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2390 SCOMM 101 LONG RANGE FINANCIAL PLANNING COMMISSION, 1995

A Position Paper
(Mercifully Short)
from
The Alaska Support Industry Alliance
on
The Preliminary Report
of the
Alaska Long- Range Financial Planning Commission

We of the Alliance commend you of the Commission on your energy. Unfortunately, we cannot say as much for your Preliminary Report. It's not a report. It has no sense of direction. It has no focus. It is a grab-bag of everything. Its only contribution is a credible case on the realness of the fiscal gap.

But we of the Alliance have known of that phenomenon for almost a dozen years, since, that is, January 1984 when at our first Meet Alaska Conference Harold Heinz, then President of Arco Alaska, laid out a prognosis of the gap rapidly coming our way. The tragedy is that little, if anything, of consequence has been done about it by our Alaskan legislative leaders or governors. And the greater tragedy is that now, twelve years too late, your Commission cannot find the key to the solution.

Your report almost comes to grips with the solution but lets it slip away. On page 4, you ask the question, "What can be done to close the fiscal gap?" Your unhappy answer comes in thirty words in six sub-sections. Two of those words advise: *cut spending*; the remaining twenty-eight advise: *raise revenue*. You've got it all wrong. You need to reverse that to twenty-eight to two to cut spending.

That great bonanza of sudden wealth that came into the Alaska state government treasury was used to build a megagovernment, for some time and still much larger than we need or than we can sustain. But your report seeks to do just that, raise lots of revenue from the private sector to hold on to the excess that we unwisely created when the cash was flowing in.

You seem intent upon granting Alaska's political leaders license to tax away private earnings needed for investment to create a robust private economy. Don't. To the contrary, you need to advise them to trim the Alaska state government back to a reasonable and sustainable size without adding more burden to the private economy by taxing away its limited resources. Alaska needs basic government, providing public safety, a judicial system, infra-structure, and public education. Those need to be delivered effectively and economically. Young punks who commit crimes need to be jailed and high school graduates need to read at the twelfth grade level. However, throwing more money at these challenges has proven ineffectual. Wise management is needed. Finally, we need a modest level of environmental and business regulation that is simple, effective, and relatively non-intrusive. If our leaders can deliver these things, we the people will yield some of our sovereignty to our government. You will recall that Machiavelli, a renowned political consultant, advised the Prince to avoid violating his subjects' wealth or their women. We expect no less from the Alaska state government.

To achieve this kind of economical and effective government, our leaders need to move quickly to substantial downsizing of Alaska's government. They need to reduce the number of departments, consolidating functions. They need to eliminate the hundreds of special programs, and combine the remaining ones into a much smaller number of entities. And of what remains they need to reduce most budgets by twenty to thirty percent annually for the next four or five years. Only by such bold action will they reduce our government expenditures by the better part of a billion dollars.

Get real, Commissioners. For 615,900 residents, Alaska's government is rich. Alaska does not have a revenue problem; it has a spending problem. Unless you address that head-on, the economic future for the people of Alaska will be grim. But if our government officials will go boldly where few have gone before and reduce spending sharply without picking clean the pockets of Alaskans, the new century can know a great Alaskan prosperity.

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Good evening. My name is Anne Marie Holen and I am project manager for a statewide tobacco control program at the Alaska Native Health Board. I am here to express my strong support, and the support of the Alaska Native Health Board, for a significant increase in state tobacco tax rates. I want to mention that ANHB also supports an increase in alcohol taxes, but I will confine my testimony tonight to tobacco taxation.

I know you have already heard how tobacco taxes in the United States are lower than in almost any other developed country, and how current taxes in Alaska are below than the national average—even though we have one of the highest rates of tobacco use in the country. You have also received information on both the revenue benefits and public health benefits of tobacco tax increases. I realize this commission is not looking at public health issues per se, but given the amount of state dollars spent on health care in Alaska, it certainly would make sense to try to reduce preventable causes of disease. Tobacco use is the leading cause of preventable death and disease in the nation. And in case anyone is thinking, "smokers die younger and therefore save the state money," it's not true. Even though smokers die younger—an average of 15 years younger—than non-smokers, their lifetime medical expenditures are still significantly higher than those of non-smokers.

There are just two additional points I want to make. One is that dramatic price increases will produce the most revenue, obviously, and also the most dramatic reductions in tobacco use. I know the Commission has looked at the benefits of a tax increase of $1 per pack, which would be fantastic. Even better would be an increase of $2 per pack. Keep in mind that even at that rate, cigarettes in Alaska would still be less expensive than in the Yukon Territory or British Columbia. Alaska is in an enviable position in that the potential for cross-border smuggling simply isn't an issue.

The second recommendation I want to make is not to forget other forms of tobacco besides cigarettes. Loose tobacco, chew, and snuff are very appealing to youngsters, thanks to the efforts of the tobacco companies, and taxes on those products should be comparable to taxes on cigarettes. Obviously this will lead to even more revenue for the state while also discouraging behavior that leads to drug addiction and high health care costs.

In closing I want to point out that tobacco taxation enjoys strong bipartisan support around the country. (I know the Commission is trying to keep politics out of your discussions, and I commend you for that, but in case anyone was wondering—) A survey done in Anchorage last spring, prior to the public vote on a 12-cent increase in tobacco tax there, found that 68% of Republicans and 72% of Democrats supported the tax increase. The fact is that a tobacco tax increase is one of the few measures the Legislature can enact that will have strong public support. It's a win-win solution.

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Testimony of Kym Swift - Executive Director for Common Sense for Alaska
On Alaska's Growing Fiscal Gap
Before the Long-Range Financial Planning Commission
September 13, 1995

Hello, my name is Kym Swift. I am the Executive Director for Common Sense for Alaska, and on behalf of its more than 500 members want to thank the Committee for the opportunity to provide comments on the Committee's preliminary report on Alaska's Growing Fiscal Gap.

Common Sense for Alaska was formed in 1976 as a nonpartisan, non profit organization. Our mission is to inform and educate the public on state fiscal matters. We believe in the need for prudent state spending and that private sector growth can be achieved best when investment capital is left in the hands of Alaska's private sector, not when it is recycled through state government.

Common Sense applauds the Committee's efforts to address the state's fiscal problems. We recognize that your preliminary report is the product of many hours of hard work and that its creation was not an easy task. However, we at Common Sense feel the report does not focus enough on the state's basic problem - over spending.

Closing the ever widening fiscal gap should be the primary concern of the Committee and of every Alaskan. Yet the majority of the Committee's report focuses on the need for the state to increase revenues. The State of Alaska does not have a revenue problem - it has a spending problem. The focus of the Committee should be on closing the fiscal gap, not merely trying to fill it.

History shows that the spending habits of the State of Alaska have no apparent correlation to Alaska's population growth. From fiscal year 1976 to fiscal year 1996, Alaska's operating budget, unadjusted for inflation, has increased by 322 percent while the population of the state has only increased by approximately 50 percent.

Each aspect of the state's budget and in particular the way it is administered should be scrutinized as the fiscal gap grows. For example, the state has spent over $400 million building new schools in rural Alaska, even when in some cases the number of pupils which would use a new school would be less than ten. The state must stop spending its dwindling resources on items which are more elaborate than are necessary.

In addition, community, business, and individual subsidies are other examples of state spending that should be considered excessive in light of Alaska's fiscal woes. Many of the subsidies, including the longevity bonus, are administered on the basis of entitlement and not need.

In other states, increases in state government costs are required by the expansion of the private sector. Yet the Alaska state government spending policy seems to be rooted in the notion that an expansion of state government will induce the growth of the private sector. Alaska's government not only feeds on itself, but has created private sector addiction as well.

As with any addiction, the artificial stimulant needs to be removed so that a healthy long-term solution can be found. The increase of taxes or user fees, the creation of dedicated funding, or the spending of Alaska's reserves will only serve to feed spending without accountability.

We at Common Sense urge the Committee to focus its attention on the state's fiscal problem - over spending - and not merely on its symptoms. The Committee was created by Governor Knowles. We suggest you adhere to his words, "Until we put our house in order, I will not introduce new taxes."

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Education and the Economy

Foreword

This study, prepared for the National Education Association by the Corporation for Enterprise Development, examines the linkage between state education spending and economic development. What follows is an exploration--using economic development "lenses." It examines new research frontiers, which we as an Association may not have touched upon and which may, in some cases, run counter to our traditional way of thinking.

In examining the linkage between education spending and economic development, the research may also link education finance and education performance. Consider for a moment what is taking place in this area:

-->State legislatures are mandating education performance.

-->The public approves of required standards of education performance.

-->Experts see improved education performance as a way to increase education funding.

-->Private companies are guaranteeing education performance for a fee.

-->Goals 2000 sets standards for student learning and evaluation.

The purpose of this research report is to stimulate thinking and explore new ways to enhance education funding and the work of our members.

Ron Henderson
Director, NEA Research

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INTRODUCTION

Legislators have long struggled with the allocation of limited resources. The classic formulation of this dilemma is the "guns vs. butter" trade-off. In our era, the challenge of resolving these trade-offs persists and is made all the more complicated by tight budgets and a growing anti-tax sentiment that was, in part, responsible for the Republican Party's stunning victory in the 1994 mid-term elections. Yet, what happens when, faced with these pressures, states

Yet, the connection between the two is not a direct one, but rather one which involves a series of complex interrelationships. Therefore, this issue brief explores the link between education spending and economic development from a number of different angles. We begin with a discussion of economic development--what it is and what some of the principles of successful economic development are. Then we examine in what way education (described in terms of human capital) is important to economic development and how we know this. We examine the link between education spending and economic development and describe how education spending has been shown to have a positive impact on a variety of economic development outcomes, including jobs and earnings. Following this, we explore the important relationship between education spending and student achievement by looking at both sides of the debate over whether "money matters." Then we return to the relationship between education spending and economic development and examine the economic development consequences of acting as if money does not matter. Finally, we present our conclusion that increased spending on education can have a significant impact on a city's, region's or state's economy, if done properly, and suggest ways that communities can make education investments to achieve this impact.

cut taxes and curtail spending on essential services, such as education, human services, and infrastructure? California provides a good example:

California is at a crossroads. Over the past 20 to 30 years, there has been a profound state disinvestment in such areas such as education and infrastructure, where sufficient public investment is a necessary underpinning for a strong private sector. California has slid from its post World War II position as a leader among the states in human resource and infrastructure investment to its current status as a state whose public investments are distinctly sub-par. . . . The average amount California spends to educate each student fell from 21 percent above the average in all other states in the school year 1959-60 to three percent points below the average in 1989-90. The recent fiscal crisis accelerated this trend, lowering per-pupil spending in California in 1992-93 to 14 percent below the average spent in other states. . . . By 1990, the average California class was the second largest in the nation and nearly one-third larger than the national average. . . . Indicators of the quality of education in California raise concerns. The state has the ninth lowest high school graduation rate in the country, and California students in the fourth and eight grades rank below the national average on math achievement tests.(1)

Yet, resource shortfalls such as these come at a time when our knowledge-based economy demands a different and higher set of skills than those traditionally provided by public education and when increasing numbers of our public school students are minorities or new immigrants. While simple justice has always demanded that race or family background not serve as a predictor of educational achievement--that each student attain what his or her individual potential permits--the demand for skilled workers in a successful America of the coming decade now makes this objective an economic necessity. Unless more economically disadvantaged youngsters enter the work force with skills in proportion to their more affluent peers, we will not be able to achieve the level of work force skills required to be a high-wage, Information Age economy.

The purpose of this paper is to examine more closely the connection between education spending and economic development. In doing this, we will explore the issue from a variety of angles and draw some conclusions that will be helpful to an audience not necessarily versed in the intricacies of economic development. In other words, this is an "issue brief" that provides educators, policy makers, legislators, and citizens with a better understanding of the relationship between education spending and economic development. In the end, we hope to show that a state's or region's economic health is best served by a common sense view that seeks out a "middle way" between two extremes--one a simplistic interpretation that money does not matter, the other a naive conclusion that money is everything.

The Corporation for Enterprise Development's (CFED) interest in education stems from education's standing as one of the primary building blocks of economic health. The analytical framework of our annual Development Report Card for the States, one of the most widely used benchmarking tools for measuring state economic performance, is based on the assumption that investment for the long term in technology, physical infrastructure, appropriate financial resources, and education are the building blocks for sustained economic health. Thus, what follows is an exploration--using economic development "lenses"--of the connection between education spending and economic development.

WHAT IS ECONOMIC DEVELOPMENT?

At its most basic, economic development is the process by which wealth is created--or how a society increases its level of material and social well-being over time. In a developing economy, employment increases, incomes rise, innovation occurs, and the rate of economic growth rises.

Yet economic development is more than just growth; it also implies changes in technology and in the institutions controlling production. This includes a rise in entrepreneurship, the development of skilled labor, the building of roads and transportation facilities, the creation of financial institutions, and the channeling and accumulation of savings. Together, these advances allow an economy to increase its productivity, thereby enabling the production of more outputs with fewer inputs over the long haul.

Moreover, in today's new economy, the real agenda for development is to achieve a widely shared and sustainable quality of life. "Shared growth" means that there is broad distribution of opportunities for meaningful participation in the economy and enjoyment of the benefits of an increased standard of living. This also ensures that no one group in our society will act as a drag on growth. "Sustainable growth" means that the above goals are achieved in a manner that does not detract from--but rather enhances--the economy's ability to accomplish the same goals in the future.

By looking at the challenge in this way, there is no inherent conflict between business, social, and environmental goals. After all, standard of living comprises a number of dimensions--both material and nonmaterial, quantitative as well qualitative. Thus, economic development has to do with the flow of money and goods to individuals over time. But it also includes improvements in the quantity and quality of public goods, that is, in our ability to obtain goods that cannot be purchased directly, but are necessary to most people's sense of well-being. These "goods" include clean air and water, freedom from fear of crime, and a sense of community.

Unfortunately, much of what goes on in the name of development is not driven by such a framework. Faced with economic dislocation caused by continued corporate downsizing, stubbornly high unemployment, and fear of job security even on the part of those in the work force, many political leaders have taken unwise actions that equate economic development solely with lowering taxes and rolling back government. This traditional approach to economic development often ends up being "penny wise and pound foolish." A more effective economic development approach is guided by the following principles:

>Strong economies compete on the basis of high value, not low cost.

While at one time developing countries based their development on low wage rates, quality and other non-cost factors are the new turf for business competition. According to author Peter Drucker, "the main competition for American manufacturing industry--for instance, in automobiles, in steel and in machine tools--has come from countries such as Japan and Germany, where wage costs have long been equal to, if not higher than, those in the United States. The comparative advantage that now counts is in the application of knowledge.(2)

This is not to say that business costs--such as wages, taxes, energy rates, and social insurance premiums--do not matter at all to investors

>Investments in development "capacity" (human, technological, financial, and infrastructure resources) provide the basis for future economic health.

Every year, CFED's Development Report Card for the States compares the economies of the 50 states and examines to what extent each state provides its citizens with economic benefits and opportunities. One of the key findings from CFED's 1994 Development Report Card for the States was that a state's economic performance is highly correlated to its past investments in "development capacity" (investments in human, financial, technological, and infrastructure resources). Of the eleven states with the highest grades in development capacity (6) from the 1990 report card, all but three (73%) received an A or B in economic performance (7) in the 1994 report card and none received a D or F. The reverse is true for the ten states that received the worst grades in development capacity in the 1990 report card--all but three states received a D or F on economic performance in the 1994 report card and none attained either an A or B.(8)

In addition to the evidence from CFED's Development Report Card, more scholarly research on the economic impact of investments in public services and infrastructure has come to similar conclusions. For example, a recent study by researcher Alicia Munnell of the Federal Reserve Bank of Boston found that states that have invested more in public infrastructure (including education) tend to have greater output, more private investment, and more employment growth. Specifically, Munnell's research finds that "$1000 more of public infrastructure per capita in the initial period contributes roughly 0.2 percent to the average annual rate of employment growth."(9)

Moreover, in a review of 30 business location studies conducted since 1979 that include some measure of investment in public services, researcher Timothy Bartik found that 60 percent of the studies had at least one public service variable that demonstrated a positive and statistically significant effect on business growth.(10) What's more, while most studies of public services and economic development provide little information to indicate what would happen if taxes were increased to pay for an expansion in public services, Bartik addresses this question as well. He notes that three particular studies (including Munnell's study cited above) provide evidence that "state and local business tax increases, if used for particular public services, will encourage more business activity."(11)

human capacities. Increasing society's knowledge relies on research, teaching, and thinking by scientists. It is both a process of accumulation and a conceptual breakthrough based on human intelligence, skills, and creativity. Moreover, applying knowledge to particular economic purposes, i.e., technology, is also a human activity in which the training, skills, intelligence, and creativity of a larger segment of the work force, including engineers, professionals, and skilled workers, is the driving force. Knowledge may differ from skills in that it is not embodied in a person. However, since the production, dissemination, and application of knowledge is largely through investments in human capital, it is appropriate to consider the contribution of knowledge and technology to economic development as an extension of human resources.

>Entrepreneurial talent. A significant part of the human resources that enhance a state's capacity for economic development is the presence of people to initiate, organize, and manage businesses. Entrepreneurs are a particularly important subset of human capital because they are a major driving force behind innovation and new business formation. Entrepreneurs do this by uncovering and creating new sources of wealth and new economic activities that add to the productivity and income-generating capacity of a region. Since entrepreneurs must also manage the enterprises they undertake, their human capital contribution includes bringing management skills to ventures.

>Agglomeration of human resources. Labor force skills, knowledge and technology, and entrepreneurial talent are not only essential human resources for economic development, but concentrations of such human capital in a state or region can attract or stimulate a high level of economic development. The effects of such agglomeration include the following:

--Attracting firms that seek access to the resources and the lower costs that improved access will bring
--Attracting immigration of workers who add to the human capital base (and preventing out-migration)
--Stimulating development through new business creation, productivity increases, and applications of new technologies

With the advent of the Information Age, two additional aspects of human capital have become critically important to a state's or region's economic success. First, an educated work force is now more vital than ever. In the America of the 1950s, for example, many jobs required few or no skills. In fact, 73 percent of all manufacturing jobs in 1950 were classified as unskilled. Skill requirements in the workplace are rising, however, and by the year 2000, the percentage of unskilled jobs is expected to drop to as low as 15 percent.(14) Thus, in order to attain a high wage/high skill economy, more young people will have to enter the work force with skills than ever before.

Second, the kind of knowledge required by the Information Age will be different from what has been required in the past. A recently completed study by New York State of the skills needed for entry level employment revealed significant shifts in the kind of learning required.(15) For example, in the area of mathematics, employers reported much greater needs for skills in logic, probability, measurement, and statistics than for the traditional training in algebra, geometry, and trigonometry. Similarly, the study found greater demand for the ability to read for information and for critical analysis and evaluation than was provided by the current New York

that "the traditional economic factors of location [labor, markets, transportation] are becoming, as a group, quantitatively less significant. For example, unlike studies written in the 1940s and 1950s, most of the recent location studies we reviewed found noneconomic factors to have at least some influence on location. Education, unionization, personal reasons, business climate, energy, and familiarity with local conditions have been added to the `must-and-want' list."(22)

Yet, evidence of the overall importance of human capital in business location decisions should not mask the fact that different industries may place differing values on the importance of education. For example, a recent study by the U.S. Department of Agriculture of the factors associated with the growth of local and regional economies found "limited, and sometimes contradictory, evidence for the effects of educational attainment on economic growth."(23) These findings likely reflect that, while many industries seek to locate in areas of high educational attainment, certain industries may still be attracted to areas with lower education levels. Among such firms and sectors are the following:

--The most likely to relocate to lower cost sites abroad

--As currently structured, those incapable of providing better employment opportunities for their workers

--Those likely to continue to operate in the United States by demanding wage and benefit concessions from their employees, speeding up production lines, and moving to less affluent areas.

Nonetheless, most companies value a more highly trained work force. Indeed, recent research indicates that, more than just on the must-and-want list, an educated work force has become one of the primary location factors for growing companies. A 1994 survey of the nation's leading corporate real estate professionals by the accounting firm of Ernst & Young found that an educated labor force was the second highest ranking selection factor, behind only low lease rates.(24) In one of the more recent studies, Entrepreneurial Hot Spots: The Best Places in American to Start and Grow a Company, economist David Birch et al. conclude that the most attractive locations for entrepreneurs are not those that offer cheap wages and low taxes, but rather those that offer world-class universities, good roads, and access to airports.(25) Further, economist Bennett Harrison argues that, although multinational corporations are demonstrating less and less loyalty to particular countries or communities as a result of the "global economy," newer thinking indicates that a "home base of mutually supportive institutions" is now more important than ever to a company's competitiveness. These mutually supportive institutions include those that insure access to capital and trained workers, as well as those that insure the provision of appropriate infrastructure.(26)

In addition to the general industrial location literature, one recent study by Ronald Swager of the University of Southern Mississippi examines the particular relationship between education and business location. Based on a survey of location consultants and real estate executives, Swager found that, for half of all respondents, education was judged to have been very important or critical in site selection decisions over the past ten years. What's more, almost 75 percent predicted that education would be a very important or critical location factor in the next ten years.(27)

Popular Literature

DOES EDUCATION SPENDING AFFECT ECONOMIC DEVELOPMENT?

The case is clear--human capital is critically important to economic development. Moreover, with the advent of the Information Age, the role of human capital will continue to increase in importance for our economy. This implies that if, as many predict, acquiring and applying knowledge will become the key competitive factor in the future economy, the primary strategy for enhancing economic growth will be through increases in human capital that increase labor productivity.

Thus, investments in education should have a beneficial effect on long-term economic health. Indeed, several studies confirm this relationship. What follows is a review of some of the more convincing studies. The first takes a microeconomic perspective and examines the relationship between education spending and future earnings. The second two are studies of the factors that influence aggregate economic growth and are notable in that each includes an education spending variable. In addition, a review of additional statistical work conducted by CFED examines the relationship between education spending and performance on CFED's annual Development Report Card for the States.

Microeconomic Literature

Given their preference for tangible, market-based outcomes measures, as well as the limitations of measuring human capital on the basis of standardized achievement tests, several economists have examined the value of schooling inputs by studying the relationship between school quality (measured on the basis of expenditures per student or the pupil-teacher ratio) and student outcomes (measured in terms of future earnings). This approach assumes that, since workers with higher skills tend to earn more, school quality can increase future earning potential (holding parental education, race, and IQ constant) either by helping students to learn more per year of schooling or by increasing the number of years students stay in school.

In a review of this literature on school quality and earnings, David Card and Alan Krueger of Princeton University summarize the findings from 13 different studies based on eight different data sets on earnings. Based on their review, Card and Krueger find "a high degree of consistency across studies regarding the effect of school quality on students' subsequent earnings. The studies typically find that a 10 percent increase in school expenditures is associated with a 1 to 2 percent increase in annual earnings for the students later in life."(30) In most cases, these studies control for level of education, meaning that the estimated income increase represents an increase for a given level of schooling. In addition, Card and Krueger also find that increases in school resources are positively associated with significantly higher education attainment. As noted above, both of these avenues (staying in school longer and learning more in a given year of schooling) increase students' skills and, thus, tend to increase future earning potential.

MACROECONOMIC LITERATURE

Public Services and Economic Development

In a forthcoming Economic Policy Institute report,(31) Timothy Bartik of the W.E. Upjohn Institute for Employment Research concludes that spending on state and local public services, including primary,

While not guaranteeing improved grades, this finding indicates that a spending increase of this level slightly improves a state's chances of receiving an honor grade.

The results with a ten-year difference between spending and economic performance grades indicate that, at the spending mean ($3827 in 1990-91 dollars), states can increase the probability of receiving an A or B grade by 1.3 percent with an additional $100 in spending per pupil (2.6% increase in per pupil spending). Again, these results, while not large, show a statistically significant positive relationship between education spending and economic performance grades on CFED's Development Report Card.

We also found that, for those states below the spending mean, the same $100 per pupil spending increase leads to a slightly larger increase in the probability of receiving an honor grade. This increased probability levels off at a per pupil spending level of between $4,000 and $5,000. In other words, a state spending below the national average is likely to experience increasing returns to scale, on average, for additional per pupil spending; a state spending above the national average is likely to experience quickly decreasing returns to scale, on average, for additional per pupil spending.

In addition, CFED sought to evaluate the relationship between education spending and the three subindexes of the Economic Performance Index. Two subindexes demonstrated a statistically significant relationship:

--The Earnings and Job Quality Subindex, which measures pay and benefits. This subindex had a positive and statistically significant relationship to education spending -- increasing per capita spending on education by $100 at the mean increases the probability of a state's receiving an A or B on this subindex by 1.4 percent.

--The Equity Subindex, which measures the poverty rate and income distribution. This subindex also had a positive and statistically significant relationship to education spending--increasing per capita spending on education by $100 at the mean increases the probability of a state's receiving an A or B on this subindex by 1.8 percent.

These results confirm what one might expect, given the earlier discussion about the importance of education for economic development. First, due to high and increasing returns to education, education's greatest economic impact is in decreasing poverty and in generating a more equitable distribution of income. Second, due to these same factors, education also has a positive impact on earnings. Third, because educated workers are a critical factor in high-skill, high-performance companies, but not necessarily in all companies, it is understandable that we did not find a statistically significant relationship between education spending and the Employment Subindex (the third subindex of the Economic Performance Index). In other words, the impact of education on employment tends to vary from state to state, depending in part on each state's mix of employers.

It should also be noted that, given our earlier discussion about the nature of economic development and how it encompasses more than just jobs and wages, these findings concerning the relationship between education spending and grades on the Development Report Card for the States may understate the overall impact of education spending on economic development. In the following section, we will explore further the relationship between education spending and other non-market measures of economic development.

Hanushek's work has been cited widely, not only in educational circles, but in the political arena, as well. In fact, in order to support the Reagan administration's position that the problems of America's schools were not the result of insufficient funds, former Secretary of Education William Bennett made frequent reference to Hanushek's conclusions.

Since many have attempted to politicize Hanushek's conclusions and to assert simply that "money doesn't matter," it is important to clarify Hanushek's position. In a more recent article, Hanushek writes: "most economists, including myself, would readily accept that differences in spending would be directly related to the education provided if schools were operating efficiently. The previously presented evidence [Hanushek's review of past education production function studies] indicates clearly, however, that assuming efficiency in spending is entirely inappropriate. . . . In other words, equity and efficiency are inextricably linked. It is not possible to ignore efficiency issues under the guise of being concerned solely with equity."(40)

Thus, Hanushek is not claiming that more money does not ever matter, rather that money is not everything. Moreover, more money spent wisely could make a difference.

The Response--New Thinking and Research

Partly in response to Hanushek's findings and partly as a result of improvements in education production function research (including new statistical techniques that can account for some of the problems with the data used by Hanushek), a number of different studies have been undertaken in recent years that challenge Hanushek's conclusions. In certain cases, these studies question Hanushek's finding of no relationship between education spending and student performance. In other cases, the studies seem to demonstrate that spending does have an effect on student achievement. Yet, in none of these studies do the findings suggest more education spending across the board. Some of the more interesting of these studies are discussed below.

Research Using "Meta Analysis"

In a re-analysis of the data used by Hanushek, researchers Larry Hedges, Richard Laine, and Rob Greenwald suggest that the data from these previous education production function studies do not support Hanushek's conclusions.(41) To start with, Hedges et al. question Hanushek's use of "vote counting"(42) as a procedure for analyzing the results of past studies. Because it may fail to detect statistically significant relationships, vote counting lacks statistical power. Moreover, vote counting is unable to give an indication of the magnitude of relationships that may exist.

To overcome these problems, Hedges et al. undertook a re-analysis of the data used by Hanushek, using a more sophisticated synthesis method known as "meta-analysis."(43) Using meta-analysis and starting with the 187 education production function equations used by Hanushek in his work, Hedges et al. produced the following conclusions:

--With the exception of teacher/pupil ratio and facilities, there are "at least some positive relations between each of the types of educational resource inputs studied and student outcome."(44) Those

instead targeted class size reductions combined with other proven instructional techniques for improving student achievement.

Research on Teacher "Characteristics"

Using a comprehensive education database from Texas, Ron Ferguson of Harvard's Kennedy School of Government has provided new insights into the relationship between skilled teaching and student achievement.

Ferguson's research makes use of a database from Texas that includes not only achievement test scores for all students in odd-numbered grades (Texas Educational Assessment of Minimum Skills--TEAMS), but also literacy skills scores for all teachers and administrators (Texas Examination of Current Administrators and Teachers--TECAT). This large and unique data set enables Ferguson to overcome some of the methodological deficiencies in previous education production function studies.

Based on his research, (51) Ferguson finds the following:

--Better literacy skills (i.e., higher TECAT scores) among teachers, fewer large classes, and more teachers with five or more years of experience all predict better TEAMS scores.

--Teachers' test scores are by far the most powerful of the school quality measures--TECAT scores explain roughly 25 percent of the variation among Texas school districts in students' average TEAMS scores for reading and math.

--Higher salaries attract better teachers.

In addition, Ferguson finds that, for districts in Texas, a threshold exists at a districtwide ratio of 18 students per teacher. Adding teachers to achieve a teacher/pupil ratio below this level does not typically raise test scores; adding teachers to achieve a ratio closer to the threshold typically does raise test scores.

Ferguson concludes that "since more and better teachers can help to improve students' test scores and higher salaries attract more and better teachers, money matters for raising test scores."(52) However, recognizing that increasing salaries across-the-board while holding teaching methods constant is unlikely to increase teacher performance in the short run, Ferguson notes: "To insure that salary enhancements foster improvements in teaching, salary increases need to be supplemented by efforts to assist existing teachers in upgrading their skills; measures to persuade talented and experienced teachers to stay in the profession; and campaigns to attract academically stronger candidates of all races into primary and secondary school teaching."(53)

The results of this newer research into the relation between education spending and student performance can best be summarized in the words of Johns Hopkins education researcher Robert Slavin: "It is clear (and obvious) that increased dollars do not magically transform themselves into greater learning. But it is just as clear (and just as obvious) that money can make a difference if spent on specific programs or other investments known to be effective."(54)

Legal Arguments

a high level of academic achievement."(57)

This would seem to indicate that the converse of the education spending-economic development link is also true. Namely, that a lack of adequate spending in inner cities on education (through the relationship between school quality and earnings--see Card and Krueger) leads to lower overall economic growth.(62)

Moreover, as noted above, economic development is more than just income or employment growth. In addition to these measures, successful economic development includes measures of overall quality of life, such as the health of the natural environment, the availability of quality living environments, personal health, and personal security. Thus, another way to look at the issue of the impact on economic development of lack of investment in human capital is to examine what happens to the quality of life in communities that underinvest in human capital. According to the Committee for Economic Development:

--About 82 percent of all Americans in prison are high school dropouts, and it costs an average of $20,000 annually to maintain each prisoner.

--Investing $4,800 per child in preschool education can reduce teenage arrests by 40 percent.

In addition, according to researchers Gordon Berlin and Andrew Sum,(63) there is a strong relationship between low basic skills and welfare dependency--60 percent of out-of-wedlock births among women 19 to 23 years old are to those who score in the lowest 20 percent in basic skills tests. Further, as compared with young people with above average basic skills, those with low basic skills are nine times more likely to drop out of school, eight times more likely to become mothers out of wedlock, and four times more likely to become welfare dependent. Berlin and Sum estimate that raising the mean of the basic skills tests of 19- to 23-year-olds by the equivalent of one grade would increase lifetime earnings by 3.6 percent, reduce the likelihood of births out of wedlock by 6.5 percent, welfare dependency by 5.3 percent, and arrests by 6.2 percent.

Thus, one obvious strategy for achieving significant economic impact with increased education investments would be to invest in proven techniques as well as promising reform approaches that will help to improve the performance of low achievers. These might include the following:(66)

--Preschool and other early childhood development programs

--Targeted class-size reductions, particularly for children in the early grades and children from low-income families

--School-based reform approaches (such as Accelerated Schools, the Comer School Development Program, and the "Success for All" model) that combine consistently high expectations for at-risk children with school-wide support systems to help students meet these expectations

--Experienced teachers assigned to teach subjects in which they have been well-trained

--Investments in staff development to help teachers (a) learn the most up-to-date information on curriculum and instruction and (b) incorporate these learnings into their daily lessons.

Accountability: Increased investments in education should be made based on the extent to which they can help solve the problem they were created to address.

In return for more resources, schools must be held accountable for improving student performance. Long a rallying cry of those critical of the performance of America's schools, this notion is gaining increasing acceptance within the education establishment. For example, in calling for a fundamental change in the federal Chapter 1 program,(67) an independent Commission on Chapter 1 made up of a diverse group of educators, child advocates, researchers, and concerned citizens concluded that, among other things, "rather than accounting for dollars, schools should be held accountable for results."(68)

One promising model for increasing accountability is the series of initiatives unleashed by the Kentucky Education Reform Act of 1990 (KERA). KERA was initiated after Kentucky's whole educational system and financing mechanisms were found unconstitutional. Thus, KERA addresses both gross spending inequities and restructuring.

Specifically, along with a 20 percent increase in the overall funding base for schools and a plan to have every school under school-based decision-making by 1996, KERA includes a variety of measures to enhance the accountability of individual schools, such as the following:

--An Office of Education Accountability, which verifies school performance, exercises sanctions against officials guilty of misconduct, and specifies school funding recommendations.

--Impact Evaluations--beginning in 1992, students in grades 4, 8, and 12 are tested every two years under a new performance-based assessment system that is keyed to 75 performance outcomes. These and other performance measures are used to determine whether individual schools are successfully making progress toward achieving a set of six overarching goals.

While it is still early to assess fully such a massive restructuring effort, it appears that the KERA effort, which involves increased funding, combined with reform and greater accountability, is on track. For instance, the Kentucky Institute for Education Research conducted three statewide surveys that polled the opinions of 954 school administrators and teachers and 535 parents and the general public regarding Kentucky's four-year-old reform initiative. Polling results

Yet, in our increasingly anti-tax and anti-government America, additional resources will not likely be forthcoming unless they are tied to performance in improving the quality of education. This is another aspect of accountability and involves clarifying what children should learn, designing assessments that accurately measure how well students are learning, improving information sharing about what works and does not, providing adequate resources so that teachers are able to help students meet expectations, and developing appropriate rewards and sanctions for schools for their performance.

Of course, determining how to measure performance is a difficult issue. Schools help students develop many different skills, and not all of them are easily measured. In order to insure the development of performance standards that are appropriate and that do not encourage teachers simply to help students "beat the test," school districts should consider developing performance measures in collaboration with teachers and school administrators.(70)

One example of developing this kind of collaborative, performance-based management system can be found in the San Diego City Schools. Based on the recommendations of a Student Achievement Accountability Committee, the San Diego City Schools began implementing an accountability system in early 1993. This system consists of four primary elements: establishing standards, assessing performance, recognizing superior performance/intervening in the case of poor performance, and creating a public reporting process. As part of the standard-setting procedure, each school (including teachers, administrators, and other stakeholders) is involved in a process of identifying the particular standards against which it will be assessed. In return for high achievement, current plans call for outstanding schools to be "recognized" with an in-kind bonus of up to 30 days of staff development time.(71)

TESTIMONY OF

DON VALESKO, BUSINESS MANAGER

PUBLIC EMPLOYEES LOCAL 71

BEFORE THE STATE OF ALASKA'S

LONG-RANGE FISCAL PLANNING COMMISSION

WEDNESDAY, SEPT. 13, 1995

GOOD EVENING.

FOR THE COMMISSION'S RECORD, MY NAME IS DON VALESKO, AND I AM THE BUSINESS MANAGER FOR PUBLIC EMPLOYEES LOCAL 71. WE REPRESENT APPROXIMATELY 2,300 PUBLIC EMPLOYEES THROUGHOUT ALASKA, INCLUDING MORE THAN 1,600 EMPLOYEES OF THE STATE OF ALASKA.

BEFORE I BEGIN MY TESTIMONY, I WANT TO THANK THE COMMISSION MEMBERS FOR HOLDING PUBLIC HEARINGS ON THE STATE'S FISCAL SITUATION, AND FOR PROVIDING LOCAL 71 THE OPPORTUNITY TO TESTIFY ON AN ISSUE THAT WILL IMPACT, ONE WAY OR ANOTHER, EVERY RESIDENT OF ALASKA.

I ALSO WANT TO MAKE IT CLEAR FROM THE OUTSET THAT OUR MEMBERSHIP IS ENTIRELY MADE UP OF ALASKAN RESIDENTS--RESIDENTS WHO WORK HERE, LIVE HERE, SPEND THEIR INCOMES HERE, PAY LOCAL TAXES HERE AND, FOR THE MOST PART, RETIRE HERE. AS SUCH, THE HARD WORKING MEN AND WOMEN OF LOCAL 71 CONTRIBUTE TO THE STATE AND LOCAL ECONOMIES OF ALASKA. A STUDY A FEW YEARS AGO DETERMINED THAT THE EACH DOLLAR SPENT BY STATE EMPLOYEES CHANGES HANDS SEVEN TIMES WITHIN ALASKA'S VARIOUS ECONOMIES.

WE HAVE BEEN FOLLOWING THE COMMISSION'S WORK, AND HAVE READ THE REPORT YOU ISSUED ON AUGUST 12TH THIS YEAR. WHILE WE AGREE WITH SOME OF THE COMMISSION'S PRELIMINARY RECOMMENDATIONS, WE DISAGREE WITH OTHERS. I WILL BEGIN WITH SOME GENERAL COMMENTS, THEN GET INTO THE AREAS WHERE WE APPEAR TO DISAGREE WITH SOME OF THE COMMISSION'S PRELIMINARY RECOMMENDATIONS.

WE AGREE, FOR EXAMPLE, THAT PAYOUTS BY THE STATE TO INDIVIDUALS, SUCH AS PROPERTY TAX EXEMPTIONS OR LONGEVITY BONUSES, SHOULD BE BASED ON ECONOMIC NEED. TO PUT THIS ANOTHER WAY, WE DON'T BELIEVE THE STATE SHOULD BE GIVING MONEY TO WEALTHY ALASKANS WHO ARE FULLY CAPABLE OF HANDLING THEIR NEEDS WITHOUT STATE ASSISTANCE.

WE AGREE THAT STATE SPENDING IS ONE OF THE MOST SIGNIFICANT FACTORS IN ALASKA'S ECONOMY. BECAUSE OF THIS, WE MUST SPEND OUR STATE DOLLARS WISELY LEST OUR ACTIONS SEND THE STATE ECONOMY INTO A RECESSION.

INCREASED COSTS OR, WORSE, HAVE RESULTED IN OUTRIGHT RIP-OFFS OF PUBLIC DOLLARS.

ONE EXAMPLE IS THE STATE'S CONTRACTING OUT OF CUSTODIAL SERVICES AT ANCHORAGE INTERNATIONAL AIRPORT A FEW YEARS AGO. THE STATE ENDED UP TAKING THE CONTRACTOR TO COURT WHEN IT DISCOVERED THE CONTRACTOR WAS LISTING "GHOST EMPLOYEES" ON ITS PAYROLL VOUCHERS WHEN THE EMPLOYEES DID NOT, IN FACT, EXIST. USING THIS METHOD TO CUT COSTS AND INCREASE PROFITS, THE CONTRACTOR BILKED THE STATE OUT OF MORE THAN $300,000--NOT COUNTING COURT AND LEGAL COSTS--AND THE WORK WAS LESS THAN SATISFACTORY BECAUSE THERE WERE NOT ENOUGH PEOPLE ON PAYROLL TO GET THE JOB DONE PROPERLY.

IN MANY INSTANCES WHERE PRIVATIZATION APPEARED TO SAVE THE STATE MONEY THE QUALITY OF WORK WAS LESS THAN DESIRED, LEADING THE STATE TO USE ITS WORKERS TO CORRECT THE JOB. MORE OFTEN THAN NOT, THE WORK DONE BY STATE EMPLOYEES IN CORRECTING A PRIVATE CONTRACTOR'S MISTAKES IS NOT ADDED TO THE COST OF CONTRACT, BUT IT OUGHT TO BE FOR THIS WORK WOULD NOT HAVE BEEN REQUIRED HAD THE JOB BEEN DONE RIGHT IN THE FIRST PLACE. THIS IS SOMETHING THAT HAPPENS TIME AND AGAIN WITH OUR MEMBERS AND IT IS STILL GOING ON.

THE CURRENT STATE CONTRACT FOR MAINTAINING LAND PROPERTY RECORDS HAS COST THE DEPARTMENT OF NATURAL RESOURCES MUCH MORE THAN IT USED TO COST TO DO THE WORK IN-HOUSE. IN ADDITION, THERE HAVE BEEN A NUMBER OF COMPLAINTS OF INACCURATE RECORDS ON THIS CONTRACT.

THERE ARE MANY INSTANCES OF CONTRACTORS "LOW BALLING" THEIR INITIAL BIDS TO GET ON THE STATE PAYROLL, THEN INCREASING THE COST TO THE STATE THROUGH CHANGE ORDERS OR AS THE CONTRACT COMES UP FOR RENEWAL. IN THESE INSTANCES THE INITIAL COST TO THE STATE IS REDUCED, BUT THE LONG-TERM COST IS INCREASED. AN ANALYSIS OF THE STATE OPERATING BUDGET SHOWS THAT THE DOLLAR AMOUNT SPENT FOR CONTRACTUAL SERVICES IS INCREASING AT AN ALARMING RATE, WHILE THE AMOUNT SPENT FOR PERSONAL SERVICES IS NEARLY STATIC.

TWO OTHER POINTS WORTH CONSIDERATION IN THINKING ABOUT PRIVATIZATION ARE:

WHEN WORK IS CONTRACTED OUT, THE STATE HAS LESS OVERSIGHT AND MANAGEMENT ON HOW THE WORK IS DONE. THIS MEANS THE STATE IS LESS ABLE TO ACCOUNT FOR HOW THE PUBLIC'S MONEY IS BEING SPENT. IT IS DOUBTFUL THE STATE WOULD HAVE CAUGHT THE CONTRACTOR ON AIRPORT CUSTODIAL SERVICES MENTIONED ABOVE IF ONE OF THE CONTRACTOR'S OWN EMPLOYEES HAD NOT NOTIFIED THE STATE OF THE FALSIFICATION OF PAYROLL RECORDS.

THE SECOND POINT IS THAT CONTRACTING OUT SHIFTS PUBLIC MONEY FROM THE PUBLIC SECTOR TO THE PRIVATE SECTOR, BUT IT DOES NOT NECESSARILY SAVE MONEY, NOR DOES IT NECESSARILY HELP THE ECONOMY. MANY VENDORS AND CONTRACTORS ARE AFFILIATED WITH LARGE, NON-ALASKAN FIRMS. THESE FIRMS, IN TURN, SIPHON OFF A HEFTY PERCENTAGE OF ANY

CLEARLY, HOWEVER, LITTLE OR NO SIGNIFICANT DEVELOPMENT WILL TAKE PLACE UNTIL WE CAN PLACE MORE LAND IN PRIVATE HANDS. THE FORMER SOVIET UNION, UNDER COMMUNISM, HAD 1 1/2 PERCENT OF ITS LAND IN PRIVATE OWNERSHIP. AT THE SAME TIME, THE STATE OF ALASKA HAD ONLY ONE-HALF OF ONE PERCENT OF STATE LAND IN PRIVATE OWNERSHIP.

OWNERSHIP IS THE KEY TO DEVELOPMENT AND DEVELOPMENT IS NECESSARY FOR ECONOMIC GROWTH.

THANK YOU AGAIN FOR THE OPPORTUNITY TO SHARE OUR VIEWS WITH THE COMMISSION.

(END LOCAL 71 TESTIMONY)

Opinion
Senator Georgianna Lincoln

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

I applaud the commission for giving the public the opportunity to participate in its work, with serious attention paid to the comments throughout our deliberations. One subject which received, in my opinion, strong public support has not been incorporated into the commission's recommendations and that is reinstitution of the state income tax **now**. During my years in the legislature, I have wrestled with the wisdom of such an action. Since 1990, Alaska has grown by approximately 100,000 residents with as much as 25 percent of our work force being non-resident; non-residents contribute little to our economy but take much from it. The current plan recommends immediate introduction of a number of smaller taxes based on use with the state income tax implemented *after the year 2000*. I believe a state income tax, which taxes everyone (**resident and non-resident**) equitably, would result in a reduction to the state's fiscal gap, but would not result in such a huge, immediate reduction in state government programs as proposed by the commission. Recommended cuts to these programs would devastate those who can least afford them -- our youth, our elders, and the disadvantaged. *Again*, it was my sense in listening and talking to citizens across the state that folks are willing to reinstate the state income tax **now** and not later as the commission report recommends.

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

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

Response to the Questions of the Long Range Financial Planning Commission and the "Alaska's Growing Fiscal Gap" Report

From the
Alaska Municipal League
and the
Alaska Conference of Mayors

Taken from the AML Policy Statement
and testimony of the
Alaska Conference of Mayors and the Alaska Municipal League Board of Directors
Barrow, Alaska
August 25-26, 1995

RESOLUTION
of the
Alaska Conference of Mayors
and
Alaska Municipal League Board of Directors

WHEREAS, the Long Range Financial Planning Commission (LRFPC) has prepared a preliminary report on addressing the state fiscal gap and submitted it for comment;

WHEREAS, after a very brief review of the preliminary draft, the Alaska Municipal League Board of Directors and the Alaska Conference of Mayors wish to present several points regarding the draft;

NOW, THEREFORE BE IT RESOLVED THAT:

1. Appreciation is expressed for the Commission's efforts to date in addressing the issue.

2. The Alaska Municipal League (AML) and Alaska Conference of Mayors (ACoM) recognize that a gap exists between the state's current expenditures and expected revenues.

3. Some of the options presented for revenue sources appear viable, but care must be taken that using some identified alternatives not disrupt the sources of municipal tax established under existing statutes that are critical to the continuation of municipal government.

4. AML and ACoM express a willingness to work toward a reasonable balance in spending including programs that share state funds with local governments; however, the gap should not be filled by disproportionately shifting burdens to municipalities for services such as education, roads, and public safety.

5. There must be a recognition that priorities in spending do exist, but we are unable to determine from the draft what priorities have been used in determining future expenditure requirements. These priorities should recognize the state's obligation to fully provide for education, public safety, and corrections, as set forth in the Alaska Constitution, as well as programs providing basic survival assistance, such as power cost equalization.

6. We are unable to determine if other options of closing the gap have been addressed. These include cooperative transfer of administration of programs and funding, or consolidation to reduce expenditures. Elimination of further programs has not been identified as an option. These options should continue to be explored during the process of closing the gap.

7. The LRFPC should analyze the impact on local governments of the various recommended options as provided in the resolution establishing the Commission. Without this analysis, we find it difficult to adequately respond to the draft report and we are willing to work with the Commission to perform that analysis as the Commission prepares its recommendations to the Legislature.

UNANIMOUSLY APPROVED BY THE MEMBERS OF THE ALASKA MUNICIPAL LEAGUE BOARD OF DIRECTORS AND ALASKA CONFERENCE OF MAYORS ON AUGUST 26, 1995 IN BARROW, ALASKA.

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Alaska's Need for a Long Range Financial Plan

The Alaska Municipal League and the Alaska Conference of Mayors wholeheartedly support the efforts of the state in developing a Long Range Financial Plan for Alaska. The development of a Long Range Financial Plan, with supporting policies and implementation schedule, is absolutely critical to ensuring the best future for Alaska, its municipalities, and its people.

The Relationship Between the State and Its Political Subdivisions

Municipal governments currently provide approximately half of all public services in Alaska. (Total government service expenditures in Alaska are about $4.7 billion, of which $2.4 billion are provided by municipalities, and $2.3 billion by state government).

Because both the state and local governments provide public services to the same people, and because both the state and local governments have taxing powers over the same people, it is not possible to create an effective Long Range Financial Plan for Alaska without the active involvement of both local and state governments.

Alaska Needs a Comprehensive Solution to its Fiscal Gap

Since 1986, almost every municipality in the state has developed and implemented a long range financial plan. The experience of Alaska's political subdivisions over the past ten years indicates that a Long Range Financial Plan should not depend on one solution alone, but a comprehensive array of solutions including all of the fiscal tools available including: spending cuts; consolidation; privatization; transfers of responsibility; wise use of reserves and savings; increased fees to direct users of state services and enterprise operations; user taxes to meet needs created by users (e.g. increase fuel taxes to maintain and improve roads, harbors, airports); new general taxes that increase revenue as population increases; and economic development.

Observations that may help the Long Range Financial Planning Commission follow:

- To avoid severe economic downturns, budget balancing actions must be taken early and gradually.
- There are currently strong budget and policy disincentives to state departments to act entrepreneurially to set market rate fees to direct users of state services. Municipalities found that user fees both help balance the budget and increase accountability to the public. in fact, direct services to should not be provided by government free or at below market cost in most cases. Many municipalities were able to generate 5% to 15% more of their budget through user fees. A 5% increase for the state would be over $100 million per year.
- Budget cuts that are taken without long term structural changes in services and service delivery systems are likely to have severe long term negative economic and social impacts on the state.
- Citizens more easily accept tax increases when the proceeds of the tax increase provide a specific related service they desire (e.g. fuel taxes to maintain transportation systems).

An example of a comprehensive strategy for a state Long Range Financial Plan follows:

Long term structural budget/service changes: consolidation privatization transfer of services/revenue to Local Gov't statutory changes budget and policy changes	$100 million+
Increase user fees to market rates for state services	$100 million+
Raise motor fuel tax to maintain roads	$ 60 million
Raise marine fuel tax to maintain harbors	$ 30 million
Aviation fuel tax to maintain airports	$ 10 million
Tobacco and alcohol tax to pay direct costs in Public Safety, Corrections, Health and Social Services	$100 million
New statewide tax (e.g. personal income tax)	$150 million+
Economic Development	$ 20 million+

The rough example above is not a recommendation, nor do all the revenues completely offset current costs (for example, the state is essentially not maintaining its harbors now), but it is an indication of how a comprehensive long range financial plan for the state may rely on a number of components.

Local Government Partnership Council

The Alaska Municipal League and the Alaska Conference of Mayors have set the development of a state long range financial plan as their highest priority. The AML/ACoM offer the service of municipalities to the state in the development of the state's long range financial plan.

The AML/ACoM recommend the creation of a **Local Government Partnership Council**. The Local Government Partnership Council would consist of municipal representatives appointed by the AML/ACoM and members appointed by the state. The most important role of the Council would be to achieve consensus on services that could best and most efficiently be administered on a local level and ensure that adequate stable resources are available to maintain the service on a long term basis.

The Local Government Partnership Council would also help coordinate education of the public and support for the implementation of a state long range financial plan as well as make suggestions for the development of the plan.

Transfer of Current State Responsibilities to Municipalities

A municipality's power to provide services and to raise revenues is derived from the state. Alaska's constitution calls for "maximum local self government" and provides that "agreements, including those for cooperative or joint administration of any function or powers, may be made by any local government with any other local government, with the state, or the United States...".

Some services currently provided by the state may be more efficiently, or effectively provided under the administration of local governments, and under the policy direction of local residents.

The AML supports the negotiation of service responsibility transfers from the state to municipalities provided the state actively enters into good faith negotiations with municipalities to identify stable adequate revenues to undertake the transferred services.

Specifically, the AML supports entering into negotiations with the state to transfer the responsibility for operation, maintenance, and improvement of harbors, some classes of local roads, and some classes of air transportation facilities with the long term commitment of the state to share fuel taxes, and other revenues, with municipalities to supplement direct user fees. Other services may include some health and social services, public safety services, direct support services to local government, education services, etc.

Specifics of the transfer negotiations should be proposed by the **Local Government Partnership Council** discussed above.

Fair Distribution of the Resources that belong to All Alaskans (Municipal Revenue Sharing Programs)

All states provide some form of revenue sharing to their political subdivisions because states are the only taxing authority that can fairly allocate a state's resources to ensure that all citizens receive a basic level of public services. According to the 1994 federal ACIR Report, the **average nationwide state contribution of state revenues to local governments is 34.2%** of local government budgets.

Without state revenue sharing, some areas of a state would not receive a basic level of health and safety services while other areas would pay disproportionately higher local taxes for those services. Over the past ten years, cuts to MA/SRS, and other state programs that provide funds to local governments, have been so severe that they have destabilized some communities, forced some dissolutions of municipal governments, and effectively increased local taxes as much as the equivalent of ten mills of property tax. **When municipal governments dissolve, the long term cost to the state is much higher than the cost of Municipal Assistance/ Revenue Sharing.**

Currently, Alaska has two main general revenue sharing programs for municipal service operations: Municipal Assistance (MA) and State Revenue Sharing (SRS).

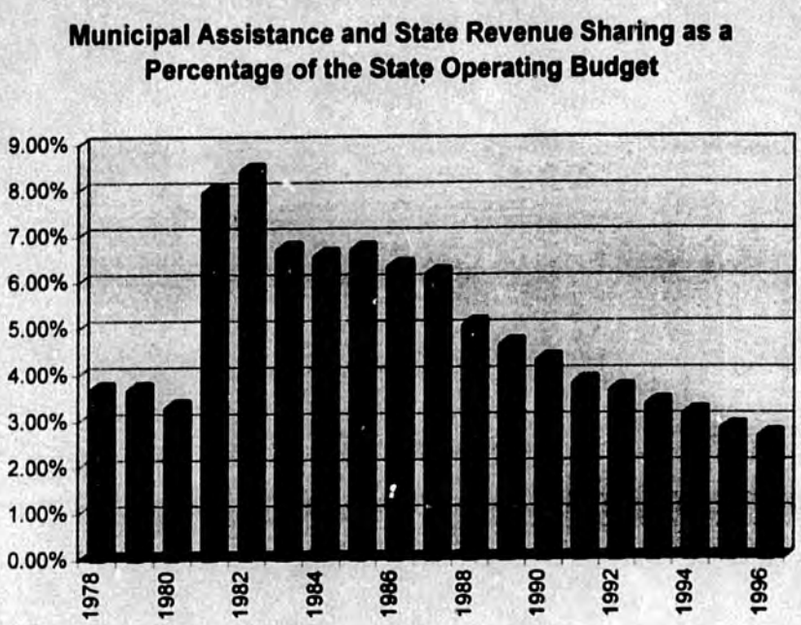
The AML supports a consolidation of the Municipal Assistance and Revenue Sharing programs into one that allocates funds considering the level of basic municipal services provided by each community (public safety, health, local share of education, road maintenance, water/sewer), population, and the financial resources of the community.

Most important, the AML supports a **stable revenue relationship** with the state to promote local fiscal planning and to promote local economic and community development.

Municipal Assistance/Revenue Sharing (MA/RS) in FY96 was 2.66% of the state operating budget. It has declined from approximately 8.00% of the state operating budget in 1982 and was 3.68% of the state operating budget in 1979.

The AML and Conference of Mayors supports a stable funding of MA/RS at the level of 3.00% of the state operating budget so that the funding of municipalities is consistent with the resources of the state. The AML and ACoM support a freeze of funding for MA/RS at the 1996 level of funding until the state budget adjusts or decreases to the point where the 3.00% relationship with MA/RS is achieved. The standard of setting MA/RS at a percentage of the state operating budget is used in other states (see appendix).

1978	3.69%
1979	3.68%
1980	3.30%
1981	7.95%
1982	8.42%
1983	6.70%
1984	6.56%
1985	6.69%
1986	6.33%
1987	6.17%
1988	5.07%
1989	4.64%
1990	4.30%
1991	3.82%
1992	3.66%
1993	3.36%
1994	3.15%
1995	2.83%
1996	2.66%



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Capital Project Matching Grant Program

Alaska has also implemented a capital project revenue sharing program, the **Capital Matching Grant Program,** to fairly provide a basic level of support to municipalities to construct basic public facilities as determined necessary be the local community.

The AML supports the continuation and stable funding of the Capital Matching Grant Program because it is an effective revenue sharing method that provides for a basic level of community capital public facilities and promotes local self determination.

Education

The Alaska Constitution states, "The Legislature shall by general law establish a system of public schools open to all children of the State...". Open access to a quality education is a primary right guaranteed by the Constitution. All states provide support for education. The

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.

The AML supports the inclusion of these programs into the long range financial plan as part of the comprehensive strategy to provide basic services to all communities in the state.

Local Self Determination and Tax Equity for all Citizens of Alaska

The AML supports the formation of new local governments to promote local self determination and to provide a mechanism for all citizens to participate in paying for services they consume according to their ability to pay.

The AML supports the equitable financial participation of all communities and all residents in the funding and support of basic government services including education, public health and safety, and other basic services.

New Tax Revenues for the State

The State Long Range Financial Planning Commission has asked the AML/ACoM what major new revenue sources it supports if new revenues are enacted.

As part of a long range financial plan for the state and municipalities, the AML recognizes that action must be taken to incrementally introduce new revenue sources for the State well in advance of a financial crises. The 1995 AML Policy Statement urges consideration of the following revenue options if new revenues are a part of the long range financial plan:

1. Personal Income Tax- (AML Policy Statement p. 16) The AML supports legislation to reinstate the state income tax, with a tax credit for local participation in sales, personal, and real property tax, to allow for maximum capture of revenue from non-resident employees working within Alaska.
2. Use of Permanent Fund earnings for Municipal Support - (AML Policy Statement p.3) The AML supports the use of Permanent Fund undesignated earnings for revenue sharing, municipal assistance, education foundation formula, school debt reimbursement, and school construction and maintenance projects on the Department of Education priority lists established under the provisions of AS 14.11.
3. Sales Taxes - Sales taxes are a primary source of municipal tax revenue. Ninety five municipalities currently have sales taxes ranging from 1.5% to 7% plus a variety of special taxes. The AML Policy Statement does not support a statewide sales tax because of the potential for negative impacts on the diverse sales tax programs in Alaska's municipalities. While it is possible to levy a statewide sales tax, it is critical that municipalities retain reasonable flexibility in the use of this revenue source and that any exemptions be carefully considered to avoid diminishing this revenue source. Municipalities must be guaranteed the long term receipt of 4 or 5% of the tax proceeds and have a significant voice in setting exemptions from the sales tax and the levy of special taxes, such as bed taxes that largely affect visitors
4. Fuel Taxes to support municipal and state transportation systems - Currently, the state tax on motor fuel is $.08 per gallon and on marine fuel is $.05 per gallon. The national average motor fuel tax is $.18 per gallon. The AML (AML Policy Statement p.44) supports increased fuel taxes, and other transportation related fees, sufficient to support

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

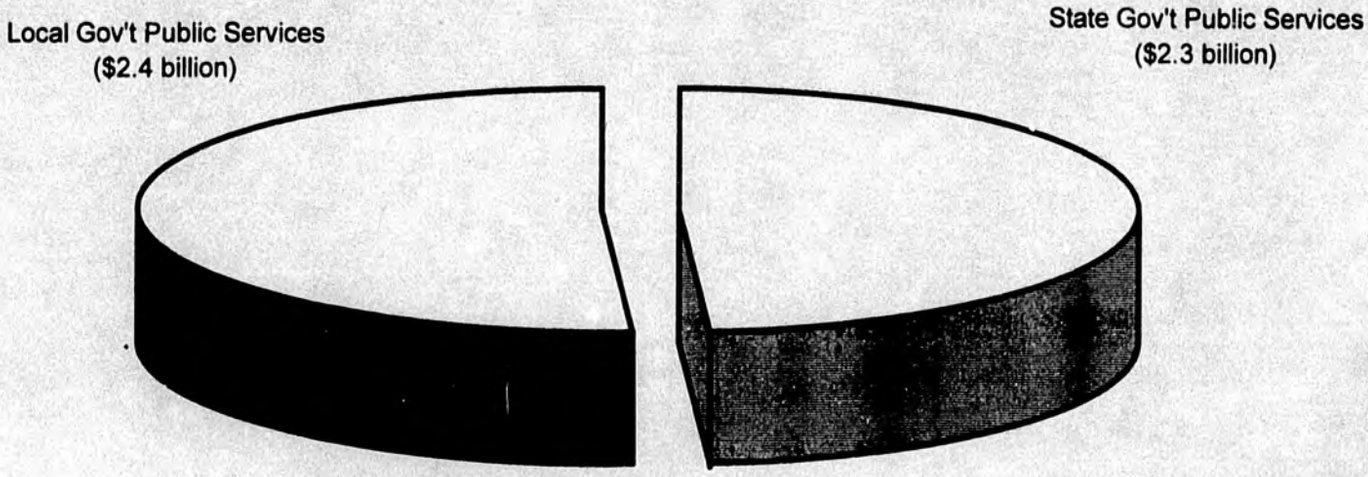
The Commission has asked the AML/ACoM to comment on the state use of "excess tax capacity" in Alaska. The Commission shows that, considering the Permanent Fund Dividend and all state and local taxes, the average Alaskan has a net revenue gain while other residents of other states pay significant net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

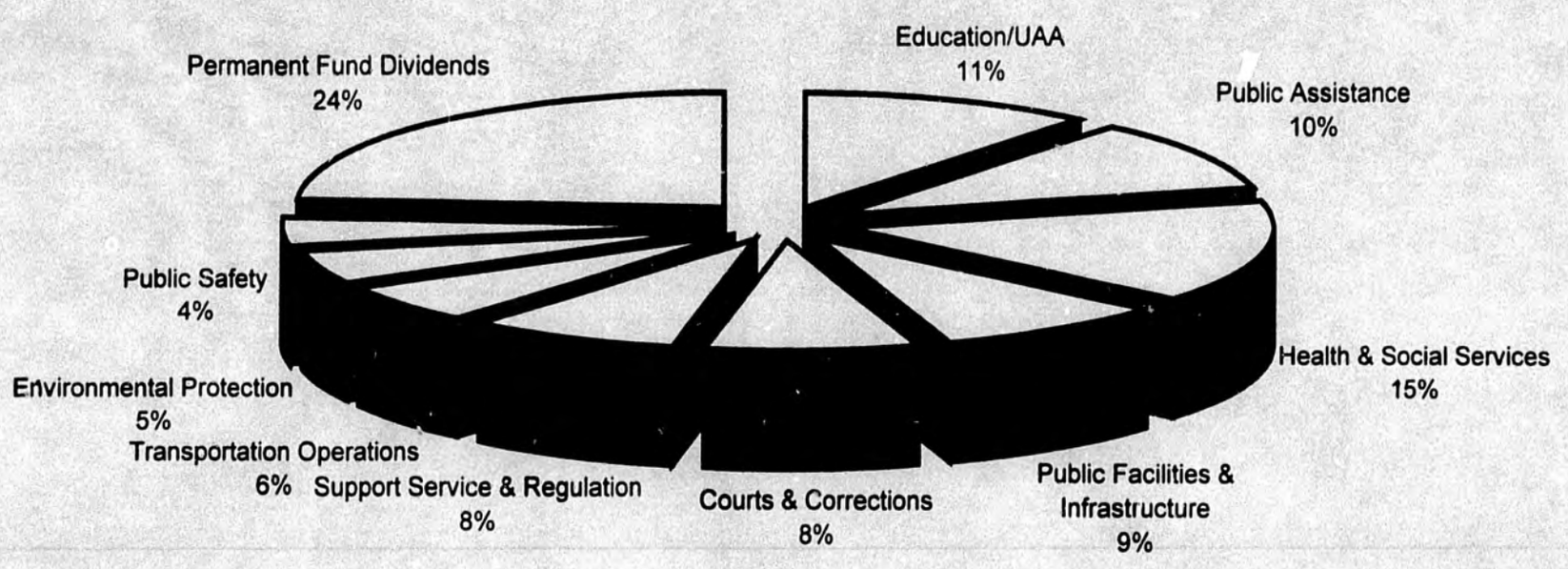
The Commission Chair asked the AML/ACoM what cuts to municipal programs it would recommend if the Commission decided to recommend $10 million in directs cuts. As stated in an earlier section, the AML/ACoM supports well planned structural changes in state or municipal programs that result in savings. 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

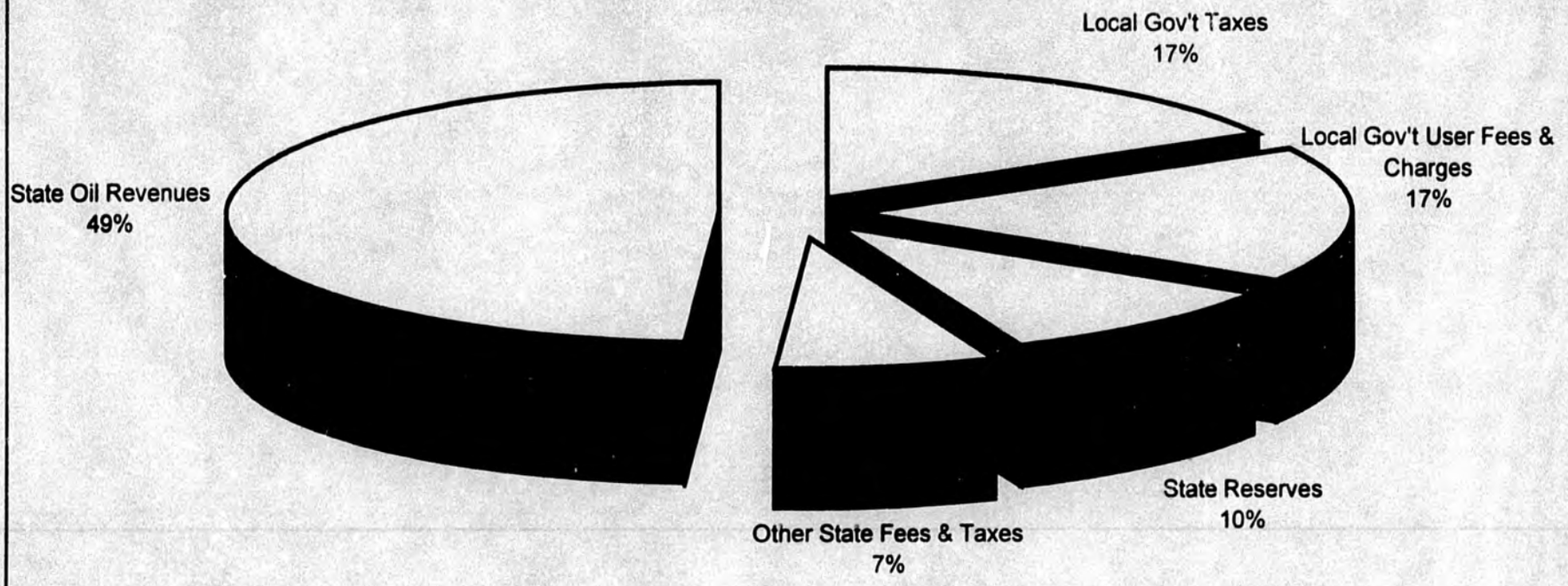


Source: Dept. of Community & Regional Affairs FY 93 Municipal Fiscal Database; OMB Long Range Fiscal Planning Commission "base case" budget analysis; Department of Education.

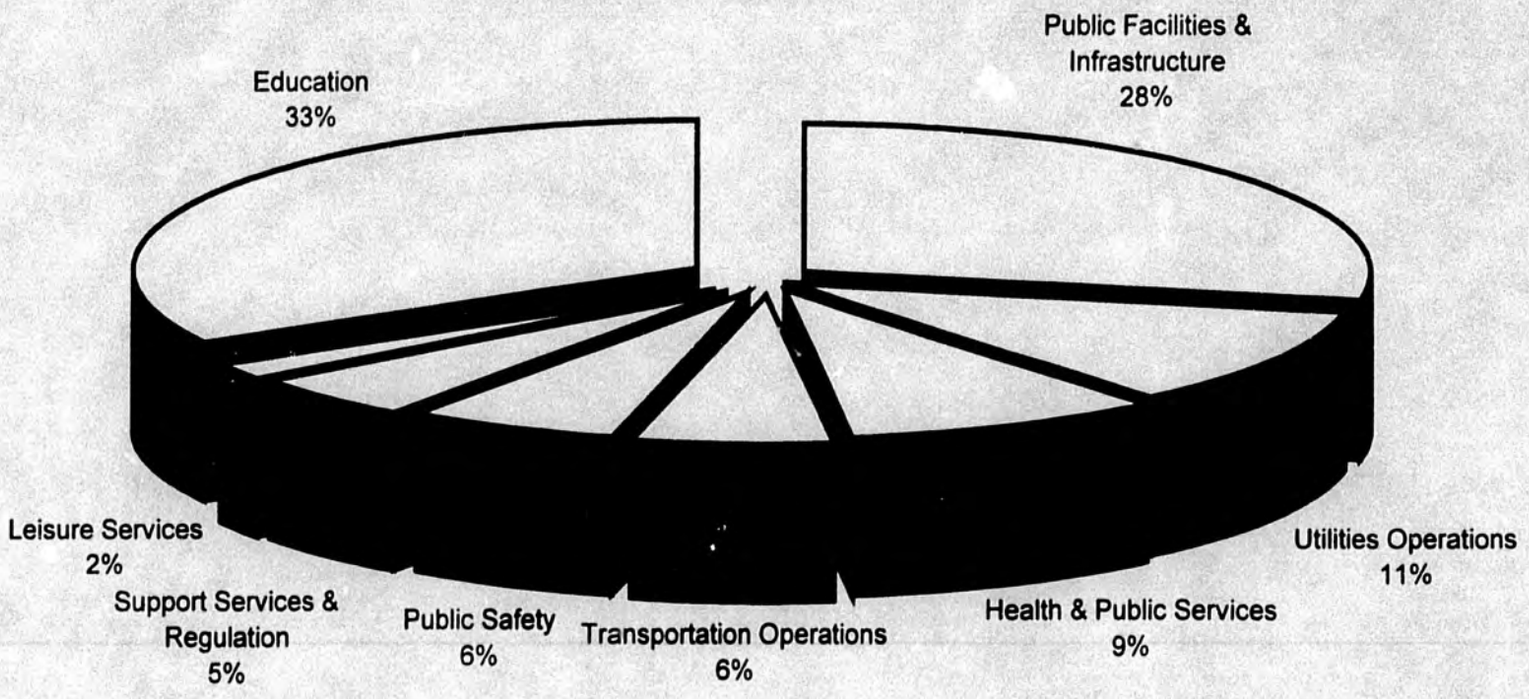
Services Provided by State Government in Alaska
(total $2.3 billion)



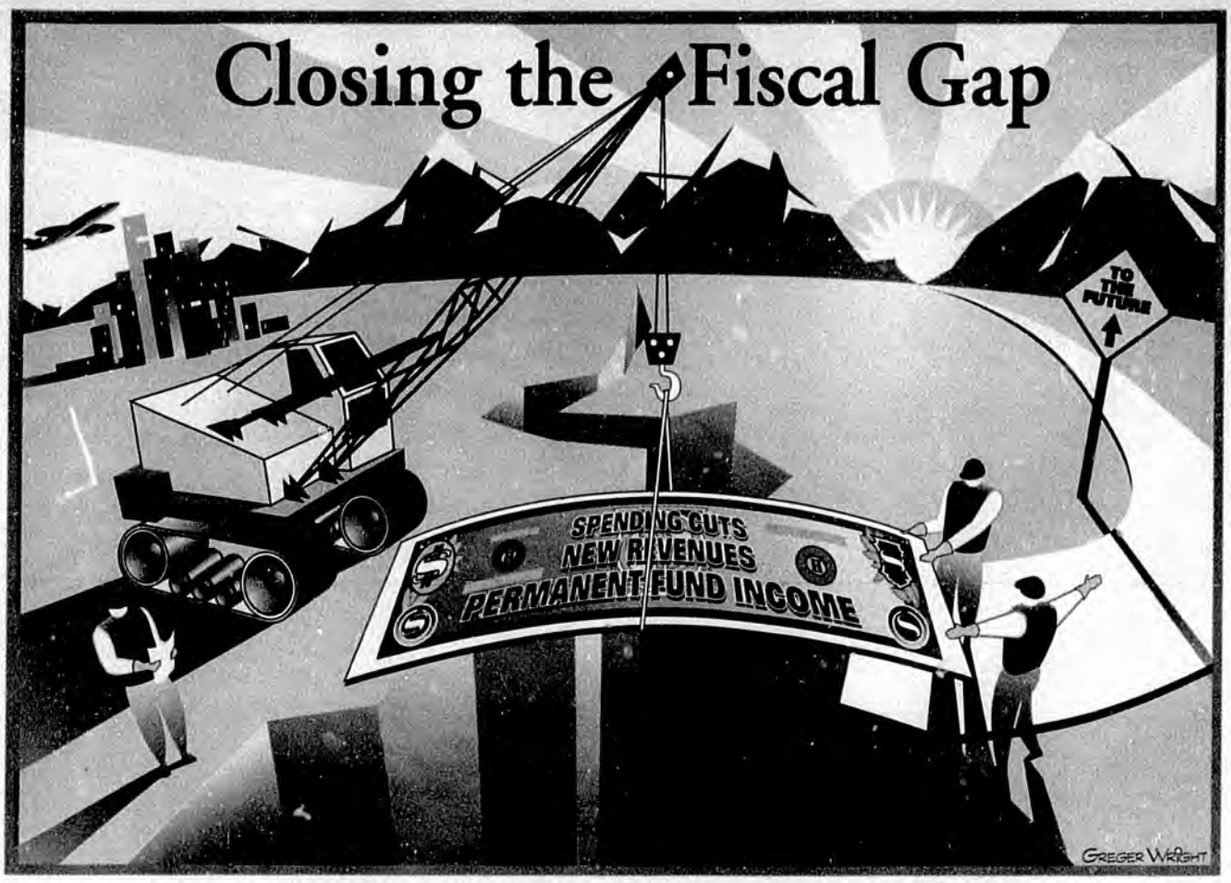
Funding of Public Services in Alaska (excluding Federal)



Services Provided by Municipal Governments in Alaska
(total $2.4 billion)



Closing the Fiscal Gap



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

Why is there a fiscal gap?

There are two primary reasons for the fiscal gap. First, we count on reserves to fund a budget larger than we can afford in the long term. Second, there is a rapid decline in Prudhoe Bay oil production. Fiscal instability complicates the fiscal gap. This is the roller-coaster ride caused by unpredictable oil prices (from a low of $8 per barrel to a high of $32 in the past 15 years). At today's oil production rates, each $1 per barrel change in oil prices causes a $120 million shift in state revenues.

How has state spending changed?

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

How do Alaska's taxes compare with other states'?

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

It is time to act!

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

We'd like your thoughts...

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

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

_____

_____

_____

_____

Alaska Permanent Fund 1995 Performance

A Public Trust Investing For Alaska's Future

SAVINGS

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

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

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

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

EARNINGS

How much did the Fund earn in the past year?

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

How much has the Fund earned since inception?

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

SPENDING

How much Fund income did the legislature spend this year?

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

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Alaska Permanent Fund Corporation

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Byron I. Mallott, Executive Director

Dear Fellow Alaskans,

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

Grace Berg Schaible
Board of Trustees

Learn more about your Fund and the fiscal gap

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

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

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

Name_____

Address_____

City_____ State_____ Zip_____

ALASKA PERMANENT FUND CORPORATION
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Alaska State Legislature

Representative Carl E. Moses

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HOUSE SPECIAL COMMITTEE FISHERIES

MEMBER FINANCE SUBCOMMITTEES ON:
DEPT. OF FISH AND GAME
DEPT. OF PUBLIC SAFETY

SESSION:
CAPITAL BUILDING, ROOM 204
JUNEAU, ALASKA 99801-1182
PHONE: (907) 465-4451
FAX: (907) 455-3445

INTERIM
716 W. 4TH AVE. #630
ANCHORAGE, AK 99501-2133
PHONE: (907) 258-8167
FAX: (907) 258-8468

August 3, 1995

Mary Nordale, Chair
Revenue Sources Subcommittee
Long Range Financial Planning Commission
716 W. 4th Avenue
Anchorage, AK 99501

Dear Ms. Nordale,

As you continue your work to identify and enhance state revenues, I have several suggestions to make that I believe would benefit the State of Alaska.

I suggest that the Marine Fuel tax be raised and enclose a copy of the final version of HB 122 which passed the legislature last session and was vetoed by the Governor.

A similar measure could be also be introduced which would raise the Highway Motor Fuel Tax. The average tax nationally is 18 cents while Alaska's rate is currently set at 8 cents. The state could substantially increase the tax and return a portion of these revenues to local governments for local road maintenance. There are many roads which are not part of the main interstate system which the state currently maintains that I believe should be transferred to local government entities. An increase to the Highway Motor Fuel Tax could provide local entities the revenue source for maintenance and for improvements.

Finally, the Division of Motor Vehicles reduces or exempts registration fees to a number of groups. The total revenue loss is currently approximately $868,000. I believe the state should capture these fees and should look at raising the motor vehicle registration fees. I am enclosing a printout of current exemptions for your use.

I appreciate the opportunity to make suggestions.

Sincerely,

Carl E. Moses

Representative Carl E. Moses

BILL: HB 122 SHORT TITLE: MARINE MOTOR FUEL TAX
BILL VERSION: SCS CSHB 122(FIN) AM S
SPONSOR(S): REPRESENTATIVE(S) MOSES,Grussendorf,Mackie

CURRENT STATUS: VETOED BY GOVERNOR STATUS DATE: 6/30/95

TITLE: "An Act imposing a reporting requirement on certain sales, transfers, and consumption or uses of motor fuel, increasing the motor fuel tax on motor fuel used in and on watercraft, and authorizing payment of a portion of that tax as refunds to municipalities; and providing for an effective date."

Current Status: VETOED BY GOVERNOR

	Jrn-Date	Jrn-Page		Action
1	01/25/95	132	(H)	READ THE FIRST TIME - REFERRAL(S)
2	01/25/95	132	(H)	STATE AFFAIRS, FINANCE
3	03/20/95	804	(H)	STA RPT CS(STA) NEW TITLE 4DP 1NR
4	03/20/95	805	(H)	DP: JAMES, IVAN, GREEN, ROBINSON
5	03/20/95	805	(H)	NR: PORTER
6	03/20/95	805	(H)	FISCAL NOTE (REV)
7	04/28/95	1615	(H)	FIN RPT CS(FIN) NT 2DP 2DNP 5NR 1AM
8	04/28/95	1615	(H)	DP: FOSTER, GRUSSENDORF
9	04/28/95	1615	(H)	DNP: MULDER, NAVARRE
10	04/28/95	1615	(H)	NR: HANLEY, PARNELL, KOHRING, THERRIAULT
11	04/28/95	1615	(H)	NR: KELLY
12	04/28/95	1615	(H)	AM: BROWN
13	04/28/95	1615	(H)	FISCAL NOTE (REV)
14	05/01/95	1696	(H)	RULES TO CALENDAR 5/01/95
15	05/01/95	1696	(H)	READ THE SECOND TIME
16	05/01/95	1696	(H)	FIN CS ADOPTED UNAN CONSENT
17	05/01/95	1696	(H)	ADVANCED TO THIRD READING UNAN CONSENT
18	05/01/95	1696	(H)	READ THE THIRD TIME CSHB 122(FIN)

	Jrn-Date	Jrn-Page		Action
1	05/01/95	1696	(H)	PASSED Y29 N11
2	05/01/95	1696	(H)	NAVARRE NOTICE OF RECONSIDERATION
3	05/02/95	1800	(H)	RECONSIDERATION NOT TAKEN UP
4	05/02/95	1800	(H)	TRANSMITTED TO (S)
5	05/03/95	1470	(S)	READ THE FIRST TIME - REFERRAL(S)
6	05/03/95	1470	(S)	STATE AFFAIRS, FINANCE
7	05/07/95	1600	(S)	WAIVE FROM STATE AFFAIRS Y12 N7 E1
8	05/13/95	1799	(S)	FIN RPT SCS 2DP 1DNP 4NR SAME TITLE
9	05/13/95	1800	(S)	FISCAL NOTE (REV)
10	05/16/95	1898	(S)	RULES TO CALENDAR 5/16/95
11	05/16/95	1900	(S)	READ THE SECOND TIME
12	05/16/95	1900	(S)	FIN SCS ADOPTED Y14 N6
13	05/16/95	1900	(S)	AM NO 1 ADOPTED Y18 N2
14	05/16/95	1901	(S)	AM NO 2 ADOPTED Y18 N2
15	05/16/95	1903	(S)	ADVANCED TO THIRD READING UNAN CONSENT
16	05/16/95	1903	(S)	READ THE 3RD TIME SCS CSHB 122(FIN) AM S
17	05/16/95	1904	(S)	PASSED Y13 N7
18	05/16/95	1904	(S)	EFFECTIVE DATE(S) PASSED Y20 N-

1	05/16/95	1928	(S)	TRANSMITTED TO (H) AS AMENDED
2	05/16/95	2237	(H)	HELD UNDER UNFINISHED BUSINESS
3	05/16/95	2242	(H)	CONCUR AM OF (S) Y25 N15
4	05/16/95	2243	(H)	EFFECTIVE DATE PASSED Y32 N7 A1
5	06/27/95	2288	(H)	10:10 AM 6/13/95 TRANSMITTED TO GOVERNOR
6	07/05/95		(H)	VETOED BY GOVERNOR 6/30/95

Alaska State Legislature

Representative Carl E. Moses

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SPONSOR STATEMENT

House Bill 122

An Act authorizing payment of a portion of the motor fuel tax on boats and watercraft as refunds to municipalities.

House Bill 122 would provide a mechanism for distributing back to municipalities a portion of the marine fuel taxes sold within the various municipalities for expenditures on water and harbor facilities. Fifty percent of the collected tax revenue will be distributed.

In many coastal communities the dependence on harbor facilities is the economic engine driving the economy. With dwindling general funds, the maintenance and development of public facilities is unheeded. The private sector seafood industry has developed many port facilities and has invested millions of dollars in coastal communities' infrastructure. HB 122 would provide some assistance to local governments for additional development of docks and harbors and for the maintenance and development of exisiting public facilities.

5-1-95

REGISTRATION CATEGORIES
WITH REDUCED FEES

1994 REGISTRATIONS REDUCED RATES			REDUCED	NORMAL	REVENUE
CLASS	DESCRIPTION	COUNT	FEE	FEE	LOSS
STATE AND LOCAL GOVERNMENT VEHICLES					
1G	GOVT EX - PASS	674	$5.00	$35.00	$20,220.00
1H	STATE - PASS	178	$0.00	$35.00	$6,230.00
1M	GOVT PERS - PASS	6	$5.00	$35.00	$180.00
2G	GOVT EX - MC	7	$5.00	$20.00	$105.00
4G	GOVT EX - PICKUP	1952	$5.00	$40.00	$68,320.00
4H	STATE PICKUP	77	$0.00	$40.00	$3,080.00
5G	GOVT EX - BUS	58	$5.00	$155.00	$8,700.00
5H	STATE - BUS	0	$0.00	$155.00	$0.00
				SUB TOTAL	$106,835.00
ALL OTHERS					
81	PRIS OF WAR - PASS	24	$0.00	$35.00	$840.00
82	PRIS OF WAR - PICKUP	13	$0.00	$40.00	$520.00
83	PEARL HARBOR - PASS	28	$0.00	$35.00	$980.00
84	PEARL HARBOR- PICKUP	6	$0.00	$40.00	$240.00
DD	DISABLED VET	344	$0.00	$35.00	$12,040.00
HH	HANDICAPPED	3916	$0.00	$35.00	$137,060.00
1F	CALL LETTER - PASS	254	$0.00	$35.00	$8,890.00
1P	CHAR EXEMPT - PASS	1172	$5.00	$35.00	$35,160.00
4F	CALL LETTER - PICKUP	156	$0.00	$40.00	$6,240.00
4P	CHAR EXEMPT - PICKUP	1215	$5.00	$40.00	$42,525.00
5P	CHAR EX - BUS	179	$5.00	$155.00	$26,850.00
	SENIOR CITIZEN	14000	$0.00	$35.00	$490,000.00
				SUB TOTAL	$761,345.00
			GRAND TOTAL		$868,180.00

ALASKA MUNICIPAL LEAGUE
217 Second Street, Suite 200 • Juneau, Alaska 99801 • Tel (907) 586-1325, Fax (907) 463-5480

To: Brian Rogers, Chair
Long Range Financial Planning Commission

From: Kevin Ritchie, Executive Director

Date: September 19, 1995

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

Attached are two pieces of draft legislation:

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

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

Post-It™ brand fax transmittal memo 7671 | # of pages ▸ 9

To Brian Rogers	From Kevin Ritchie
Co.	Co.
Dept.	Phone #
Fax #	Fax #

cc. AML Board of Directors

9-LS0615\A
Cook
2/9/95

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE IVAN

Introduced:
Referred:

A BILL

FOR AN ACT ENTITLED

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

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

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

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

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

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

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

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

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

(b) In this section,

(1) "disabled veteran" means a disabled person

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

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

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

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

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

WORK DRAFT WORK DRAFT WORK DRAFT

9-LS0685\G
Cook
3/16/95

CS FOR HOUSE BILL NO. 185( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE IVAN

A BILL

FOR AN ACT ENTITLED

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

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

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

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

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

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

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

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

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

(1) 65 YEARS OF AGE OR OLDER;

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

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

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

State of North Carolina

JAMES B. HUNT, JR.
GOVERNOR

EXECUTIVE ORDER 21
LOCAL GOVERNMENT PARTNERSHIP COUNCIL

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

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

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

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

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

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

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

Section 1. Establishment and Members.

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

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

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

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

Section 2. Chair and Terms.

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

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

Section 3. Purpose.

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

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

(h) meet with the Advisory Budget Commission during that Commission's examination of state budget needs; and

(i) advise the Advisory Budget Commission of local government concerns related to the state budget.

Section 4. Administration.

The Council shall be located in the office of the Governor. Administrative support and staff for the Council shall be provided by the Governor's Office of Intergovernmental Relations. It is the responsibility of each cabinet department head to advise the Council of their proposed policies and plans. The elected heads of the Council of State departments may, and are hereby invited to, join in the effort represented by this Order. All services of the Council available to the Governor under this Order shall be available to each of the heads of the aforesaid departments so electing to participate.

The members of the Council shall receive reasonable travel and subsistence expenses in accordance with state law.

This order shall be effective immediately.

Done in Raleigh, North Carolina, this 12th day of August, 1993.

James B. Hunt, Jr.
Governor

ATTEST:

Rufus L. Edmisten
Secretary of State

INTERNATIONAL ASSOCIATION OF RESIDENTIAL AND COMMUNITY ALTERNATIVES
Alaska Chapter
5597 Aisek Street
Juneau, Alaska 99801

September 29, 1995

Brian Rogers, Chair
State of Alaska Long Range
Financial Planning Commission

Dear Mr. Rogers:

I read with great interest the Commission's Preliminary Report and appreciate your invitation to participate in the process.

Like most Alaskans, I could offer opinions about many of the Commission's findings, conclusions, and strategy considerations. However, I have restricted the comments to the corner of Alaska's economy in which I work: Corrections.

In General Fund dollars, our state penal system is the second largest consumer of agency operating funds and administers the fastest growing budget in state government. While this situation is not unique to Alaska, it is fair to say that we can do far more to curb corrections' drain on state revenue.

I offer the Commission a few thoughts concerning cost containment and revenue enhancement strategies that could provide significant fiscal relief. These opinions are those of IARCA - Alaska and do not necessarily represent the position of the national organization.

Sincerely,

IARCA - ALASKA

Greg Pease
President

COST CONTAINMENT OPPORTUNITY IN THE STATE OF ALASKA PENAL SYSTEM

A reply to the
Preliminary Report
of the
State of Alaska Long-Range
Financial Planning Commission

International Association of Residential
and Community Alternatives

Alaska Chapter

September 30, 1995

INTRODUCTION

One year ago the Superior Court found the State of Alaska in "contempt of court" for exceeding court ordered institutional capacities. The state was ordered to pay $1,000 per day for every day the system, as a whole, is over capacity and $500 per day for every day each individual facility remains over capacity. To provide immediate relief, the Hickel administration negotiated a contract with a private corrections agency to house 200 Alaska prisoners in Arizona, at roughly one half the cost of confinement in Alaska.

In his December 1994 transition documents, Governor Hickel cautioned that the 200 beds would hold the system in compliance with the law for only nine months. Two weeks ago, the department again reached emergency capacity, with five out of fifteen facilities operating out of compliance; the situation will grow worse with each successive month.

Alaska is in desperate need of additional correctional services; the more crowded the system, the greater the threat to public safety. But with a budget six times greater than 1980, annual growth averaging close to ten percent, operating costs reaching $120 per prisoner per day and construction costs of $175,000 per bed, the state cannot afford to fund a "business as usual" delivery of correctional services.

Corrections cost containment strategies demand a prominent place in any plan that realistically seeks to close the fiscal gap. Otherwise, we will soon be counted among the states which spend more confining prisoners than educating children.

I. CORRECTIONS FACTS

Alaska has the third highest incarceration rate in the United States. (Source 1994 Corrections Yearbook)

From 1984 the Alaska inmate population grew by more than 8.2% a year and over 11.6% in 1994.

There are over 200 more prisoners in the system today than there were a year ago.

Between FY81 and FY96 the state corrections budget has increased six fold from $21.6 million to over $130 million.

After sentencing it costs nearly $120 a day ($43,800 a year) to house an inmate in Alaska compared with less than $52.38 a day, on average, for the rest of the country.

It costs up to $175,000 to construct one maximum security prison cell in Alaska. When the cost of construction is amortized over 30 years as an operating cost it raises the per day cost to keep an offender in prison to nearly $170 per day.

Privately operated misdemeanant, felony furlough and revocation beds average $45.00 per day in Alaska.

The average cost for a State of Alaska correctional officer is $66,000 a year, nearly two and a half times the national average.

II. REVENUE ENHANCEMENT

To the extent able, Alaska would be well served by a public policy which ensures that offenders pay for the cost of their care, supervision and treatment.

With that policy in mind:

- Non-indigent Probationers and parolees should pay a fee, or a percentage of their income, to offset part of the cost of their supervision. A $10.00 per day fee collected from 50% of offenders on probation or parole would generate nearly $7 million a year.

- All non-indigent probationers and parolees should forfeit the PFD while under state supervision. The estimated Permanent Fund Dividend savings would approach $2,000,000 if only 50% of offenders were non-indigent.

- Non-indigent misdemeanants should pay for the cost of jail or halfway house time by, among other things, forfeiting the PFD until their incarceration debt is paid off. In Anchorage alone, roughly 3,500 misdemeanants serve an average of 20 days each year. If the cost of their care were collected from only half it would generate $1.4 million per year. That figure would nearly double if the policy were applied to the entire state.

- The fine system should be overhauled to establish fine minimums with a surcharge based upon an offenders income. Estimated increase in revenue could reach tens of millions.

- The Alaska Legislature should commission a comprehensive review of the strategies other states have used to pass the cost of crime to the criminal.

*Note: Privatizing the fine and fee collection function would not only reduce the cost associated with government employees performing these duties but would significantly increase the percentage of collected fines or fees in general.

III. COST REDUCTIONS AND CONTAINMENT

The State of Alaska should foster an environment that attracts free enterprise. The Department of Corrections should recognize the structural changes occurring in its industry and forge state/private partnerships in the delivery of correctional services. Private correctional agencies operate over 50,000 jail, prison and treatment beds in the United States, Canada and Puerto Rico. The number of beds under private contract continues to grow each year because providers have established that private companies can offer comparable, or superior, service at substantially less cost.

- Contract the operation of Anchorage's Sixth Avenue Jail:

  The Anchorage Sixth Avenue Jail is a misdemeanant booking facility. The majority of inmates housed in the facility are offenders who are pending release by a magistrate, awaiting trial, or transfer to a local halfway house to serve time. Privatizing the facility could result in a savings of at least one million a year.

- Contract the operation of Minimum Security State Prisons

  Minimum custody prisoners by definition require the lowest level supervision in the state system. Most are either preparing for release to a halfway house or are ineligible for furlough and marking time awaiting release. Minimum security offenders are held in a security environment equivalent to halfway houses, which operate at half the cost of state operated facilities.

  Example: Transferring the operation of the Palmer Minimum Security Facility and the Point McKenzie Rehabilitation Program to private contractors could reduce the combined operating cost of those facilities by as much as $2.5 million.

- Future construction and operation of prisons should be open to competitive bid.

  Alaska already contracts for the confinement of 206 high custody prisoners with a private vendor outside of the state at half the cost of state operated beds (one-third if Alaska facility costs are factored into the daily cost). Contractors should be encouraged to build and operate secure facilities in Alaska to bolster the Alaskan economy rather than that of another state.

- Develop return-to-custody facilities to defer construction of hard prison beds.

  Roughly 20% of prison beds are occupied by offenders who have been returned to custody (prison) for violating conditicns of release or furlough.

  Many of these offenders do not require the level of security and cost associated with occupying beds in high security, state operated facilities. It is likely that

at least 200 such offenders could be placed in semi-secure, privately operated, setting at half the cost of keeping them in a state operated prison. The estimated savings could approach $4,400,000.

- Privately contracted medical care.

  There are many national prison health care companies providing blanket coverage to correctional systems. This is a service ripe for competitive bid, and likely to save at least $1.5 million.

- Shift state correctional officers to regular state hours.

  State correctional officers work 12 hour shifts for 7 consecutive days. This shift pattern is unique to Alaska and results in excessive overtime not associated with an 8 hour work day. Efficiency would also increase.

- Create "on-call" relief pool.

  The 1991 Pete Marwick analysis of DOC cited annual overtime use at over 130,000 hours, with per staff averages of 157 hours at many facilities. This equates to over 65 full-time equivalent positions.

  A private company could develop a Police Standards certified pool of academy trained correctional officers who could be called in to fill vacancies rather than filling those vacancies with state officers at premium pay. Estimated savings - $1 million.

- Private contract jails.

  A master contract to operate, or build and operate, the rural jails could reduce the cost associated with this problem area by $1 million.

- Adjust inmate to staff ratio.

  Alaska employs one correctional officer for every 3.4 inmates. The national average is one to 5.5. Increasing the Alaska ratio to just four could result in a savings of around $8 million with no compromise to public safety.

- Eliminate perimeter patrols.

  Several state correctional facilities designate staff to continually drive around the outside of the facility. In the history of Alaska corrections no escapes have been detected or deterred by a perimeter patrol. Likewise, perimeter patrols do not protect against the introduction of contraband onto prison grounds. Modern advances in detection technology make the perimeter patrol an expensive, obsolete, and ineffective security measure. Savings $1 million.

Revenue Enhancement

Charge probation, parole, supervision fee	$7,000,000
Withhold Permanent Fund Dividend from non-indigent probationers, parolees	2,000,000
Privatize fine collection and base fine on income	substantial
Non-indigent misdemeanants pay cost of jail (statewide)	3,000,000
	Revenue Total - $14,250,000 plus

Cost Containment

Contract Sixth Avenue Jail	$1,000,000
Contract Palmer Minimum/Pt. McKenzie	2,500,000
Return to custody facility	4,400,000
Contract medical	1,500,000
Shift Correctional Officers to an 8 hr. work day	substantial
Create private relief pool	1,000,000
Adjust inmate to staff ratio	8,000,000
Eliminate perimeter patrols	1,000,000
Privatize contract jails	1,000,000
	Savings Total - $20,400,000

ALASKA CRAB COALITION

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

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GRFPC testimony.

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(1)

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.

Additonal 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

CORRECTION

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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. Aproximately 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.

Additonal 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(#9A)	165+	106.3	135+
Southeast	Crab	King/Tanner(#9A)	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.

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TESTIMONY OF

DON VALESKO, BUSINESS MANAGER

PUBLIC EMPLOYEES LOCAL 71

BEFORE THE STATE OF ALASKA'S

LONG-RANGE FISCAL PLANNING COMMISSION

WEDNESDAY, SEPT. 13, 1995

GOOD EVENING.

FOR THE COMMISSION'S RECORD, MY NAME IS DON VALESKO, AND I AM THE BUSINESS MANAGER FOR PUBLIC EMPLOYEES LOCAL 71. WE REPRESENT APPROXIMATELY 2,300 PUBLIC EMPLOYEES THROUGHOUT ALASKA, INCLUDING MORE THAN 1,600 EMPLOYEES OF THE STATE OF ALASKA.

BEFORE I BEGIN MY TESTIMONY, I WANT TO THANK THE COMMISSION MEMBERS FOR HOLDING PUBLIC HEARINGS ON THE STATE'S FISCAL SITUATION, AND FOR PROVIDING LOCAL 71 THE OPPORTUNITY TO TESTIFY ON AN ISSUE THAT WILL IMPACT, ONE WAY OR ANOTHER, EVERY RESIDENT OF ALASKA.

I ALSO WANT TO MAKE IT CLEAR FROM THE OUTSET THAT OUR MEMBERSHIP IS ENTIRELY MADE UP OF ALASKAN RESIDENTS--RESIDENTS WHO WORK HERE, LIVE HERE, SPEND THEIR INCOMES HERE, PAY LOCAL TAXES HERE AND, FOR THE MOST PART, RETIRE HERE. AS SUCH, THE HARD WORKING MEN AND WOMEN OF LOCAL 71 CONTRIBUTE TO THE STATE AND LOCAL ECONOMIES OF ALASKA. A STUDY A FEW YEARS AGO DETERMINED THAT THE EACH DOLLAR SPENT BY STATE EMPLOYEES CHANGES HANDS SEVEN TIMES WITHIN ALASKA'S VARIOUS ECONOMIES.

WE HAVE BEEN FOLLOWING THE COMMISSION'S WORK, AND HAVE READ THE REPORT YOU ISSUED ON AUGUST 12TH THIS YEAR. WHILE WE AGREE WITH SOME OF THE COMMISSION'S PRELIMINARY RECOMMENDATIONS, WE DISAGREE WITH OTHERS. I WILL BEGIN WITH SOME GENERAL COMMENTS, THEN GET INTO THE AREAS WHERE WE APPEAR TO DISAGREE WITH SOME OF THE COMMISSION'S PRELIMINARY RECOMMENDATIONS.

WE AGREE, FOR EXAMPLE, THAT PAYOUTS BY THE STATE TO INDIVIDUALS, SUCH AS PROPERTY TAX EXEMPTIONS OR LONGEVITY BONUSES, SHOULD BE BASED ON ECONOMIC NEED. TO PUT THIS ANOTHER WAY, WE DON'T BELIEVE THE STATE SHOULD BE GIVING MONEY TO WEALTHY ALASKANS WHO ARE FULLY CAPABLE OF HANDLING THEIR NEEDS WITHOUT STATE ASSISTANCE.

WE AGREE THAT STATE SPENDING IS ONE OF THE MOST SIGNIFICANT FACTORS IN ALASKA'S ECONOMY. BECAUSE OF THIS, WE MUST SPEND OUR STATE DOLLARS WISELY LEST OUR ACTIONS SEND THE STATE ECONOMY INTO A RECESSION.

THE UNIVERSITY OF ALASKA'S INSTITUTE FOR SOCIAL AND ECONOMIC RESEARCH, OR ISER, WARNED IN 1989 AND 1990 THAT CUTTING STATE GOVERNMENT TOO MUCH WILL CAUSE A RECESSION. THESE FISCAL STUDIES WERE FUNDED BY ATLANTIC RICHFIELD CO., OR ARCO.

ACCORDING TO THIS COMMISSION'S AUGUST 12TH REPORT AND FIGURES FROM THE STATE DEPARTMENT OF ADMINISTRATION AND THE OFFICE OF MANAGEMENT AND BUDGET, THE NUMBER OF STATE EMPLOYEES PER CAPITA IS AT A 15-YEAR LOW, AND THE NUMBER OF STATE EMPLOYEES HAS DECLINED BY MORE THAN 2,100 SINCE 1990. THE LATTER IS A CONSERVATIVE FIGURE, BUT IT MEANS, AT A MINIMUM, THERE ARE 2,100 FEWER ALASKANS SPENDING MONEY AND CONTRIBUTING TO THE LOCAL AND STATE ECONOMIES. ANOTHER WAY OF PUTTING THIS IS THAT THERE ARE 2,100 FEWER CUSTOMERS FOR ALASKA'S BUSINESSES, AND THIS FIGURE DOES NOT INCLUDE SPOUSES OR DEPENDENTS.

I REALIZE THAT THE AUTHORIZED FULL-TIME POSITIONS FOR THE STATE HAVE INCREASED SINCE 1990, BUT "AUTHORIZED" DOES NOT MEAN "FILLED" POSITIONS. A MORE RELIABLE INDICATOR IS THE NUMBER OF W-2 FORMS ON FILE. SINCE 1990, THE NUMBER OF W-2'S FILED WITH THE I.R.S. BY THE STATE HAVE DROPPED BY 2,100.

ALSO SINCE 1990, STATE OPERATING COSTS, OR PAYROLL COSTS, HAVE DECLINED 25 PERCENT ON AN INFLATION-ADJUSTED BASIS. FRANKLY, WE ARE VERY CONCERNED THAT DEEPER PERSONNEL CUTS COULD WELL MAKE A PROPHET OF ISER AND LEAD TO A RECESSION. ACCORDINGLY, WE URGE EXTREME CAUTION TO THE COMMISSION AS IT PREPARES ITS FINAL RECOMMENDATIONS IN THIS AREA.

AN AREA WHERE WE DISAGREE IS THE COMMISSION'S PRELIMINARY RECOMMENDATION OR SUGGESTION THAT STATE EMPLOYEE BENEFITS BE REDUCED. WE HAVE FOUGHT HARD OVER THE YEARS AND HAVE NEGOTIATED IN GOOD FAITH TO ACHIEVE THESE BENEFITS WHICH DIRECTLY RELATE TO QUALITY OF LIFE IN ALASKA. NOT ONLY WOULD SUCH A REDUCTION BE UNFAIR, IT WOULD NEGATIVELY IMPACT THE ECONOMY.

IF ANYTHING, WE WOULD FIGHT HARD TO SEE THAT ALL ALASKAN WORKERS, INCLUDING THE PRIVATE SECTOR, RECEIVE BENEFITS AT OR ABOVE THOSE NOW RECEIVED BY STATE EMPLOYEES. RATHER THAN DRAG DOWN STATE EMPLOYEES BY REDUCING THEIR BENEFITS, WE SHOULD BE SEEKING WAYS TO INCREASE BENEFITS TO THOSE ALASKAN WORKERS WHO DO NOT HAVE THEM. TO PUT THAT ANOTHER WAY, WE SHOULD NOT BE STRIVING TO MAKE PAUPERS OF ALASKA'S WORKERS, WE SHOULD BE STRIVING TO MAKE IT WORTHWHILE FOR OUR RESIDENTS TO WORK AND LIVE HERE.

IT IS FOR THIS SAME REASON--LESS DOLLARS SPENT IN THE LOCAL AND STATE ECONOMIES--THAT WE ALSO OPPOSE A WHOLESALE EFFORT TO CONTRACT OUT, OR PRIVATIZE, MANY STATE PROGRAMS AND SERVICES. FIRST, THERE

IS NO GUARANTEE THAT THE PROJECTED SAVINGS WOULD ACTUALLY MATERIALIZE.

SEVERAL OF ALASKA'S PAST EFFORTS TO CONTRACT OUT HAVE ACTUALLY

INCREASED COSTS OR, WORSE, HAVE RESULTED IN OUTRIGHT RIP-OFFS OF PUBLIC DOLLARS.

ONE EXAMPLE IS THE STATE'S CONTRACTING OUT OF CUSTODIAL SERVICES AT ANCHORAGE INTERNATIONAL AIRPORT A FEW YEARS AGO. THE STATE ENDED UP TAKING THE CONTRACTOR TO COURT WHEN IT DISCOVERED THE CONTRACTOR WAS LISTING "GHOST EMPLOYEES" ON ITS PAYROLL VOUCHERS WHEN THE EMPLOYEES DID NOT, IN FACT, EXIST. USING THIS METHOD TO CUT COSTS AND INCREASE PROFITS, THE CONTRACTOR BILKED THE STATE OUT OF MORE THAN $300,000--NOT COUNTING COURT AND LEGAL COSTS--AND THE WORK WAS LESS THAN SATISFACTORY BECAUSE THERE WERE NOT ENOUGH PEOPLE ON PAYROLL TO GET THE JOB DONE PROPERLY.

IN MANY INSTANCES WHERE PRIVATIZATION APPEARED TO SAVE THE STATE MONEY THE QUALITY OF WORK WAS LESS THAN DESIRED, LEADING THE STATE TO USE ITS WORKERS TO CORRECT THE JOB. MORE OFTEN THAN NOT, THE WORK DONE BY STATE EMPLOYEES IN CORRECTING A PRIVATE CONTRACTOR'S MISTAKES IS NOT ADDED TO THE COST OF CONTRACT, BUT IT OUGHT TO BE FOR THIS WORK WOULD NOT HAVE BEEN REQUIRED HAD THE JOB BEEN DONE RIGHT IN THE FIRST PLACE. THIS IS SOMETHING THAT HAPPENS TIME AND AGAIN WITH OUR MEMBERS AND IT IS STILL GOING ON.

THE CURRENT STATE CONTRACT FOR MAINTAINING LAND PROPERTY RECORDS HAS COST THE DEPARTMENT OF NATURAL RESOURCES MUCH MORE THAN IT USED TO COST TO DO THE WORK IN-HOUSE. IN ADDITION, THERE HAVE BEEN A NUMBER OF COMPLAINTS OF INACCURATE RECORDS ON THIS CONTRACT.

THERE ARE MANY INSTANCES OF CONTRACTORS "LOW BALLING" THEIR INITIAL BIDS TO GET ON THE STATE PAYROLL, THEN INCREASING THE COST TO THE STATE THROUGH CHANGE ORDERS OR AS THE CONTRACT COMES UP FOR RENEWAL. IN THESE INSTANCES THE INITIAL COST TO THE STATE IS REDUCED, BUT THE LONG-TERM COST IS INCREASED. AN ANALYSIS OF THE STATE OPERATING BUDGET SHOWS THAT THE DOLLAR AMOUNT SPENT FOR CONTRACTUAL SERVICES IS INCREASING AT AN ALARMING RATE, WHILE THE AMOUNT SPENT FOR PERSONAL SERVICES IS NEARLY STATIC.

TWO OTHER POINTS WORTH CONSIDERATION IN THINKING ABOUT PRIVATIZATION ARE:

WHEN WORK IS CONTRACTED OUT, THE STATE HAS LESS OVERSIGHT AND MANAGEMENT ON HOW THE WORK IS DONE. THIS MEANS THE STATE IS LESS ABLE TO ACCOUNT FOR HOW THE PUBLIC'S MONEY IS BEING SPENT. IT IS DOUBTFUL THE STATE WOULD HAVE CAUGHT THE CONTRACTOR ON AIRPORT CUSTODIAL SERVICES MENTIONED ABOVE IF ONE OF THE CONTRACTOR'S OWN EMPLOYEES HAD NOT NOTIFIED THE STATE OF THE FALSIFICATION OF PAYROLL RECORDS.

THE SECOND POINT IS THAT CONTRACTING OUT SHIFTS PUBLIC MONEY FROM THE PUBLIC SECTOR TO THE PRIVATE SECTOR, BUT IT DOES NOT NECESSARILY SAVE MONEY, NOR DOES IT NECESSARILY HELP THE ECONOMY. MANY VENDORS AND CONTRACTORS ARE AFFILIATED WITH LARGE, NON-ALASKAN FIRMS. THESE FIRMS, IN TURN, SIPHON OFF A HEFTY PERCENTAGE OF ANY

PROFITS MADE ON THE CONTRACT. WHEN THIS OCCURS, THOSE ALASKA DOLLARS ARE CONTRIBUTING TO THE ECONOMIES OF OTHER STATES, BUT NOT TO ALASKA'S ECONOMY. BY USING STATE EMPLOYEES WE HELP KEEP MORE STATE DOLLARS AT WORK HERE IN ALASKA.

WE SUPPORT REINSTATEMENT OF THE STATE INCOME TAX AS A FAIR METHOD TO INCREASE STATE REVENUES. THERE ARE MANY NON-ALASKANS WHO COME UP TO WORK ON DEVELOPMENT AND OTHER PROJECTS, AND THEN LEAVE WITH THEIR ALASKA PAY CHECKS. THESE WORKERS USE OUR ROADS AND, WHILE HERE, EXPECT THE SAME LEVEL OF CONSITUTIONALLY MANDATED STATE SERVICES--SUCH AS POLICE AND FIRE PROTECTION, EMERGENCY MEDICAL ASSISTANCE, EDUCATION, AND ROAD AND AIRPORT MAINTENANCE--THAT OUR YEAR-ROUND RESIDENTS EXPECT.

YET WITHOUT A STATE INCOME TAX, THESE NON-ALASKAN WORKERS DO NOT CONTRIBUTE TO COVERING THE COSTS OF THESE SERVICES. IF WE CONTINUE TO ENCOURAGE DEVELOPMENT WITHOUT ALSO DEVISING SOME METHOD OF REVENUE COLLECTION, THE STATE'S FISCAL GAP WILL INCREASE.

I KNOW THERE ARE OTHERS WAITING TO TESTIFY, SO I WILL END MY TESTIMONY WITH THREE COMMENTS:

ONE, DESPITE ERRORS, FAILURES AND OUTRIGHT ILLEGALITIES ON SOME CONTRACTS, I DO NOT MEAN TO IMPLY THAT EVERY CONTRACTOR OR VENDOR WITH THE STATE IS INCOMPETENT, CORRUPT OR LAZY. MANY ARE HONEST, HARD WORKING CITIZENS JUST LIKE OUR MEMBERS.

TWO, WHILE LOCAL 71 OPPOSES SOME OF THE PRELIMINARY RECOMMENDATIONS PUT FORTH BY THIS COMMISSION, WE RECOGNIZE THE DECLINE IN STATE REVENUES IS REAL AND ARE WILLING TO WORK WITH BOTH THE COMMISSION AND THE STATE TO EFFECT TRUE COST SAVINGS WHILE MINIMIZING NEGATIVE IMPACTS ON THE ECONOMY AND THE DELIVERY OF STATE PROGRAMS AND SERVICES. TO THIS END, WE HAVE WORKED WITH THE STATE TO ESTABLISH LABOR-MANAGEMENT COMMITTEES THAT ARE NOW EXAMINING SOME OF THE SAME ISSUES THIS COMMISSION IS ADDRESSING.

FINALLY, WE APPRECIATE THE MAGNITUDE AND DIFFICULTY OF THE COMMISSION'S TASK. HOWEVER, IN TRYING TO STIMULATE ALASKA'S PRIVATE SECTOR ECONOMY, WE BELIEVE A MORE PERMANENT REMEDY IS FOR THE STATE TO WORK WITH THE PRIVATE SECTOR IN DEVELOPING A STABLE TAX AND ROYALTY CLIMATE IN WHICH BUSINESS CAN OPERATE, AND IN STREAMLINING--THROUGH CONSOLIDATION--THE REGULATORY PROCESS NECESSARY TO PROMOTE NEW DEVELOPMENT. THE TAXES AND/OR ROYALTIES A BUSINESS ENTERPRISE PAYS IN ALASKA SHOULD NOT CHANGE EVERY TIME A DIFFERENT POLTICAL PARTY BECOMES THE MAJORITY OR EVERY TIME WE ELECT A NEW GOVERNOR.

WE ALSO BELIEVE THERE SHOULD BE SHORT-TERM TAX INCENTIVES TO ASSIST THE START-UP NEW DEVELOPMENT THAT CREATES JOBS, BUT SUCH INCENTIVES--TO BE FAIR TO OTHER EXISTING BUSINESSES--SHOULD NOT LAST FOREVER.

CLEARLY, HOWEVER, LITTLE OR NO SIGNIFICANT DEVELOPMENT WILL TAKE PLACE UNTIL WE CAN PLACE MORE LAND IN PRIVATE HANDS. THE FORMER SOVIET UNION, UNDER COMMUNISM, HAD 1 1/2 PERCENT OF ITS LAND IN PRIVATE OWNERSHIP. AT THE SAME TIME, THE STATE OF ALASKA HAD ONLY ONE-HALF OF ONE PERCENT OF STATE LAND IN PRIVATE OWNERSHIP.

OWNERSHIP IS THE KEY TO DEVELOPMENT AND DEVELOPMENT IS NECESSARY FOR ECONOMIC GROWTH.

THANK YOU AGAIN FOR THE OPPORTUNITY TO SHARE OUR VIEWS WITH THE COMMISSION.

(END LOCAL 71 TESTIMONY)

TONY KNOWLES, GOVERNOR

DEPARTMENT OF COMM
REGIO

MUNICIPAL & REGIONAL ASSIS

333 W. 4TH AVENUE, SUITE 220
ANCHORAGE, ALASKA 99501-2341
PHONE: (907) 269-4500
FAX: (907) 269-4539

P.O. BOX 348
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PHONE: (907) 543-3475
FAX: (907) 543-4152

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To Bob Walsh | From Steve VanSickle

Co./Dept. | Co.

Phone # | Phone #

Fax # 258-9869 | Fax #

July 17, 1995

The Honorable Representative Mike Navarre
Legislative Long Range Planning Committee
Room 521, State Capitol
Juneau, AK 99801-1182

Dear Representative Navarre:

You have asked my office to address the issue of the possibility of the State levying a statewide ad valorem property tax. In particular, you have asked for estimates of revenue which might be generated and any problems that may be involved from administering this undertaking.

The Office of the State Assessor currently calculates a Full Value Determination (FVD) annually for 16 boroughs and 27 cities located in the unorganized borough. This could not be accomplished without the cooperation of the assessors around the state assisting with those municipalities which levy a property tax. At the present time, there are 11 boroughs and 13 cities located in the unorganized borough which levy a property tax and those values are provided to me making the calculation of the FVD relatively easy for those municipalities. The values in the remaining 4 boroughs and 14 cities located in the unorganized borough are calculated by this office. As of January 1, 1994 the total Full Value Determination for those 16 boroughs and 27 cities was $43,829,908,630. This figure includes a value of $15,934,252,630 for all oil and gas property which is assessed by the Dept. of Revenue. This results in a value of $27,895,656,000 for those 43 municipalities, excluding oil and gas properties.

There is no doubt that the majority of the municipalities in the rural area of the state would contain little value which would be taxable under our property tax laws. This is mainly due to mandatory exemptions, i.e., ANCSA and native allotment property, and the local economics of a region. The majority of the value would most likely rest along the road systems, Parks, Glenn and Richardson Highways, and in the areas of the state which have a good commercial fishing industry.

21-P&LH

The other areas of the state may have taxable value, but certainly not to the extent of these areas. Regardless of this fact, however, the data would have to collected, analyzed, property record cards would have to be created and assessment rolls would have to be finalized and the appeal process would have to be in place. This entire process would be extremely expensive to set up and maintain. The initial set up process could take up to three or four years to complete, depending on the amount of revenue allocated and the total number of personnel hired or contracted for the project.

Based upon the values currently in the Full Value Determination process, the state would realize about $28 million annually for each mill of tax levy. This amount excludes the oil and gas property, as the state already has a 20 mill levy against that property. If the state were to complete assessments on all other property which might be subject to a property tax, in my opinion, the state would probably receive no more than a total of $30 million annually for each 1 mill of tax levy.

I hope this information is of help to you and your committee. If further information is needed, please feel free to call upon me and I will do what I can to gather it for you.

Sincerely,

Steve Van Sant
State Assessor

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.

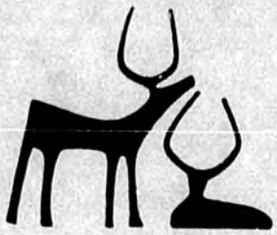
Please know that the Council understands the seriousness of the gap and is itself examining other funding options. In fact, we are planning a Governor's Conference on the Arts on December 1 and 2 for the purpose of developing and setting a direction for the future of the arts in this state. I invite 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 throught 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.

Response to the Questions of the Long Range Financial Planning Commission and the "Alaska's Growing Fiscal Gap" Report

From the
Alaska Municipal League
and the
Alaska Conference of Mayors

Taken from the AML Policy Statement
and testimony of the
Alaska Conference of Mayors and the Alaska Municipal League Board of Directors
Barrow, Alaska
August 25-26, 1995

RESOLUTION
of the
Alaska Conference of Mayors
and
Alaska Municipal League Board of Directors

WHEREAS, the Long Range Financial Planning Commission (LRFPC) has prepared a preliminary report on addressing the state fiscal gap and submitted it for comment;

WHEREAS, after a very brief review of the preliminary draft, the Alaska Municipal League Board of Directors and the Alaska Conference of Mayors wish to present several points regarding the draft;

NOW, THEREFORE BE IT RESOLVED THAT:

1. Appreciation is expressed for the Commission's efforts to date in addressing the issue.

2. The Alaska Municipal League (AML) and Alaska Conference of Mayors (ACoM) recognize that a gap exists between the state's current expenditures and expected revenues.

3. Some of the options presented for revenue sources appear viable, but care must be taken that using some identified alternatives not disrupt the sources of municipal tax established under existing statutes that are critical to the continuation of municipal government.

4. AML and ACoM express a willingness to work toward a reasonable balance in spending including programs that share state funds with local governments; however, the gap should not be filled by disproportionately shifting burdens to municipalities for services such as education, roads, and public safety.

5. There must be a recognition that priorities in spending do exist, but we are unable to determine from the draft what priorities have been used in determining future expenditure requirements. These priorities should recognize the state's obligation to fully provide for education, public safety, and corrections, as set forth in the Alaska Constitution, as well as programs providing basic survival assistance, such as power cost equalization.

6. We are unable to determine if other options of closing the gap have been addressed. These include cooperative transfer of administration of programs and funding, or consolidation to reduce expenditures. Elimination of further programs has not been identified as an option. These options should continue to be explored during the process of closing the gap.

7. The LRFPC should analyze the impact on local governments of the various recommended options as provided in the resolution establishing the Commission. Without this analysis, we find it difficult to adequately respond to the draft report and we are willing to work with the Commission to perform that analysis as the Commission prepares its recommendations to the Legislature.

UNANIMOUSLY APPROVED BY THE MEMBERS OF THE ALASKA MUNICIPAL LEAGUE BOARD OF DIRECTORS AND ALASKA CONFERENCE OF MAYORS ON AUGUST 26, 1995 IN BARROW, ALASKA.

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Alaska's Need for a Long Range Financial Plan

The Alaska Municipal League and the Alaska Conference of Mayors wholeheartedly support the efforts of the state in developing a Long Range Financial Plan for Alaska. The development of a Long Range Financial Plan, with supporting policies and implementation schedule, is absolutely critical to ensuring the best future for Alaska, its municipalities, and its people.

The Relationship Between the State and Its Political Subdivisions

Municipal governments currently provide approximately half of all public services in Alaska. (Total government service expenditures in Alaska are about $4.7 billion, of which $2.4 billion are provided by municipalities, and $2.3 billion by state government).

Because both the state and local governments provide public services to the same people, and because both the state and local governments have taxing powers over the same people, it is not possible to create an effective Long Range Financial Plan for Alaska without the active involvement of both local and state governments.

Alaska Needs a Comprehensive Solution to its Fiscal Gap

Since 1986, almost every municipality in the state has developed and implemented a long range financial plan. The experience of Alaska's political subdivisions over the past ten years indicates that a Long Range Financial Plan should not depend on one solution alone, but a comprehensive array of solutions including all of the fiscal tools available including: spending cuts; consolidation; privatization; transfers of responsibility; wise use of reserves and savings; increased fees to direct users of state services and enterprise operations; user taxes to meet needs created by users (e.g. increase fuel taxes to maintain and improve roads, harbors, airports); new general taxes that increase revenue as population increases; and economic development.

Observations that may help the Long Range Financial Planning Commission follow:

- To avoid severe economic downturns, budget balancing actions must be taken early and gradually.
- There are currently strong budget and policy disincentives to state departments to act entrepreneurially to set market rate fees to direct users of state services. Municipalities found that user fees both help balance the budget and increase accountability to the public. in fact, direct services to should not be provided by government free or at below market cost in most cases. Many municipalities were able to generate 5% to 15% more of their budget through user fees. A 5% increase for the state would be over $100 million per year.
- Budget cuts that are taken without long term structural changes in services and service delivery systems are likely to have severe long term negative economic and social impacts on the state.
- Citizens more easily accept tax increases when the proceeds of the tax increase provide a specific related service they desire (e.g. fuel taxes to maintain transportation systems).

An example of a comprehensive strategy for a state Long Range Financial Plan follows:

Long term structural budget/service changes: consolidation privatization transfer of services/revenue to Local Gov't statutory changes budget and policy changes	$100 million+
Increase user fees to market rates for state services	$100 million+
Raise motor fuel tax to maintain roads	$ 60 million
Raise marine fuel tax to maintain harbors	$ 30 million
Aviation fuel tax to maintain airports	$ 10 million
Tobacco and alcohol tax to pay direct costs in Public Safety, Corrections, Health and Social Services	$100 million
New statewide tax (e.g. personal income tax)	$150 million+
Economic Development	$ 20 million+

The rough example above is not a recommendation, nor do all the revenues completely offset current costs (for example, the state is essentially not maintaining its harbors now), but it is an indication of how a comprehensive long range financial plan for the state may rely on a number of components.

Local Government Partnership Council

The Alaska Municipal League and the Alaska Conference of Mayors have set the development of a state long range financial plan as their highest priority. The AML/ACoM offer the service of municipalities to the state in the development of the state's long range financial plan.

The AML/ACoM recommend the creation of a **Local Government Partnership Council**. The Local Government Partnership Council would consist of municipal representatives appointed by the AML/ACoM and members appointed by the state. The most important role of the Council would be to achieve consensus on services that could best and most efficiently be administered on a local level and ensure that adequate stable resources are available to maintain the service on a long term basis.

The Local Government Partnership Council would also help coordinate education of the public and support for the implementation of a state long range financial plan as well as make suggestions for the development of the plan.

Transfer of Current State Responsibilities to Municipalities

A municipality's power to provide services and to raise revenues is derived from the state. Alaska's constitution calls for "maximum local self government" and provides that "agreements, including those for cooperative or joint administration of any function or powers, may be made by any local government with any other local government, with the state, or the United States...".

Some services currently provided by the state may be more efficiently, or effectively provided under the administration of local governments, and under the policy direction of local residents.

The AML supports the negotiation of service responsibility transfers from the state to municipalities provided the state actively enters into good faith negotiations with municipalities to identify stable adequate revenues to undertake the transferred services.

Specifically, the AML supports entering into negotiations with the state to transfer the responsibility for operation, maintenance, and improvement of harbors, some classes of local roads, and some classes of air transportation facilities with the long term commitment of the state to share fuel taxes, and other revenues, with municipalities to supplement direct user fees. Other services may include some health and social services, public safety services, direct support services to local government, education services, etc.

Specifics of the transfer negotiations should be proposed by the **Local Government Partnership Council** discussed above.

Fair Distribution of the Resources that belong to All Alaskans (Municipal Revenue Sharing Programs)

All states provide some form of revenue sharing to their political subdivisions because states are the only taxing authority that can fairly allocate a state's resources to ensure that all citizens receive a basic level of public services. According to the 1994 federal ACIR Report, the **average nationwide state contribution of state revenues to local governments is 34.2%** of local government budgets.

Without state revenue sharing, some areas of a state would not receive a basic level of health and safety services while other areas would pay disproportionately higher local taxes for those services. Over the past ten years, cuts to MA/SRS, and other state programs that provide funds to local governments, have been so severe that they have destabilized some communities, forced some dissolutions of municipal governments, and effectively increased local taxes as much as the equivalent of ten mills of property tax. **When municipal governments dissolve, the long term cost to the state is much higher than the cost of Municipal Assistance/ Revenue Sharing.**

Currently, Alaska has two main general revenue sharing programs for municipal service operations: Municipal Assistance (MA) and State Revenue Sharing (SRS).

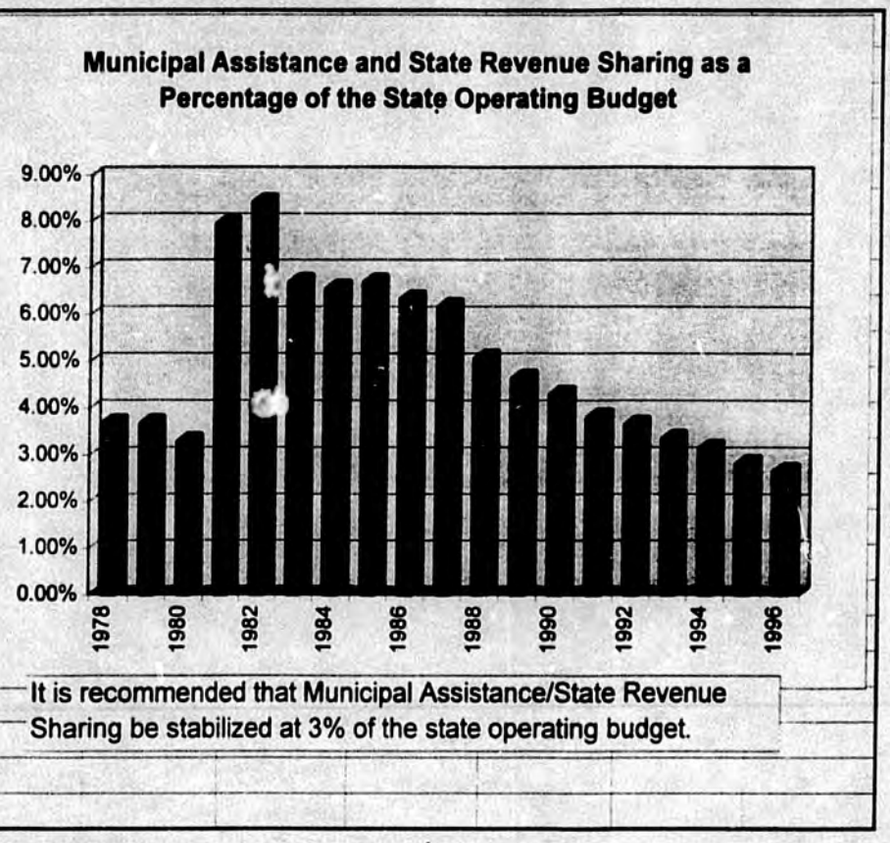
The AML supports a consolidation of the Municipal Assistance and Revenue Sharing programs into one that allocates funds considering the level of basic municipal services provided by each community (public safety, health, local share of education, road maintenance, water/sewer), population, and the financial resources of the community.

Most important, the AML supports a **stable revenue relationship** with the state to promote local fiscal planning and to promote local economic and community development.

Municipal Assistance/Revenue Sharing (MA/RS) in FY96 was 2.66% of the state operating budget. It has declined from approximately 8.00% of the state operating budget in 1982 and was 3.68% of the state operating budget in 1979.

The AML and Conference of Mayors supports a stable funding of MA/RS at the level of 3.00% of the state operating budget so that the funding of municipalities is consistent with the resources of the state. The AML and ACoM support a freeze of funding for MA/RS at the 1996 level of funding until the state budget adjusts or decreases to the point where the 3.00% relationship with MA/RS is achieved. The standard of setting MA/RS at a percentage of the state operating budget is used in other states (see appendix).

1978	3.69%
1979	3.68%
1980	3.30%
1981	7.95%
1982	8.42%
1983	6.70%
1984	6.56%
1985	6.69%
1986	6.33%
1987	6.17%
1988	5.07%
1989	4.64%
1990	4.30%
1991	3.82%
1992	3.66%
1993	3.36%
1994	3.15%
1995	2.83%
1996	2.66%



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Capital Project Matching Grant Program

Alaska has also implemented a capital project revenue sharing program, the **Capital Matching Grant Program,** to fairly provide a basic level of support to municipalities to construct basic public facilities as determined necessary be the local community.

The AML supports the continuation and stable funding of the Capital Matching Grant Program because it is an effective revenue sharing method that provides for a basic level of community capital public facilities and promotes local self determination.

Education

The Alaska Constitution states, "The Legislature shall by general law establish a system of public schools open to all children of the State...". Open access to a quality education is a primary right guaranteed by the Constitution. All states provide support for education. The

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

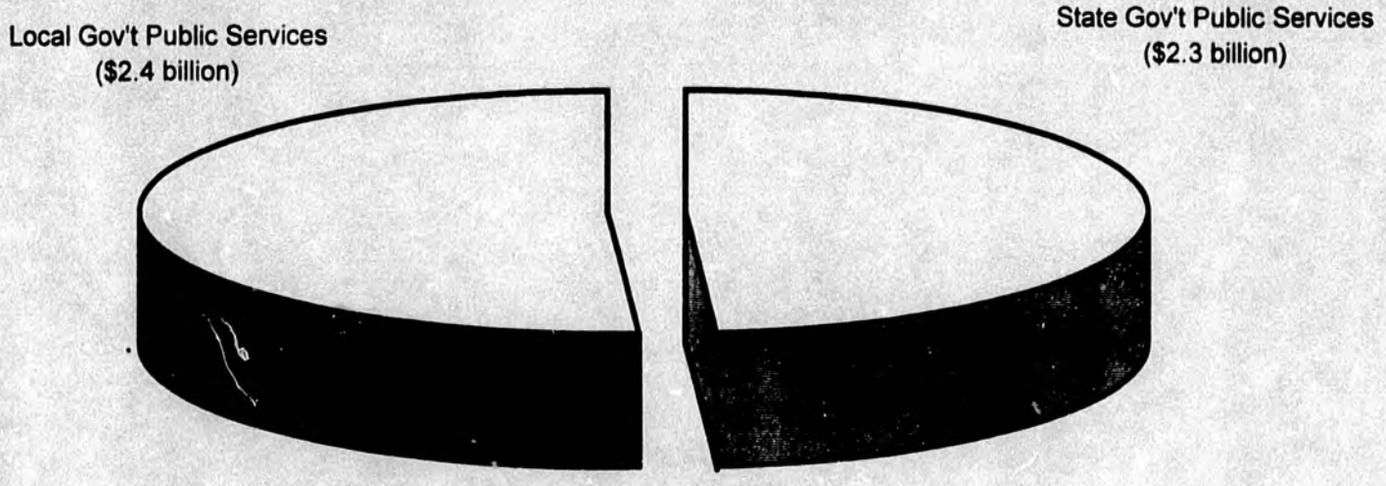
The Commission has asked the AML/ACoM to comment on the state use of "excess tax capacity" in Alaska. The Commission shows that, considering the Permanent Fund Dividend and all state and local taxes, the average Alaskan has a net revenue gain while other residents of other states pay significant net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



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