 21st Century. Our very democracy and system depend upon an educated citizenry who are capable of not only functioning in the work place, but also being able to make the decisions of a democratic society.

Because of these philosophical reasons it is important that we fund our public schools not only at present levels, but by providing additional money to make

certain that our society's future is guaranteed. I would urge the Planning Commission to use this as a guide when recommending cuts to state agencies, and formulating our revenue raising methods.

The citizens of the State of Alaska must accept responsibility for their children's future. To do this we must re-establish a state income tax, create a state sales tax, and promote economic growth to ensure our economic future. All this may sound like "pie-in-the-sky", however, our children's future depends on it.

Thank you for taking the time to consider my suggestions.

JOHN HAVELOCK
608 W. Fourth Avenue
Anchorage, Alaska, 99501
907-276-1916

September 13, 1995

Brian Rogers, Chair
The State of Alaska Long-Range Financial Planning Commission
Legislative Building, Anchorage

Dear Mr. Rogers:

I would appreciate your bringing the enclosed paper to the Commissioners attention. This was prepared as a preliminary draft for the review of the Board of Alaska Common Ground. However, as I look at your time schedule and Common Grounds schedule of meetings, there will be little or no opportunity for you to consider any of these observations in your report if they are first run through the Common Ground board. Accordingly, I am submitting them for your use or interest without any representation that they represent any but my own views. I hope, of course, that the Commission may find some of this material of use. You may use what you will, without the need of attribution.

The monthly Board meeting of Alaska Common Ground will be on September 27. There is also an informal, public workshop session, sponsored by Common Ground to be held on September 23d which may produce informal views, like the ones expressed under this cover letter. I assume that you will be going to print about the 25th to meet your October 1 deadline.

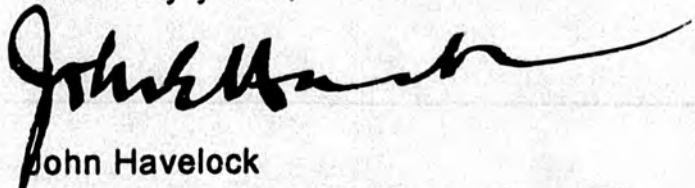
What I do know is that Alaska Common Ground considers the work of your commission to be the first business of the state in these times and, as a non-partisan, non-profit educational, open membership organization, stands ready to implement whatever suggestions you may have, formal or informal for carrying forward your work after October 1.

September 13, 1995

Page 2

I would like to make a few observations about your scenarios overall. You should not be using a school (and college) enrollment scenario that is inconsistent with overall population growth. Both the projections you use strike me as overstating growth. You do not appear to factor in the fact that all solutions to the Fiscal Gap, except tapping the Permanent Fund (which none of you seem to favor) will result in a major decline in the number of dollars circulating in the economy. With luck and adequate funding of the public side, this will result in a flattened economy and not a depressed one. But the plain implication of these cuts is that the state is not going to experience the kind of growth to which we are accustomed today. What we hope to achieve through a fiscal gap policy is an economy that does not so shift the balance between public and private sector activity as to cause dislocations that will push the general economic decline into depression.

Sincerely yours,

A handwritten signature in black ink, appearing to read "John Havelock", with a long, sweeping horizontal line extending to the right.

John Havelock
(vice-chair Alaska Common Ground)

cc: Esther Wunnicke (Chair)

THE FISCAL GAP

PART ONE

STATEMENT OF CAUSES AND WHAT MUST BE DONE

1.1. **Support Of The Commission.** The Long Range Financial Planning Commission has cast a long overdue searchlight on the predicament created for Alaska state government by funding operating costs out of one time only revenues.

1.2. **Growth Without Revenue.** This predicament has dramatically exposed a structural flaw in the state's public economy. The problem is that, in a nearly tax-free climate, growth in the private economy does not generate the revenue required to meet increased service costs that track population growth generated by economic growth.

1.3. **The Origin Of The Fiscal Gap.** Growth without growth in state revenue means that a gap has developed between what the state takes in and what it spends. This fiscal gap enlarges as revenue from the oil at Prudhoe Bay declines and as the need for state services expands with growth in population and as costs rise from inflation. Remaining taxes are not indexed for inflation and accordingly have steadily fallen.

1.4. **Size Of Fiscal Gap.** The fiscal gap, now over a half billion dollars a year, will more than double if the population of Alaska increases as we expect and if modest growth in the private economy occurs as we hope.

1.5. **Comparison With State Payroll.** Even the existing fiscal gap can not be met by cuts in government. To illustrate the size of the problem, the entire state payroll is a half billion dollars, the size of the current fiscal gap.

1.6. **Cuts And Taxes.** The fiscal gap requires that the state both increase revenue and reduce expenditures. But if addressed now, rather than waiting until the gap has doubled and must all be met in one year, the measures required are not drastic.

1.7 **Norms For American States.** The revenue measures required are well within the norms for levies elsewhere in the United States, and no

cuts are required that would do serious damage to the Alaska way of life or the quality of life for any of our citizens. But both revenue measures and cuts must be spread across the spectrum and will involve some sacrifice.

1.8. **Alaska's Costs.** The fiscal gap is there because Alaska has the lowest rate of non-oil taxation of any state of the United States, while Alaska's geography dictates the highest costs of delivery of public services of any state. The fiscal gap is telling us we can not finance all government services on oil revenue alone.

1.9. **Effect of Income Tax Repeal.** The structural problem was created by the repeal of the Alaska State Income tax. Repeal of the income tax means that population growth in Alaska does not generate revenue to cover the required expansion of public services.

1.10. **The Duty Of Leadership.** The governor and legislature can correct this structural flaw by adopting appropriate revenue measures to assure that funds to address expanding public need are generated by private economic growth.

1.11. **Public Hostility To Government.** To accomplish this task the state's political leadership must find the political will to do so in the face of an atmosphere of extraordinary and excessive hostility to both government and taxes. The required political will not be forthcoming without leadership in the community permitting the political leadership to do what is necessary.

1.12. **Past Gains.** This popular permission will not be forthcoming without an enhanced public appreciation that existing government operations have become more efficient and that program expenditures are neither frills nor fat.

1.13 **Program Pullbacks.** Public understanding and acceptance of revenue measures will require a broader appreciation of the cuts that have already occurred in state government over the last six years, a closer examination of programs adopted in a time of perceived great wealth, with some pullbacks, and a continuation of the belt tightening of the last six years.

1.14. **Goals For Alaskans.** The mandate of the Long Range Financial Planning Commission was to address the fiscal issues and set an array of fiscal responses. The report does not define any guiding principles or goals for Alaska. A solution to the fiscal problem requires first that such principles and goals be articulated so they may be respected in the formulas required to resolve the fiscal crisis.

1.15. **Alaska : A Unique Community.** We cherish and recommend to you the belief that Alaska is a unique place which has given birth to a unique community with common goals and aspirations, even while this sentiment seems to have shriveled in many other regions of the United States. We believe that state and local governments of Alaska are instruments of the people's common will and that democratic processes, presently flawed as they may seem, can assure that these governments reflect the common will.

1.16. **Alaska's Special Values.** Therefore, we do not see the job of cutting the government to require going to the "bare bones." This is like attending to the needs of the body while ignoring the face. Alaska has a face which it presents to the world and which we must look at every day in the mirror. There are unique aspects to Alaska's way of life that are supported through government. They are usually (though not always) little things in terms of cost. They include a special reverence for elders, an appreciation for performing and visual arts, an exceptional commitment to education, a helping hand for the unlucky, and a outsized respect for the privacy of the individual. These and similarly valued features make up the face of Alaska that gives us a right to be proud citizens of a proud state. We should not spite our face in the name of economy.

1.17. **The Common Vision Must Be Supported By Taxes.** Taxation is required so that private economic growth does not attenuate the services provided to the established population. The structural problem of a tax-free economy must be met. But the level of taxation will depend upon our collective vision of what is required of the public sector in this state.

1.18. **Wealth In Self-Respect Is Matched By Sources Of Revenue.** In meeting the fiscal gap, we do not believe that the state's public services must be impoverished. Alaskans are indeed fortunate that more than half of its public service bills can be met from oil revenue. Alaska

is still a state rich in resources, rich in self-respect, rich in its sense of community, rich in compassion for the unfortunate. A solution to the fiscal gap is well within the capacity of the people of this state and requires neither truly drastic revenue measures nor cruel or unmeasured program sacrifices.

1.19. **A Consensus Package.** To meet the fiscal gap, the political leadership of the state needs to adopt a consensus package in which most Alaskans make some sacrifice as present or future program beneficiaries and in which those with the means make some sacrifice by way of revenue contribution.

1.20. **Commission Scenarios.** The scenarios set out in the preliminary report of the Commission are extreme cases intended to dramatize the outer limits of various positions and are not intended to articulate Alaska's values and goals. The consensus solution will tend to draw on all of these scenarios to bring about a moderate solution which reflects the unique Alaska character.

1.21. **Selecting Foundation Principles.** The following set of principles are recommended as a guide to the development of a plan. Following the statement of principles, a scenario is set out involving legislative enactments and budgetary adjustments that respects these principles and implements a solution to the fiscal gap.

PART TWO

PRINCIPLES TO GUIDE A SOLUTION TO THE FISCAL GAP

2.1 **An Income Tax So Growth Pays Its Way.** Private economic growth must pay its way. Existing economic activity must pay a share. Therefore some kind of additional tax structure, including an income tax, must be an ingredient of the plan.

2.2 **Phase Out Non-Need-Based Programs.** The state should substantially reduce or eliminate all programs, unless self-funded, which are not based on need. However, "need" does not have to be defined at a "bare bones" level and phase outs can be arranged to avoid sudden impact hardship.

2.3 Keep The Permanent Fund Dividend As A Measure Of Performance Of The Fund.

The exception to this second principle is the Permanent Fund Dividend program which has an overriding value in assuring that every citizen of the state has tangible evidence that the state is of direct benefit to that citizen, regardless of station in life or relation to other state programs. However, the Permanent Fund Dividend need not rise as fast as the growth of the capital of the fund.

2.4 Use The Permanent Fund. The Permanent Fund is not sacrosanct. No government should accrue funds without a firm concept of what those funds are to be used for. The original purpose of the Permanent Fund was to create a source of funding for state services, particularly for the "rainy days" when there was a significant reduction in oil revenue. This concept, if approved on consensus, should be incorporated in legislation and standards set to trigger use of capital as well as income on capital.

2.5 Recreational Activities With Health Costs Should Pay Their Way. Considering the high costs of providing health care and public safety services relating to alcohol and tobacco, and the failure of cents per unit rates of taxation to reflect inflation in prices, current rates of state taxation are unreasonably low.

2.6 Use Phasing But Only To Avoid Special Hardships. Where a tax increase is indicated by the application of these principles, and the tax is a major magnitude jump, consideration should be given to phasing the tax in so that those paying the tax have a chance to make financial adjustments and are not faced with market dislocation or substantial hardship. An adjustment phase is even more likely to be necessary if benefits are cut. On the other hand, solve the problem now while the political will is energized. Do not leave major elements to later debate. Phase ins and phase outs should trigger automatically.

2.7. It Is O.K. To Use Reserve Funds. The state has \$3 Billion in existing reserves that can be used to cushion the shock of revenue renewal and to made adjustments as real world numbers develop. If the reserves are drawn down at a rate not to exceed \$500 Million the first year and \$50 Million less each successive year, then the draw down will cover a ten year phase in period and leave \$350 Million for contingencies.

2.8 Capitalize The Capital Budget. Facilities that are to be enjoyed

in the future should expect a contribution from the future generations that benefit from the expenditure. Capital projects should return to funding through bonding, voted on by the people or supported by revenue generated by the activity.

2.9 Avoid Minor Cuts With Controversial Content. There are many areas in which revenues can be raised and cuts made. The focus should be on those that make a real difference. Many areas, such as revenue from mineral development and cuts in power equalization, involve constituencies that view their situation as desperate or where complex policy issues are involved. It is not worth the political bloodletting involved for the minimal effect that most of these changes would have on the fiscal gap. These changes can be considered by the legislature as a part of its regular agenda after and separate from implementation of a fiscal plan.

2.10 Reinvent Government Rather Than Savaging Weak Constituencies. Cuts should reflect an overall view of what Alaskans expect of their government. Piecemeal reductions, sometimes called "cutting until it hurts," test constituency political strength and do not necessarily reflect what is best for Alaska in the big picture. "Cutting until it hurts," rather than rational program evaluation, will also have the effect of alienating a larger and larger portion of Alaskans from their government. Alienation is already a problem that threatens the stability of government and the peace and prosperity of our people.

2.11 Count On The Lifting Of The Oil Export Ban. The lifting of the oil export ban is well within the realm of reality and its fiscal benefit should be counted as a resource to meet the fiscal gap. On the other hand, neither the development of ANWR nor the gas pipeline is capable of delivering resources to the state government in the next decade, even if soon authorized. Each is too problematic to be counted for some years in the fiscal planning process.

2.12 Focus On The Immediate Gap Issue. The longer the term chosen for planning, the less reliable the forecast in the furthest years. It is not clear, for example, whether the fiscal gap is a cliff (a drop in resource revenue never to be recovered) or a chasm (a valley to be bridged until new oil and gas revenue come on-stream ten to fifteen years hence). Thus we should not inflict drastic injury to present interests to protect interests

of uncertain definition that are more than a decade into the future. The focus of the current effort should be to avoid the disastrous drop in available revenue and crash in expenditures which will occur in four to five years if nothing is done. There is no uncertainty about the existence of this problem, only a lack of will to deal with it.

2.13 Avoid Deceptive Comparisons. It is deceptive to rely on comparisons with the average per capita expenditures of other states in assessing what Alaska spends on services. Alaska's small population spread over a large area and the State's responsibility for functions carried by local government in other states, means that Alaska state government costs will inevitably seem high in comparison. When the differences created by these impacts are assessed accurately, Alaska does not provide an extravagant or wasteful level of services to its people.

2.14 Avoid Linkage To Other Issues- Health And Welfare. A national debate with a state counterpart has raged on the issues of health care rights and the structure and impact of welfare. Each of these issues is too big to subsume under the rather simple issues involved in bridging the fiscal gap. Each debate should go forward on its own terms. It would be counterproductive to attempt to resolve these issues as a part of bridging the gap, though it can be expected that there will be a temptation to forge a linkage by those who hope to find some advantage in the health care or welfare debates. It is clear that the federal solutions will involve cuts in the amount of funds available that will result in mandated costs in health and welfare expenditures in this state. State cuts will only exacerbate the hardship caused by federal cuts. We should reexamine state policy only as the dust settles on the national debate.

2.15 Stick To The Main Problem. The next principle is similar. There are many things that arguably need to be changed in state government programs, government processes, and even constitutionally mandated procedures. The fiscal gap program should focus narrowly on the gap. Some will see the fiscal gap as an opportunity to address such changes but many of these issues carry heavy baggage that will bog down solutions to the fiscal gap. These issues require extensive debate and should be dealt with in the regular legislative process.

2.16 Avoid Exaggerated And Excessive Reactions. The solutions to the fiscal gap problem do not necessarily involve extreme measures. Alaska, with its fiscal gap, is still the richest and most fortunate of states. Alaska also has the most manageable of problems. Caution should be exercised in overstating the gap. For example, the solutions required as well as the consequences of failing to act to address the gap, will have a considerable effect in slowing overall growth. More than straight-line projections of population pressure based on percentage historical job growth or school enrollment (particularly when conflicting) are not justifiable. Revenue losses are conservatively stated and the benefit of lifting the oil export ban, which appears to have support of President and Congress, is not included. A middle course, not the most conservative projections, should be used in setting the base lines for decision.

2.17 Accept The Reality All but a small part of the fiscal gap was caused by repealing or reducing taxes leaving oil revenue to pay the way. By the same token, the solution is to bring our taxes back in line with the expenses of state government, expenses which are largely in line with the historic aspirations of the Alaska people.

PART THREE

A MODERATE SCENARIO FOR ADDRESSING THE FISCAL GAP CRISIS

3.1 The Permanent Fund. Introduce a formula for reducing the growth in the Permanent Fund Dividend but otherwise leave the Permanent Fund Dividend alone. Above \$1,000, the Permanent Fund Dividend should rise at a rate one half as great as the present rate ¹ and should cap at the rate of inflation above \$1200. We do not want the PFD to become an incentive for immigration. Provide formulas for the release of permanent fund capital in the event of sharp economic downturns.

3.2 Required Services Of Government. Leave welfare, Medicaid, Medicare, education, and education loans alone. The damage done by federal cuts should not be duplicated and compounded at the state level.

¹The data in the fiscal gap report does not give enough data to calculate this number with confidence. A graduated cap could be set at a percentage to produce such a number.

3.3 Programs For Seniors. The longevity bonus and property tax exclusion should be restricted to families with an income of less than \$50,000 per year after medical expenses. Pioneer Home fees of persons with incomes above \$100,000 should be increased to \$1,200 per month and annually adjusted upwards for inflation. Since this calls for a significant change in the previously expressed values of the state, each of these reductions should be put to a vote of the people with the alternative of paying an appropriately increased percentage on the income tax. This could be done on an advisory basis with legislative action to follow.

3.4 Capital Budget. The capital budget should be submitted to a vote of the people on the same basis.

3.5 An Income Tax. Establish a progressive state income tax as the best and fairest method of raising revenue. It is also the most economically reasonable in that it picks up the income earned in this state by out-of-state residents. Since this tax is deductible from federal income tax, on average, a fifth of an individual's state income tax is paid by the federal government. Care should be taken in establishing this tax not to incorporate special interest tax breaks that have been adopted by the Congress over the years without broad public understanding or support.

3.6 Minimum Income Exclusion From Income Tax. An income tax is a preferred method of raising revenue, but that does not mean that the rate needs to be as high as it was when repealed. Nor does the income tax need to tax low and moderate incomes, provided that other sources of revenue are also tapped. Nor does it have to reflect all of the exemptions and deductions of the federal income tax. For example², 69% of the revenue from the income tax, as structured at the time of its repeal, came from net taxable incomes over \$50,000 (on average gross incomes of \$65,000). That income is generated from under 2% of those filing a return. We recommend that the exclusion be at least at the \$50,000 (\$65,000 gross) level. A tax at 3%, half the level of the tax repealed in the oil boom, levied only on net incomes above \$50,000 would net \$154 Million, almost 1/3 of the amount necessary to meet the gap. Revenue from such a tax would rise with economic and population growth, as required by

²Numbers used in this draft are all taken from the Commission's report or extrapolated from those numbers.

principle 12.1.

3.7 Alcohol And Tobacco. The rate of taxation of alcohol and tobacco should be fixed no lower than the average of other states and better in the top quarter percentile. Alaska has very low taxes at present. The Commission has pointed out that a tobacco tax of \$1 per pack would raise \$57 Million. This tax should be at least .50 per pack for a revenue of \$26 Million. The commission has stated that a tax on alcohol of 3-4 cents per drink would raise \$19 Million. Even considered as a benign commodity, alcohol is a luxury purchase. While the structure of the tax requires technical attention, there is no reason why an additional \$40 Million could not be raised from alcohol taxes.

3.8. Motor Fuel Tax. Alaskan consumption taxes on motor fuel have stayed abnormally low as a result of inflation and lack of revenue pressure. Alaska spent \$130 Million of its own funds on highways and public facilities³. The current 8 cents per gallon. motor fuel tax raises only 33.5 Million. A raise of 8 cents per gal would still leave Alaska's tax level well below national rates. A raise in excess of 8 cents to the national median may impose too sharp a burden all at once on low income motorists. A further raise should be considered in three-five years.

3.9. Marine Fuel Tax. By the same token a raise of 3 cents per gallon on marine motor fuel would raise \$5 Million.

3.10 Fish Landing Tax. The Commission's scenarios propose fish taxes that could raise \$3.5 Million. These taxes should be imposed following two principles. First, each Alaska industry should at least pay for its own regulation. Secondly, natural resource extraction should bring some revenues to the State.

3.11. Severance Tax On Oil. In the event that the export ban is not lifted, increase severance taxes on oil by 10 cents per barrel. Hold advisory vote on this question too.

³The Commission report does not provide a breakdown between public facilities and highways. A good case can be made that the gas tax should fund highway maintenance and the state match of federal highway funds 100%.

DEPARTMENT OF ADMINISTRATION

ALASKA PUBLIC OFFICES COMMISSION

TONY KNOWLES, GOVERNOR

REPLY TO:

☐ 2221 E. NORTHERN LIGHTS, ROOM 128
ANCHORAGE, ALASKA 99508-4149
PHONE: (907) 276-4176
FAX: (907) 276-7018

☐ P.O. BOX 110222
JUNEAU, ALASKA 99811-0222
PHONE: (907) 465-4864
FAX: (907) 465-4832

Sept 13, 1995

Brian Rogers, Chairman
State of Alaska
Long Range
Financial Planning Commission
716 West Fourth Avenue
Anchorage, Ak 99501

Dear Mr. Rogers:

I have recently reviewed the preliminary report of The Long Range Financial Planning Commission, "Alaska's Growing Fiscal Gap." As the Executive Director of the Alaska Public Offices Commission (APOC), I have some concerns. As you probably know, the APOC administers four disclosure laws: AS 15.13, the Campaign Disclosure Law; AS 39.50, the Conflict of Interest Law; AS 24.60, The Legislative Financial Disclosure Law; and AS 24.45, the Lobbying Law. These laws require public officials, politically active groups, and lobbyists and their employers to disclose campaign contributions and expenditures, personal financial interests and funds expended to influence the administrative or legislative branches of state government. All of this "disclosed" information is available to the public.

I recognize that it is difficult in a short report to make all your assumptions clear. It is not clear to me with regard to the APOC what your Commission envisions. Scenarios one and two include the APOC in a category named "consolidate/eliminate". Since the APOC and the Alcohol Beverage Control (ABC) Board are the only two programs in that category with funds remaining after FY 2000, it would appear that these two programs would be consolidated. The ABC Board controls the manufacture, possession and sale of alcoholic beverages in the state, a very different function from APOC. It is unclear to me how the two programs could be functionally consolidated.

With regard to the estimated savings column by FY 2000, the amount remaining represents a 75% reduction of APOC's budget including program receipt revenues. Over the last several years, the APOC has received significant cuts in its budget and as a result, is minimally funded at its current level. It is not possible to run a credible program that meets the expectations of the public and carries out the basic mandates of the four disclosure statutes with anything less. Further, Article II, Section 12 of the Alaska Constitution requires lobbying to be regulated.

As I understand from talking to Melissa Fouse, staff to your commission, part of the intention of scenarios one and two is to demonstrate the drastic cuts that would be necessary to reduce the general fund by \$500 million dollars. These are only examples, not recommendations. Although, I appreciate this distinction, all too often ideas committed to paper have a life of their own and a validity that may not have been intended. A credible and effective Alaska Public Offices Commission can not be supported with the funds remaining after a 75% reduction.

Sincerely,



Karen Boorman
Executive Director
Alaska Public Offices Commission

cc: Alaska Public Offices Commission Members

Eric E. Wohlforth
900 West 5th Avenue, Suite 600
Anchorage, Alaska 99501
Telephone: (907) 276-6401 • Facsimile: (907) 276-5093

September 6, 1995

Brian Rodgers, Chair
Long Range Financial Planning
Commission
716 W. 4th Avenue, Suite 470
Anchorage, AK 99501

Dear Brian:

I cannot attend your hearings and so offer the following instead on your interim report.

Despite its general excellence, the interim report contains the following deficiencies:

1. There is no mention of capital borrowing to reduce the projected base case general fund cash capital spending projection of \$116 million per year. Other states borrow a major portion of their capital expenditures. Since the base case indicates deficits growing from \$513 million in 1976 to \$861 million in 2000, it would have made sense to have at least considered the possibility of borrowing a portion, if not all, of these capital expenditures.

2. The report contains no serious discussion of budget and management systems in effect in other states which could achieve substantial savings. Apparently the Commission was unable to seriously study the reforms in state government in other states and to present to the Alaska public some of the more efficient budget management systems. For example, surely it could be of value for the state to initiate a management and efficiency review since it has been some 19 years since the last effort was made in this regard.

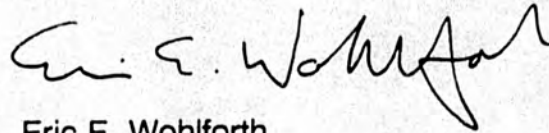
3. The policy choices to close the fiscal gap in Appendix 1 indicates "economic development" as a potential policy choice. I would submit that this is not a serious choice and it ought to be relegated to a footnote rather than putting it on a par with other serious choices like the use of budget reserves and the like.

Brian Rodgers, Chair
Long Range Financial Planning Commission
September 6, 1995
Page Two

4. The parts item 6 - Other State Assets - lists the Alaska Housing Finance Corporation and states that the Commission has not been able to determine if the \$50 million per year in the agreement between the AHFC Board and the Commissioner of Revenue (not the Governor's office as stated) is appropriate. An effort should be made to contact AHFC and to inform the committee as to what the real case is.

5. What is the import of page 22 statement that the Commission is examining management policies of the Permanent Fund Corporation with particular focus on the fund's asset allocation? This statement should be explained.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Eric E. Wohlforth", written in a cursive style.

Eric E. Wohlforth

PLEASE SUBMIT
TO STATE of AK
Long Range
FINANCIAL PLANNING
COMMISSION

From Yvette Turner
Perseverence Theater



September 14, 1995

**PERSEVERANCE
T·H·E·A·T·R·E**

To: The State of Alaska Long-Range
Financial Planning Commission

From: Lynette Turner *Lynette Turner*
Producing Director
Perseverance Theatre

Dear Commission Members,

It has come to my attention that several scenarios in the Long Range Fiscal Planning Commission Report recommend zeroing out the Alaska State Council on the Arts. I am writing this letter to voice my opposition to this recommendation and to urge support for this important council.

Founded in 1966 the council has always played an important role in the state of Alaska. Professional and community arts organizations, diverse individual artists and schools statewide have greatly benefited from their existence. The council offers technical assistance to both rural and urban communities, serves as a resource center, and administers grants for a great many programs.

As Producing Director for Perseverance Theatre, the largest professional statewide theatre in Alaska, I know first hand how critical State Arts Council support has been. We have received some degree of operational support for several years. Operational funding is the most difficult to secure and absolutely necessary for survival. I have also found it to be true that foundations and corporations look more favorably upon supporting you when they see that you have support from your own state. In this manner State Arts Council money helps leverage other funds from out of state. We have received outside funding from such prestigious foundations as Ford, Rockefeller and Shubert and no doubt having the support of the state worked in our favor.

The council has also played a large role in bringing the arts to thousands of children through the artists in the schools program. For some youth this is their first introduction to the arts and may be their only hands on experience. I was an individual artists in the schools and have seen numerous times the positive effects. Children gain confidence in their artistic ability and this can then be seen in other areas of their education. They sharpen their analytical skills, increase their ability to work together collaboratively, and become better communicators.

As overall funding for the arts has declined from private and public sources we are seeing the devastating impacts: Arts organizations are closing their doors, and as a result activities for artists, community members and volunteers are gone; outreach and education programs are diminishing at an alarming rate and artists are losing their jobs. At Perseverance Theatre, where we offer the only full time seasonal performance contracts and internship training

programs (in acting, directing, playwrighting, arts administration and technical design) in the state, we have seen a steady and drastic decrease in the number of artists we are able to work with over the last five years. It is also important to note that the overall cultural health of Alaska is threatened by the severe cuts to the council. Groups from Nome to Ketchikan, large and small have already been dealt a severe blow. And although private funds have been of some assistance in the past I think it is unrealistic to assume that portion of the community can replace state support.

In addition, let us not forget the economic impact of the arts. The arts supports jobs and generate a great deal of outside income. We have a healthy tourist industry and we need to find a way to work with and encourage artists and arts organizations to work with industry. Our summer production of THE LADY LOU REVUE is seen by over 20,000 tourists each summer. This is just one example of outside dollars coming into the state.

The action of demolishing the council has severe repercussions. I ask that you weigh your actions because the after shocks will be with us for a long time to come. We need the Arts Council. We need the arts in our lives. And we need the people who are in the position to make the critical decisions as to what stays and what goes to place the arts higher on the priority list. I know I am not alone when I ask that the recommendation of the elimination of the council be reconsidered.

Thank you for your time and consideration.



Alaska State Legislature

Please enter into the record my testimony to the Long-Range Planning
committee name
committee on Alaska's Fiscal Gap, dated 9/14/95
bill/subject

see attached

Signed: Althea Buckingham
Testifier
Resident Council, Sitka Pioneer Home
Representing (Optional)
120 Katlian St, Sitka AK 99835
Address

Phone No.

SUBJECT: Alaska's Growing Fiscal Gap

Respondee: Althea Buckingham

Private Citizen

Chair of Resident Council Sitka Pioneer Home

1. The larges increases in spending seem to be in corrections and education which you state are largely funded elsewhere by counties(which we do not have) and municipalities. Isn't it possible to have private enterprise manage correction institutions.
2. Look more carefully at spending on non-essential programs such as art and entertainment.
3. Within the last 17 yr. period you decided to increase the number of pioneer homes and during the same period discouraged private nursing home development by lack of workable regulations.
4. Regulations have improved but private nursing homes have not increased enough to take many needing to go into the Pioneer Homes. There is a waiting list everywhere for long term care in this state.
5. Many using residential and assisted living in the Pioneer Homes at present could not afford to pay private rates if you privatize them as the rates would be so much higher.
6. If all assistance to our older citizens (which number is increasing every year as EVERYONE in the state ages) is cut or decreased radically it will necessitate their having to move South and that potential in income will be lost. Are we being governed by individuals who figure they aren't going to make Alaska their permanent home? Do they figure that when they become senior citizens they can go elsewhere to get services that they have closed down for those who want to remain here?
7. The repeal in 1980(due to oil money) of the individual income tax is something that cannot continue to exist due to the decrease in revenues. As you state, Alaskans are not as burdened at present with taxes as the other states and should therefore consider reinstating the personal income tax. This may be an unpopular political choice but one which MUST be considered. If citizens do not want that they should be willing to give up some of their permanent fund money.
8. Those persons who have moved here to get away from whatever, and "get back to nature" are very vocal about keeping progress down, taxes down, and have no desire to pay for services they don't use, seem to have a big voice. Those of us who have been here 60 years or so are willing to help any way we can but do not want our support system cut off.
9. When persons want to increase our State need for health services by persisting in using tobacco and alcohol, they should be expected to pay for them by increase in taxes on those items.

(over)

10. Are permanent fund dividends mainly used out-of-state for individuals and families to take vacations? That means the State does not recoup this money. If the Permanent Fund amount was cut in half would that money help raise revenue without really hurting anyone too much.
11. You ask WHAT ROLE SHOULD RESERVE FUNDS HAVE IN CREATING A STABLE FISCAL FUTURE?
I favor: minimizing the current use in order to maintain substantial reserves but only as insurance that we meet cash flow requirements. We do not need a sizable surplus.
12. It is also apparent that the University system grown too big with large campuses all over the state. Maybe we can't afford this at present.

Testimony Received in Writing that has been presented to the Commission during Public Hearings.

- 1.) Mr. Arnie Thomson, Alaska Crab Coalition
- 2.) Dr. Milton Bird, The Alaska Support Industry Alliance
- 3.) Mr. Tim Sullivan, Handout " Energy Efficiency and Job Creation"
(46 pages, available for review in the Commission Office)
- 4.) Ms. Anne Marie Holen, Alaska Native Health Board
- 5.) Ms. Kim Swift, Common Sense for Alaska
- 6.) Mr. Richard Kornberg, General Testimony on Education
- 7.) Mr. Don Valesko, Public Employees Local 71
- 8.) Mr. Charles McGee, (Available for review in the Commission
Offices.)
- 9.)



ALASKA CRAB COALITION

3901 Leary Way (Bldg.) N.W., Suite #6 • Seattle, WA 98107 • (206) 547-7560 • FAX (206) 547-0130

TELECOPIER COVER LETTER:

Please deliver the following pages:

TO:

Bob Walcott

FROM:

Carri Thompson

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9/14/95

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6

MESSAGE/COMMENTS:

GRFPC testimony.Thanks for helping get me
here to the hearing.

Should you encounter any problems during this transmission,
please contact the Alaska Crab Coalition at the above numbers
for assistance. Thank you.

OUR TELECOPIER DIRECT LINE IS: (206) 547 0130

OPERATOR: _____

1

TESTIMONY OF ARNI THOMSON, EXECUTIVE DIRECTOR OF
THE ALASKA CRAB COALITION BEFORE THE
STATE OF ALASKA
LONG RANGE FINANCIAL PLANNING COMMISSION
ANCHORAGE, ALASKA
SEPTEMBER 12, 1995

The Alaska Crab Coalition (A.C.C.), a fisheries trade association, is completing its tenth year representing the owners of 57 Bering Sea crab vessels, 11 of the the major crab processing companies and 60 service and supply companies from Washington, Alaska and Oregon. The focus of the association is to encourage sound conservation and research based management policies and practices that will generate sustainable harvests of king and tanner crabs in the Bering Sea and Aleutian Islands.

Through its membership in the Alaska State Chamber of Commerce, the ACC has been following closely the work of the Long Range Financial Planning Commission. ACC supports the goals of the ASCC and the Commission, to close out the fiscal gap created by non sustainable tax revenues and declining oil production.

In seeking to achieve these difficult goals by the year 2005, the ACC recommends, in regards to fisheries resource management, that Alaskans carefully focus the tools of budget reduction and taxation, focus on the long term and use this opportunity to develop a realistic framework for sustainable revenue production.

The ACC's two major areas of concern tonight are:

1. The need for maintenance of an adequate Fish and Game applied research and management budget for Bering Sea crab fisheries. This is the engine that will drive rebuilding and sustainability of the king and tanner crab resources.
2. Royalty fees of 4% to 12% of gross revenues are being considered for limited entry fisheries as part of the solution for closing the one half billion dollar fiscal gap (estimated annual revenue \$19 to \$60 million per year).

ACC boat owners, characteristic of the fleet as a whole, are primarily composed of small family held businesses, partnerships and small corporations. There are approximately 250 full time crab vessels in the Bering Sea fleet and 100 additional part time vessels that depend on other fisheries for the major portion of their livelihoods. Approximately 35% of the fleet, or 120 vessels are registered to Alaskans and the balance of the fleet are registered to non residents.

Bering Sea crab fisheries occur in the 3-200 mile federal

waters, the Exclusive Economic Zone. However, under a special delegation of authority, spearheaded by the ACC in 1989, a joint management plan with the federal government delegated management jurisdiction to ADF&G and the Board of Fisheries. Although an offshore fishery, 90% of the crab is landed and processed by shorebased plants, or floaters anchored inside the three mile zone of State waters. The same companies that process and market Alaska salmon and herring are involved in the Bering Sea crab fisheries. With the bulk of the product being landed and processed ashore or in State waters, the fishery is subject to the normal State and borough raw fish taxes and licensing fees.

In 1994 the landed value of Bering Sea crab fisheries was \$266 million and the first wholesale value exceeded \$500 million. Over 90% of the State of Alaska shellfish production is derived from the Bering Sea and Aleutian Islands. Based on the landed value of the catch, the fleet and the processing sector of the industry contributed 8-9% of the gross revenue, an estimated \$22 million to the State of Alaska General Fund. Actual Fish and Game research and management costs do not exceed \$1.5 million for the Bering Sea crab fisheries.

Additional taxes are forthcoming in 1997 as a result of NPFMC action taken in June of this year. The NPFMC approved a limited entry program for not only Bering Sea crab fisheries, but all Gulf of Alaska and Bering Sea groundfish fisheries. The new program is modelled after the rather successful Alaska salmon and herring limited entry program and it too is a permit style program. The ACC supports the new program as an interim step towards rationalization of the crab fisheries.

When the new program goes into effect in 1997, taxation of the fleet effectively doubles with the onset of a CDQ program which transfers 7.5% of the quotas (and revenues) from the fleet to non participants in the coastal villages of Western Alaska. Based on 1994 revenues in the crab fisheries, this equates to \$20 million of lost income to the fleet (both Alaskans and non residents) that is to be allocated to Alaskan residents around the Bering Sea. Thus, by 1997, the Bering Sea crab fisheries will be contributing a projected \$40 million to the General Fund and the Bering Sea communities, an amount that is equal to the entire Commercial Fisheries Management and Development Division of Fish and Game. Notably, this summary of taxes is taken off the top of vessel owners and processors income before IRS payments.

Additional taxation in the form of the proposed royalty fees for all limited entry fisheries, one of the alternative solutions being suggested by the Commission--could well become the straw that breaks the camel's back of the Bering Sea crab industry. Imposing royalty fees in a permit style

limited entry program for Bering Sea crab fisheries will be counterproductive, possibly ruinous to the industry and detrimental to the long term sustainability of the fisheries sector of the Alaska State economy. The business management of Bering Sea crab vessels is high risk and high cost, presently exacerbated by dramatic overcapitalization pressures and declining quotas and revenues.

However, the ACC will support a royalty fee of up to 2% within the context of a market based individual vessel quota program--for Bering Sea crab fisheries. A well designed program adds market value to a vessel owner's business, reduces the loss of vessels and most of all, reduces the loss of lives because it slows down the race for fish. The hazards and the mortality rates involved in the race for the Bering Sea crab quotas have become notorious in international fishing circles. The permit system is not the final solution for Bering Sea crab fisheries in the sense that it has been for the less hazardous Alaska inshore salmon and herring fisheries. The race for fish intensifies under a permit style program. All available capital is reinvested in technology to continuously improve a vessel's competitive position and boats and lives are lost in the pursuit. The pace of the fishery has become almost unbelievable.

Although fishing vessel quota programs are controversial amongst some Alaskan small boat owners, the limited entry permit program is widely accepted. These permits add considerable equity to a vessel owner's business and in some of the more lucrative fisheries, the permit values equal the value of the fishing vessels. The permits are fully transferrable in the market place and differ only in a matter of degrees from transferrable vessel quotas. Vessel quotas have the distinct advantage of providing a built-in industry buyback of excess fishing capacity that avoids costly government funded buyback programs.

In published testimony before the U.S. Senate Subcommittee on Oceans and Fisheries in March of 1995 in Anchorage, the ACC publicly supported a royalty fee of up to 2% of gross revenues of Bering Sea crab landings, to be dedicated to conservation and management and for economic adjustment assistance, within the context of a fishing vessel quota program. In 1994 this would have generated over \$5 million--three times the program costs for conservation and management of Bering Sea crab fisheries. In essence, a fishing vessel quota program can form the basis for a quasi privatized fisheries management program for the crab fisheries.

This concludes ACC's recommendations for sustainable revenue production for two renewable resources, Bering Sea and Aleutian Islands king and tanner crabs.

ALASKA CRAB COALITION

OVERCAPITALIZATION IN BERING SEA CRAB FISHERIES

	12/31/89 BOATS 1989	12/31/93 BOATS 1993	INCREASE SINCE 1/1/90	% INCREASE
BAIRDI	109	289	180	165%
OPILIO	168	246	78	46%
B BAY RKC	211	302	91	43%

AVERAGE NUMBER OF BOATS FOR THE BAIRDI, OPILIO & KING CRAB FISHERIES

1989	1993	INCREASE	INCREASE
162	279	117	72%

FISHING DAYS

	1989	1993	DECREASE	DECREASE
BAIRDI	110	50	60	
OPILIO	112	60	52	
B BAY RKC	12	9	3	
AVERAGE	234	119	115	49%

Reference: ADF&G, Westward Region reports

Prepared: 5/12/94

BOXSCORE

Entry Permit Prices (as of 4-1-95)

Area	Salmon/ Herring	Gear	Market Range*	State Value*	Offers*
Southeast	H	Seine (SN)	200+	173.8	180+
P.W.Sound	H	SN	65+	80.2	63.5+
Cook Inlet	H	SN	70	61.2	69.5+
Kodiak	H	SN	90	75+	85
Southeast	H	Gillnet (GN)	31-	33.4	29-
P.W.Sound	H	GN	55	74.8	50
Kodiak	H	GN	29	23.3	26
Norton Sound	H	GN	12-	13.2	12
P.W.Sound	H	Pound (PN)	20+	27.2	16+
Southeast	S	SN	75+	75	72+
P.W.Sound	S	SN	67.5	47.1+	67+
Cook Inlet	S	SN	45	134.5	N/A
Kodiak	S	SN	52+	38.1	50+
Chignik	S	SN	210	238.3	200
False Pass	S	SN	180	193.4	N/A
Puget Sound	S	SN	ARO	N/A	N/A
Southeast	S	GN	72+	64.4+	70+
P.W.Sound	S	GN	68+	59.7+	65+
Cook Inlet	S	GN	115+	67.6+	100+
False Pass	S	GN	320+	329.8	310+
B.Bay	S	GN	225+	180.9+	215+
Puget Sound	S	GN	ARO	N/A	N/A
Yakutat	S	Set Net (SGN)	50	42.5	40
P.W.Sound	S	SGN	65	75	55
Cook Inlet	S	SGN	32+	24-	29+
Kodiak	S	SGN	105	90	100+
False Pass	S	SGN	110+	107.9	105+
B.Bay	S	SGN	47.5+	36.4	45+
Norton Sound	S	SGN	ARO	7.8	N/A
Southeast	S	Hand Troll	8.5	7.4+	8
Southeast	S	Power Troll	28-	27.4+	27.5
Chatham	B-Cod	Lg-Ln	N/A	175.5+	180+
Clarence	B-Cod	Lg-Ln	N/A	120	140+
Southeast	Crab	King/Tanner (KSN)	165+	106.3	135+
Southeast	Crab	King/Tanner (KSN)	190+	153.1	170+
Puget Sound	Crab	Pots	8	N/A	7

Prices may vary in accordance with market conditions. * in thousands
+ denotes an increase from last month. N/A denotes No Activity.
- denotes a decrease from last month. ARO denotes Any Reasonable Offer.

■ Buyers trying to purchase primary salmon cards are stymied as they now face the possibility of missing this year's fishing season. Secondary salmon fisheries have turned into shark feeds as buyers scramble in last-ditch efforts to engage in any fishery this summer.

■ A number of sellers have decided to take their permits off the market and go fishing this summer, with ex-vessel prices continuing to look encouraging.

By John F. Mitchell with GRAVES & SCHNEIDER, INC.

CLASSIFIEDS

Boats/Permits



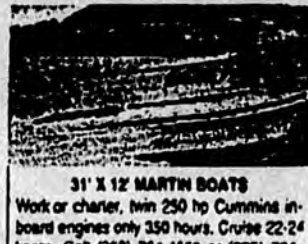
58' WOOD COMBO

Excellent tuna, crab, salmon, longline boat. Complete freezer fish hold. Boat in great shape, push-button operation. Call for more info. (415) 775-2701. FV Sea Breeze, P0496.



87' X 24' 1988 BENDER

Crabber/longliner, steel, twin GM V 1671, 510 hp, packs 2,000 cft. ins., 30-ton RSW system mounted on deck, two GMC 3-71 aux., 30 kW and 70 kW gensets, full electronics, hydraulic knuckle boom crane, \$276,000. Call Northern Enterprises at (907) 235-8234 for more details, 12NE7.



31' X 12' MARTIN BOATS

Work or charter, twin 250 hp Cummins in-board engines only 350 hours. Cruise 22-24 knots. Call (360) 734-4553 or (206) 734-4553. P0505.

WANTED: LONGLINE, SEINE

combo vessel. Have P.S. seine, gillnet, crab, pot prawn, goodluck, urchin, cucumber fisheries and Alston IFQs. Will assume corporate ownership contract. Expect % payments based on minimum net of \$100,000. Call (360) 659-5969. P0363.

32' GILLNETTER, SOUND

lightboat. Full electronics, K.W. lights, ready to go, clean. \$45,000. (408) 373-7845. P0353.

24' RADON

228 hp, #2 O.D., radar, loran, radios, pilot, color machine, hydraulics, large insulated hold, galv. trailer, CA salmon permit, stainless rigging. \$25,000. (415) 728-7033. P0495.

IFQS PERMIT MASTER VESSELS PERMITS

800 428-7326 • FAX 206 002 0314

PERMITS FOR SALE:

BB DRIFT FROM \$225
SE DRIFT FROM \$75K
SE SEINE FROM \$75K
KAK SHAKES \$33.9K
SITKA HERRING \$50L
FALSE PASS DRIFT \$310K
FALSE PASS SEINE \$180K
CHIGNIK SEINE \$210K
PWS DRIFT FROM \$70K
PWS HERRING SEINE \$62.5K
PWS SALMON SN \$75K
C.I. DRIFT FROM \$99K
KODIAK SALMON SN FROM \$60K
POWER TROLL FROM \$28K
HAND TROLL FROM \$8K
NORTON SD HERRING FROM \$11.5K
CHATHAM BCOO LL \$CALL
WASH SHRIMP \$OFFERS

SEINERS • LONGLINERS

P918M - 42' DELTA, FRESH VOLVO, \$135K
P873M - 58' X 17' X 8' WD HANSEN, RSW, \$250K
P929M - 41' FG TRILL, IFQ AVAILABLE, \$CALL
P909M - 60' HEAVY WD LONGLINER, \$140K
P905M - 70' DELTA LONGLINER, \$800K
P901M - 56' X 20' X 6' 1990 FG SEINER, \$375K
P903M - 58' X 19' X 9' DELTA, ASKING \$525K
P904M - 1991 58' X 19' X 9' DELTA, \$CALL
P913M - 38' FG LEDFORD SEINER, CAT \$70K
P839M - 58' WD/TH SEINER, \$90K, TERMS
P928M - 105' STL MID HOUSE LL, \$165K

WE ARE THE "IFQ MASTERS"
TOO MANY BUYERS AND
SELLERS TO LIST; CALL US

VESSELS FOR SALE:

BRISTOL BAY
ROBERTS, DECK OFF REBUILD IN 1990,
WITH 30 200 HP DSL WITH PERMIT
\$265K

CALL FOR A LIST OF BAY BOATS!

Bruce Martinson • Dan Frink • Mike Painter • Mary Martinson

GILLNET • COMBO BOATS

• BUY OF THE MONTH •
RARE 40' ROBERTS WITH GV92,
IMMACULATE THRU OUT!
ASKING \$149K.
SE PERMIT AVAILABLE

P932M - 1990 40' LINDELL, 440 LUG-
GER, \$180K
P828M - 1989 42' LINDELL, 440 LUG-
GER, \$189K

CALL FOR A COMPLETE LIST OF VESSELS

PACIFIC FISHING • MAY 1995 • 71

nationwide average of education transfers versus all other transfers to local government is 62.1%, according to the 1994 ACIR Report, while Alaska is close to the national average at 59.7%

The AML supports efforts to increase the efficiency and effectiveness of education programs for our children, such as the changes proposed by the Alaska Association of School Boards, and other efforts to increase local flexibility in providing cost efficient and cost effective education.

The AML supports the effort to restructure the school foundation program to more equitably and effectively distribute the state resources for education. The AML does not support a 50 to 100% increase in mandatory local taxpayer support for schools.

The AML supports application of the priority-based school construction and maintenance grant programs established by AS 14.11.007-019 equitably to all districts. The AML supports the addition of an incentive to encourage communities to achieve higher maintenance standards and reward those that properly maintain their facilities. The AML urges the legislature to consider statewide bonding for ongoing school construction and maintenance needs. (AML Policy Statement p. 23)

State Unfunded Mandates on Local Governments

An unfunded mandate is a responsibility mandated by a higher level of government to a lower level of government, without providing funding to carry out the mandate. In 1994 the federal government passed a bill to protect the states against unfunded federal mandates. Many states have enacted similar bills, or constitutional amendments, protecting their municipalities against unfunded state mandates. Such a bill for Alaska will be a means to ensure a long term stable relationship between the state and its political subdivisions.

The AML/ACoM supports the enactment of a municipal "unfunded mandates bill" to provide protection from unilateral decisions on the part of the state that have the effect of forcing municipalities to raise local taxes or cut services.

Senior Citizens Property Tax Exemption

The AML/ ACoM supports the enactment of the Senior Citizen/ Disabled Veteran Property Tax Exemption as a local option or with a reasonable cap on the growth of the program at a level similar to other states. This program began with full state funding. Over the past several years, the state has almost eliminated state funding for the program yet requires local governments to grant the exemption without regard for the financial need of the individual recipient, or other reasonable criteria. The current cost to municipalities is about \$17 million per year.

Other State Programs That Ensure a Basic Level of Services to Alaskans

Many areas of the state, especially rural areas, have a very small local tax base. Over the years, state programs have been developed to target specific basic services to these areas. Such programs include: Power Cost Equalization; Village Safe Water Program; Public Safety Officer Program.

state and municipal transportation system needs, i.e. roads, harbors, airports, marine highway.

5. **Property Taxes** - Property Tax is the primary source of revenue for many municipal municipalities. This revenue source is carefully balanced to provide for local service needs while not overburdening the local citizens. This revenue source is highly utilized by municipalities. The AML/ACoM strongly recommend that the state reserve this revenue for municipalities.

Excess Tax Capacity

The Commission has asked the AML/ACoM to comment on the state use of "excess tax capacity" in Alaska. The Commission shows that, considering the Permanent Fund Dividend and all state and local taxes, the average Alaskan has a net revenue gain while other residents of other states pay significant net state and local taxes.

In Alaska, local sales and property taxes are near maximum in many communities. The state has used 0% of its tax capacity since the state has essentially no individual taxes. The AML/ACoM recommends that the state first consider its excess tax capacity in tax areas not currently utilized by municipalities.

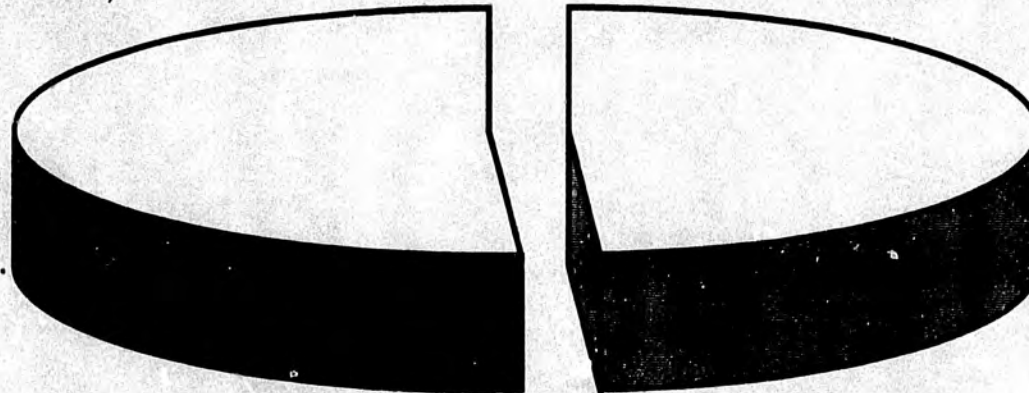
Cuts in Municipal Programs

The Commission Chair asked the AML/ACoM what cuts to municipal programs it would recommend if the Commission decided to recommend \$10 million in direct cuts. As stated in an earlier section, the AML/ACoM supports well planned structural changes in state or municipal programs that result in savings. The AML/ACoM has offered several structural changes above and has offered to continue to work to plan and implement these and other changes. The AML/ACoM strongly opposes additional across the board cuts that simply pass problems along to local government and/or have greater long term costs to the state; (e.g. cuts in Municipal Assistance/ Revenue Sharing have the long term impact of giving small communities an incentive to dissolve and pass education and other service costs back to the state.)

**Comparison of Alaska's Public Services
by State Government vs. Local Governments**

Local Gov't Public Services
(\$2.4 billion)

State Gov't Public Services
(\$2.3 billion)



Source: Dept. of Community & Regional Affairs FY 93 Municipal Fiscal Database; OMB Long Range Fiscal Planning Commission "base case" budget analysis; Department of Education.